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BREAKING NEWS

17 DECEMBER

MISSILES TO BE DESTROYED IN VOTKINSK. The hard-fuel intercontinental ballistic missiles that had been slated for destruction in Perm will now be destroyed in Votkinsk, Udmurtiya (See *IEWS Russian Regional Report*, 18 December 1997). The Kirov plant in Perm had planned to destroy the missiles by burning them, but the Perm authorities became frightened that the process would release excessive amounts of harmful gases into the atmosphere. They received much of their information from ASKONDT, a firm that

supports a water-based process of destruction. Votkinsk will now be able to use the \$52.4 million and 1.3 trillion rubles (\$215 million) set aside for the destruction of the missiles by the US and Russian governments. Lockheed Martin has already won the contract to destroy the missiles, but Thiocol is the US company with the most expertise in the water-based destruction process. The water process is not without problems, however, since no one knows how to dispose of the waste water generated. (*Kommersant-Daily*, 17 December).

ST. PETERSBURG PROCURATOR FIRED. Russian Procurator General Yurii Skuratov fired St. Petersburg procurator Vladimir Yeremenko for financial misconduct. He had served as the city's procurator since 1992. The city's Legislative Assembly has yet to approve acting procurator Ivan Sydoruk, who is supported by both Governor Vladimir Yakovlev and Legislative Assembly Chairman Yurii Kravtsev, possibly because he has investigated several alleged legal violations by the deputies themselves. (*Kommersant-Daily*, 18 December)

YELTSIN NAMES NEW REPRESENTATIVE TO NORTH OSETIYA AND INGUSHETIYA. President Boris Yeltsin named Vladimir Kalamnov as his representative to the conflict-plagued republics of North Osetiya and Ingushetiya. Kalamnov had worked as an assistant to his predecessor, Aleksandr Kovalev. Kovalev, the former governor of Voronezh, had come under considerable criticism from Ingush President Aushev, which he took very poorly. Kovalev has returned to Voronezh and is not currently seeking new employment. Kalamnov is a professional diplomat and wrote a doctoral dissertation on the negotiation process. He is the eighth man to serve in the position. (*Nezavisimaya gazeta*, 20 December)

18 DECEMBER

MORE INFORMATION ON REGIONS PUBLISHED. During the last year, the Russian government has made a serious effort to publish more information on the Russian regions. Goskomstat's *Rossiiskii statisticheskii ezhegodnik* now contains extensive data on the regions. Goskomstat has also just released a two volume collection of data entitled *Regiony Rossii*. Additionally, the president's administration has released a guide to the regions entitled *Rossiiskie regiony posle vyborov-96* (Moscow: Yuridicheskaya literatura). (*Finansovye izvestiya*, 18 December)

YELTSIN OVERRULES RUTSKOI. President Yeltsin issued a decree overturning several of Kursk Governor Aleksandr Rutskoi's decrees on the grounds that they contradicted federal legislation. Rutskoi was elected Russian vice president in 1991 as Yeltsin's running mate, but fell out with him and helped lead the 1993 parliamentary uprising against the president. Since being elected governor in 1996, he has sought a working relationship with the Yeltsin administration although his local policies have been nepotistic (See *IEWS Russian Regional Report*, 18 December 1997). (*Kommersant-Daily*, 19 December and *Rossiiskaya gazeta*, 24 December)

19 DECEMBER

COURT OVERRULES GOVERNOR ON GRAIN SALES. The Kurgan Oblast court ruled that Governor Oleg Bogomolov's July decree limiting the sales of grain outside the oblast was illegal. As a result farmers can now sue the governor for the damages incurred by his unlawful ruling. The decision will have great significance for numerous farmers in other regions who face similar restrictions. Measures in Krasnodar Krai, for example, have cost farmers considerably. Many farmers who were unable to sell their grain under favorable conditions are now holding grain of considerably diminished quality. (*Izvestiya*, 19 December)

20 DECEMBER

INTERNET USERS PROTEST TELEPHONE RATE HIKES. About 1,200 supporters of the 20 December Committee protested outside the office of Moscow Mayor Yurii Luzhkov against the planned imposition of fees for local phone calls because they are afraid that such fees will make it too expensive for them to use the Internet through dial-up modems. The protest was organized over computer networks and therefore did not include pensioners who would also be most affected by the hike. The government often pays more attention to pensioners' protests because of their greater likelihood to vote. A similar protest was held in

Bryansk. Over 30 regional phone companies connected with Svyazinvest are planning to introduce such fees during 1998. (*Segodnya*, 22 December, *Russkii Telegraf*, 26 December)

22 DECEMBER

REGIONAL DEPUTIES SEEK IMMUNITY. The Orel Oblast legislature asked the State Duma to approve legislation giving them the same immunity from prosecution currently enjoyed by federal legislators. In 1995 the Constitutional Court ruled in a case involving Kaliningrad that the regional authorities did not have the right to intervene in judicial affairs, which remained a federal prerogative. As a result, the regional deputies could be brought to trial (*Kommersant-Daily*, 23 December). The Constitutional Court's recent ruling on the Tambov Oblast charter reaffirmed that regional legislators do not have immunity (*Segodnya* and *Rossiiskaya gazeta*, 24 December).

23 DECEMBER

ADMINISTRATION MEETS WITH MAYORS. Presidential Administration Chief of Staff Valentin Yumashev and his deputy Mikhail Komissar met with 19 mayors in the Council on Local Government in Russia. The mayors present at the gathering expressed their happiness with the support they were getting from Moscow and described 1997 as a turning point in the development of local government. Mayors in the so-called Red Belt expressed particular concern about the position of the governors in their regions. In "Red Belt" areas, governors often win with the support of rural pro-Communist majorities, while urban voters tend to be more reform oriented. Mayors in Sverdlovsk Oblast and Udmurtiya have also had problems with their governors. The president often seeks to work with the mayors to limit the power of the governors. The mayors particularly sought of the president a decree authorizing the buying and selling of land at the city level and a greater transfer of taxes to municipal governments. Yumanshev noted that Boris Minets has special responsibility for the mayors within the administration and the Council on Local Government should meet 3-4 times a year. (*Segodnya*, *Nezavisimaya gazeta*, *Russkii Telegraf*, 24 December)

24 DECEMBER

CHELYABINSK AUTHORIZED FOR EUROBONDS. President Yeltsin authorized Chelyabinsk Oblast to issue Eurobonds. Until now only Moscow, St. Petersburg, Nizhnii Novgorod, Komi, Leningrad, Samara, Orel, Sverdlovsk, and Krasnoyarsk were allowed to do so. (*Rossiiskaya gazeta*, 24 December) Morgan Stanley will be the lead manager of the issue which is likely to amount to \$250-300 million. (*Russkii Telegraf*, 25 December)

YAKOVLEV NAMES NEVZOROV AS ADVISOR. St. Petersburg Governor Aleksandr Yakovlev has named the television journalist Aleksandr Nevzorov as his advisor on film and TV. Nevzorov is currently a State Duma member from Pskov. His television show "600 Seconds" cast a harsh light on the city's Communist leaders at the end of the 1980s, but he then was extremely critical of Mayor Anatolii Sobchak and the other reformers who came to power. He supported the Soviet Union's use of force to hold on to the Baltic republics and maintained close ties to the KGB. More recently, he has broadcast *Dikoe pole* on the government controlled Russian Public Television. Yakovlev said that he particularly liked Nevzorov's film "Chistilishche [Purgatory]." (*Nezavisimaya gazeta*, 25 December)

25 DECEMBER

ARKHANGELSK GOVERNOR COLLECTS TAXES HIMSELF. Arkhangelsk Governor Anatolii Yefremov is traveling through out his oblast to collect taxes from enterprises that have not paid up, *Izvestiya* reported. The region's enterprises owe 2.5 trillion rubles (\$415 million) to the oblast and local budgets. In cases where enterprises pay their employees with products rather than money, they often do not pay taxes on the transaction. In some cases, the barter deals make up 99% of the enterprise's transactions. As a result, the regional and local governments do not have enough money to pay their own employees.

29 DECEMBER

JOURNALISTS ATTACKED IN TOMSK. *Segodnya* reported that the editor of *Tomskaya nedelya* Oleg Pletnev and the local correspondent for *Moskovskii komsomolets* Vasilii Yeremin had been assaulted within

the last few days. Many in the city suspect that Tomsk Mayor Aleksandr Makarov was responsible for the attacks because the journalists had alleged that some of his associates engaged in suspicious business dealings. The mayor has denounced the publications, but he has not filed suit against the authors.

31 DECEMBER

ILYUMZHINOV MADE 5.8 BILLION IN 1997. President of Kalmykiya Kirson Ilyumzhinov reported that he earned 5,799,570,394 rubles (\$1 million) in 1997 and paid taxes on the full amount. While the tax service did not question the source of his income, *Izvestiya*, which reported the immodest gains, did.

BUSINESS BRIEFS

-- **BASHKORTOSTAN** President Murta Rakhimov has reduced taxes by one third on all deliveries of raw materials to petrochemical processing plants in the republic. The Bashkortostan leadership is trying to ensure that the republic's plants will have enough materials to meet local needs. Suppliers bringing oil to the republic can save up to 100,000 rubles (\$17) per ton. The republican budget should be compensated for the money lost by increased output. The local plants had great surplus capacity, processing only 21 million tons in 1997, when they had up to 50 million tons capacity. Despite the excess capacity, LUKoil has had considerable difficulty working in the republic. Yeltsin had decreed that one of the local processing plants should have been privatized to the oil company, but the republican authorities simply ignored the president's decree and kept the plant for themselves. (*Kommersant-Daily*, 17 December)

-- **GLOBAL ONE**, an alliance of telecom giants **SPRINT, DEUTSCHE TELEKOM** and **FRANCE TELECOM** founded in 1996, have opened an office in Moscow. Sprint has been working in the country since 1990 when it set up a joint venture with the Central Telegraph to supply e-mail services. The company can provide a wide range of telecom services across Russia and the former Soviet Union. Global One's Russian subsidiary, Global Odin, serves major corporations such as Coca-Cola rather than individuals. It is building a model telephone infrastructure in **MOSCOW OBLAST** that can serve individuals as well. It has so far invested \$120 million in Russia. (*Kommersant-Daily*, 17 December)

-- Many of the Russian firms formerly associated with the British **TRANS WORLD GROUP** announced 18 December that they have formed a new alliance called Soyuz Metall-Resurs. Among the leaders of the new alliance are **INTERNATIONAL UNION OF METALLURGISTS** President Serafim Kolpakov, **SAYANSK ALUMINUM FACTORY** Director Oleg Deripaska, and member of the **NOVOLIPITSK METALURGICAL COMBIMATE** Board of Directors Vladimir Lisin. The alliance also includes **SIBIRIAN ALUMINUM, THE KRASNOYARSK ALUMINUM PLANT, THE MAGNITOGORSK METALURGICAL COMBIMATE**, among others. The alliance shows that with the expulsion of the British TWG, the Russian plants have made clear their intention to work together. The **BRATSK ALUMINUM PLANT** may participate as well. TWG is now seeking to work in Kazakhstan. (*Kommersant-Daily*, 19 December)

-- The Luxembourg based **MILLICOM** and the **UNEXIM-MFK** group have formed a joint venture, Telekom XXI, hoping to build a DCS-1800 cellular telephone system in **ST. PETERSBURG** and **LENINGRAD OBLAST**. Unexim was the recent winner of the Svyazinvest auction buying 25% of the company and gaining access to government licences. The venture won the approval of the regional governments by giving them each 7.5% of the shares in the new company. **VYMPELKOM** spent \$135 million building a similar system in **MOSCOW**, but the new venture is likely to be more expensive because it will include the oblast as well. The license is expected to be granted soon. (*Kommersant-Daily*, 19 December)

-- The Swedish firm **AssiDoman** has once again shut production at its **SEGEZHABUMPROM CELLULOSE AND PAPER PLANT [SEGEZHA, KARELIYAN REPUBLIC]**, complaining that the Russian authorities have made it impossible to work there. They have also stopped providing credits to the plant and withdrawn all of their staff. The Kareliyan authorities argue that the Swedish company merely wants to curtail Russian production so that it can import more of its products from abroad into the country. When AssiDoman

gained control of the factory in June 1996 it had announced a \$100 million investment program to modernize the plant. However, in March of 1997, the firm shut operations charging that the Kareliyan and Russian governments were blocking any productive activities. The Swedish managers had partially restarted the plant in July, but have now shut it completely. Among the points of conflict between the Swedes and the Russian authorities is a lack of agreement about the plant's 90 billion ruble (\$15 million) debt to the federal government. According to the Kareliyan authorities, Segezhabumprom's main customers are now buying products from an AssiDoman-controlled plant in the Czech Republic. The Kareliyan legislature may yet consider a motion to declare the plant bankrupt and take control of it. (*Kommersant-Daily*, 19 December)

-- The firm **YOUR FINANCIAL GUARDIAN** has announced its intention to seek financing to build a third aluminum plant in **IRKUTSK OBLAST** with the capacity to process 200,000 to 300,000 tons of aluminum a year. The new plant is likely to cost \$1.5 billion and therefore requires financing from abroad. The oblast is a logical place for the plant because it boasts some of the world's cheapest electricity. The plant will be located near the Bratsk Hydro Electric Station. The station now has unused capacity of 18-20 billion kilowatt-hours because many of the factories in the area have stopped working. Irkutskenergo is planning to sell much of this energy to China. (*Finansovie izvestiya*, 23 December)

-- **ING BARINGS BANK** has organized a \$75 million syndicated loan for **NORILSK NIKEL**. Part of the loan will be used to pay the plant's employees. On 14 November, the Swiss **UBS** opened a \$55 million credit to the plant. During the first 10 months of the 1997, production at the plant increased, overall debt was reduced from 490 billion rubles (\$82 million) at the beginning of the year to 35 billion rubles (\$6 million), and workers' salaries have gone up 13-18%. (*Finansovie izvestiya*, 23 December)

-- Hungary's **IKARUS** bus maker will deliver 435 buses to the **KOMI REPUBLIC** and 350 to **MOSCOW** by the end of 1998 in a deal worth \$93.5 million. **DRESDENER BANK** provided the credit for the deal. (RIA Novosti, 22 December)

-- Competition between five airlines for passengers has driven down round-trip ticket prices between **NOVOSIBIRSK** and **MOSCOW** to 850,000 rubles (\$144). At the same time, tickets to **YEKATERINBURG**, a significantly shorter flight, cost more than one million rubles (\$170). The result is that local authorities are trying to create strong regional carriers that can compete with airlines based in the capital. The cheap fares to Novosibirsk, however, have considerably reduced demand for tickets to such nearby destinations as **KEMEROVO** and **NOVOKUZNETS**. Novosibirsk Governor Vitalii Mukha has announced the intention of the oblast administration to get involved. In the middle of December, he signed agreements to lease 2 **AIRBUS INDUSTRIES** A-310s and 5 A-320s, but it is not clear what role the new airline will play, if and when it is created, in the competitive market. (*Segodnya*, 24 December)

-- **LUFTHANSA** and **ST. PETERSBURG'S** Pulkovo airport will build a \$10 million cargo terminal to help the airport handle the growing amount of cargo entering and leaving the city. Work should begin in April 1998 and be completed by the end of the year. The terminal will have the capacity to handle 30,000 tons annually. (*Russkii Telegraf*, 24 December)

-- Europe's largest helicopter builder, **EUROCOPTER**, announced that it would build a service center in **ST. PETERSBURG**. In the future, it may add an assembly plant as well. Such potential clients as the Civil Defense Ministry, the Ministry of Internal Affairs, and Gazprom would like to buy as many as 200 copters, but there are currently no Russian producers. When agencies buy the aircraft abroad, they are accused of a lack of patriotism. With its failure to sell to the government, Eurocopter is hoping to attract clients among private businessmen in Russia. (*Segodnya*, 27 December)

-- Canada's **MCDONALD'S** has opened a restaurant in Odintsovo (**MOSCOW OBLAST**). The firm invested more than \$2 million in the fast food outlet. McDonald's plans to invest more than \$70 million in Russia during 1998. There are currently 24 McDonald's in Russia with a weekly turnover of \$8 million. The restaurants are served by the \$45 million Makkompleks which produces 150 tons of hamburger patties, 180

tons of milk, 1.7 million buns, and 63 tons of sauce a week. Since 1985, the firm has invested more than \$160 million. (*Segodnya*, 29 December)

-- The US pizza and pasta chain **SBARRO** opened its first restaurant in **MOSCOW** just before New Year's in what it said will be one of many throughout the country. Vice President Gennaro Sbarro predicted 100 restaurants would be built in five years with estimated revenues of \$30 million a year. A second Moscow store will open on 8 January. Belgian food distributor **UNIVERSAL FOODS** is the franchisee. (*Moscow Times*, 30 December)

-- The main production line at **TATARSTAN'S KAMAZ** again came to a halt on 29 December due to a lack of funds to buy components. During the course of 1997, the troubled plant only produced 12,500 trucks when it needed to make 25,000 to avoid incurring a loss. (*Segodnya*, 30 December)

PURCHASING POWER SURVEY

Below the *IEWE Russian Regional Report* presents a Purchasing Power Survey covering the price of 62 separate goods, ranging from bread through computers, cars, and apartments, across 6 Russian cities - Moscow, Novosibirsk, St. Petersburg, Vladivostok, Volgograd, and Yekaterinburg. The prices were collected in November and are quoted in 1997 rubles. The 1998 devaluation knocked three zeros off of all Russian prices. At the time of the survey, \$1 was approximately equal to 6,000 rubles.

The column next to the prices lists each price as a percent of the average monthly wage in the respective city. Thus, the average wage-earner in Moscow must spend 0.78% of his salary to purchase 0.5 kg of butter, while the average resident of Novosibirsk would spend 1.34% of his salary.

The Purchasing Power Index is listed at the top of each city's columns. The index is the ratio of local wages divided by the sum of local goods and services listed in the survey. (The price of cars and apartments were not included because they would dominate the index.)

Overall, the survey shows that Moscow's consumers have considerably greater buying power than the residents of other cities in the country.

PLEASE NOTE: To view the tables properly on your computer screen, set the font for your e-mail reader to 10pt. Courier (or any other non-proportional spaced font).

	Moscow		Novosibirsk	
Average Net Monthly Salary, Aug 1997 (Rb)	1,504,000		908,000	
Purchasing Power Index, Moscow = 100	100		65.3	
Wages Relative to Moscow	100		60.4	
	Price (1997 Rbls)	% of Monthly Salary	Price (1997 Rbls)	% of Monthly Salary
1. Food				
a Staples				
Bread (1 kg)	7,000	0.47	4,000	0.44
Butter (0.5 kg)	11,750	0.78	12,150	1.34
White Rice (1 kg)	7,000	0.47	5,700	0.63
Flour (1 kg)	6,000	0.40	3,000	0.33
Sugar (0.5 kg)	2,100	0.14	3,400	0.37
Cheese (0.5 kg)	12,500	0.83	15,300	1.69
Milk (1 liter)	4,000	0.27	3,300	0.36
Eggs (12)	6,000	0.40	6,800	0.75
b. Raw vegetables, fruits				

Potatoes (1 kg)	3,000	0.20	1,800	0.20
Onions (1 kg)	2,500	0.17	2,000	0.22
Tomatoes (1 kg)	10,000	0.66	3,200	0.35
Carrots (1 kg)	2,700	0.18	4,800	0.53
Oranges (1 kg)	9,000	0.60	6,000	0.66
Apples (1 kg)	7,700	0.51	10,000	1.10
Bananas (1 kg)	6,000	0.40	6,000	0.66

c. Meat

Beef, stewing (1 kg)	20,000	1.33	14,000	1.54
Veal, chops (1 kg)	23,000	1.53	31,000	3.41
Lamb, chops (1 kg)	21,000	1.40	27,000	2.97
Pork, chops (1kg)	29,000	1.93	31,000	3.41
Chicken (1 kg)	20,000	1.33	17,000	1.87
Fish, fresh (1 kg)	9,800	0.65	9,000	0.99

d. Non-Alcoholic Drinks

Ground Coffee(0.5 kg)	25,000	1.66	25,000	2.75
Tea (0.5 kg)	1,200	0.08	11,000	1.21
Coca-Cola (1 liter)	5,000	0.33	6,000	0.66
Mineral Water (1 l)	3,500	0.23	5,000	0.55
Orange Juice (1 l)	7,000	0.47	8,000	0.88

e. Alcoholic Drinks

Wine (0.75 liter)	25,000	1.66	35,000	3.85
Beer (0.75 liter)	4,300	0.29	6,000	0.66

2. Household Supplies

Soap (1 bar)	3,000	0.20	3,000	0.33
Toilet Paper (2 rolls)	3,300	0.22	2,800	0.31
Light Bulbs(2,60 watt)	4,900	0.33	4,400	0.48
Batteries (4, AA size)	7,500	0.50	12,000	1.32

3. Personal Care

Aspirin (100 tablets)	8,000	0.53	14,000	1.54
Toothpaste (120 g)	6,700	0.45	7,500	0.83

4. Tobacco

Cigarettes, domestic (20-pack)	1,700	0.11	1,200	0.13
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5. Clothing

a) Men

Business suit	1,400,000	93.09	1,500,000	165.20
Business shoes	970,000	64.49	800,000	88.11

b) Women

Dress, daytime	500,000	33.24	500,000	55.07
Women's shoes	200,000	13.30	200,000	22.03

c) Children

Child's shoes	50,000	3.32	60,000	6.61
Child's jumper	110,000	7.31	60,000	6.61

6. Utilities

a) Telephone

Monthly rental	20,000	1.33	25,000	2.75
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b) Average Monthly Bill, family of four

Electricity	18,000	1.20	17,500	1.93
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Gas	1,270	0.08	1,500	0.17
Water	9,800	0.65	16,300	1.80

7. Recreation & Entertainment

Personal Computer, IBM compatible	6,300,000	418.88	5,700,000	627.75
Medium Color TV,	1,700,000	113.03	1,200,000	132.16
Paperback novel	12,000	0.8	15,000	1.65
Best seat in cinema	8,000	0.53	15,000	1.65
Best seat in theater	50,000	3.32	50,000	5.51

8. Transportation

a) Car

Most Popular	35,000,000	2,327.13	50,000,000	5,506.61
Annual Insurance Premium	2,400,000	159.57	2,500,000	275.33

Unleaded

Gasoline (1 l)	2,400	0.16	1,950	0.21
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b) Public Transportation

Average Urban

Ride Cost	2,000	0.13	1,500	0.17
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9. Municipal Housing

a) Monthly Rents

1 Bedroom	120,000	7.98	23,000	2.53
2 Bedroom	180,000	11.97	30,000	3.30
3 Bedroom	240,000	15.96	40,000	4.41
4 Bedroom	300,000	19.95	50,000	5.51

10. Restaurants

Wine (glass)	27,000	1.80	35,000	3.85
Spirit	12,000	0.80	30,000	3.30
2-Course Meal	95,000	6.32	70,000	7.71
Big Mac (or equivalent)	11,000	0.73	7,500	0.83

	St. Petersburg	Vladivostock
Average Net Monthly Salary, Aug 1997 (Rb)	1,031,000	1,310,000
Purchasing Power Index, Moscow = 100	69.3	87.3
Wages Relative to Moscow	68.6	87.1

Price (1997 Rbls)	% of Monthly Salary	Price (1997 Rbls)	% of Monthly Salary
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1. Food

a) Staples

Bread (1 kg)	5,000	0.48	3,400	0.26
Butter (0.5 kg)	12,000	1.16	12,500	0.95
White Rice (1 kg)	3,500	0.34	4,000	0.31

Flour (1 kg)	2,600	0.25	3,700	0.28
Sugar (0.5 kg)	1,800	0.17	2,800	0.21
Cheese (0.5 kg)	12,500	1.21	30,000	2.29
Milk (1 liter)	5,000	0.48	7,500	0.57
Eggs (12)	6,000	0.58	9,000	0.69
b. Raw vegetables, fruits				
Potatoes (1 kg)	2,000	0.19	3,000	0.23
Onions (1 kg)	3,000	0.29	4,000	0.31
Tomatoes (1 kg)	10,000	0.97	7,000	0.53
Carrots (1 kg)	2,500	0.24	3,000	0.23
Oranges (1 kg)	7,000	0.68	15,000	1.15
Apples (1 kg)	7,000	0.68	7,000	0.53
Bananas (1 kg)	4,500	0.44	8,000	0.61
c. Meat				
Beef, stewing (1 kg)	18,500	1.79	27,000	2.06
Veal, chops (1 kg)	30,000	2.91	35,000	2.67
Lamb, chops (1 kg)	25,000	2.42	25,000	1.91
Pork, chops (1kg)	30,000	2.91	35,000	2.67
Chicken (1 kg)	15,000	1.45	15,000	1.15
Fish, fresh (1 kg)	18,000	1.75	6,000	0.46
d. Non-Alcoholic Drinks				
Ground Coffee (0.5 kg)	46,000	4.46	20,000	1.53
Tea (0.5 kg)	6,000	0.58	15,000	1.15
Coca-Cola (1 liter)	52,000	5.04	7,500	0.57
Mineral Water (1 l)	1,300	0.13	4,500	0.34
Orange Juice (1 liter)	6,500	0.63	10,000	0.76
e. Alcoholic Drinks				
Wine, table (0.75 l)	20,000	1.94	20,000	1.53
Beer (0.75 liter)	5,000	0.48	3,800	0.29
2. Household Supplies				
Soap (1 bar)	2,000	0.19	3,000	0.23
Toilet Paper (2 rolls)	2,200	0.21	6,000	0.46
Light Bulbs (2,60 watt)	3,000	0.29	3,000	0.23
Batteries (4, AA size)	15,000	1.45	6,000	0.46
3. Personal Care				
Aspirin (100 tablets)	9,500	0.92	8,400	0.64
Toothpaste (120 g)	10,000	0.97	13,000	0.99
4. Tobacco				
Cigarettes, domestic (20-pack)	2,000	0.19	4,000	0.31
5. Clothing				
a) Men				
Business suit	1,000,000	96.99	500,000	38.17
Business shoes	450,000	43.65	120,000	9.16
b) Women				
Dress, daytime	600,000	58.20	400,000	30.53
Women's shoes	500,000	48.50	100,000	7.63
c) Children				
Child's shoes	100,000	9.70	30,000	2.29
Child's jumper	30,000	2.91	30,000	2.29

6. Utilities

a) Telephone

Monthly rental	28,000	2.72	25,000	1.91
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b) Average Monthly Bill, family of four

Electricity	15,000	1.45	35,000	2.67
Gas	10,000	0.97	n/a	n/a
Water	24,000	2.33	24,400	1.86

7. Recreation & Entertainment

Personal Computer,

IBM compatible	6,000,000	581.96	5,700,000	435.11
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Medium Color TV	1,800,000	174.59	1,600,000	122.14
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Paperback novel	7,000	0.68	10,000	0.76
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Best seat, cinema	6,000	0.58	5,000	0.38
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Best seat, theater	150,000	14.55	70,000	5.34
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8. Transportation

a) Car

Most Popular	56,000,000	5,431.62	42,000,000	3,206.11
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Annual Insurance

Premium	2,800,000	271.58	5,000,000	381.68
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Unleaded

Gasoline (1 liter)	2,800	0.27	2,400	0.18
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b) Public Transportation

Average Urban

Ride Cost	1,500	0.15	1,000	0.08
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9. Municipal Housing

a) Monthly Rents

1 Bedroom	120,000	11.64	23,000	1.76
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2 Bedroom	170,000	16.49	35,000	2.67
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3 Bedroom	200,000	19.40	39,000	2.98
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4 Bedroom	220,000	21.34	56,000	4.27
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10. Restaurants

Wine (glass)	30,000	2.91	35,000	2.67
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Spirit	15,000	1.45	35,000	2.67
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2-Course Meal	90,000	8.73	70,000	5.34
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Big Mac

(or equivalent)	11,500	1.12	15,000	1.15
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	Volgograd	Yekaterinburg
Average Net Monthly Salary,		
Aug 1997 (Rb)	800,000	1,045,000
Purchasing Power Index,		
Moscow = 100	55.0	65.8
Wages Relative to		
Moscow	53.2	69.5

Price	% of	Price	% of
(1997 Rbls)	Monthly	(1997 Rbls)	Monthly
	Salary		Salary

1. Food

a Staples

Bread (1 kg)	2,300	0.29	3,500	0.33
Butter (0.5 kg)	10,000	1.25	9,000	0.86
White Rice (1 kg)	4,300	0.54	5,000	0.48
Flour (1 kg)	2,800	0.35	2,500	0.24
Sugar (0.5 kg)	5,000	0.63	2,750	0.26
Cheese (0.5 kg)	10,000	1.25	12,500	1.20
Milk (1 liter)	5,000	0.63	3,800	0.36
Eggs (12)	6,000	0.75	5,800	0.56

b. Raw vegetables, fruits

Potatoes (1 kg)	1,500	0.19	1,800	0.17
Onions (1 kg)	1,500	0.19	2,500	0.24
Tomatoes (1 kg)	3,000	0.38	6,000	0.57
Carrots (1 kg)	2,000	0.25	1,500	0.14
Oranges (1 kg)	7,000	0.88	11,000	1.05
Apples (1 kg)	5,000	0.63	11,000	1.05
Bananas (1 kg)	6,000	0.75	9,000	0.86

c. Meat

Beef, stewing (1 kg)	21,000	2.63	25,000	2.39
Veal, chops (1 kg)	25,000	3.13	30,000	2.87
Lamb, chops (1 kg)	15,000	1.88	25,000	2.39
Pork, chops (1kg)	20,000	2.50	28,000	2.68
Chicken (1 kg)	13,000	1.63	15,000	1.44
Fish, fresh (1 kg)	5,000	0.63	14,000	1.34

d. Non-Alcoholic Drinks

Ground Coffee (0.5 kg)	15,000	1.88	43,000	4.11
Tea (0.5 kg)	7,000	0.88	10,000	0.96
Coca-Cola (1 liter)	6,000	0.75	7,000	0.67
Mineral Water (1 l)	5,000	0.63	5,000	0.48
Orange Juice (1 liter)	5,000	0.63	8,500	0.81

e. Alcoholic Drinks

Wine, table (0.75 l)	16,000	2.00	24,000	2.30
Beer (0.75 liter)	3,000	0.38	6,500	0.62

2. Household Supplies

Soap (1 bar)	3,500	0.44	4,000	0.38
Toilet Paper (2 rolls)	4,000	0.50	3,000	0.29
Light Bulbs(2,60 watt)	4,000	0.50	3,000	0.29
Batteries (4, AA size)	8,000	1.00	11,000	1.05

3. Personal Care

Aspirin (100 tablets)	8,000	1.00	11,000	1.05
Toothpaste (120 g)	4,500	0.56	14,500	1.39

4. Tobacco

Cigarettes, domestic (20-pack)	2,500	0.31	5,000	0.48
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5. Clothing

a) Men

Business suit	1,500,000	187.50	1,500,000	143.54
Business shoes	500,000	62.50	900,000	86.12

b) Women				
Dress, daytime	1,500,000	187.50	550,000	52.63
Women's shoes	600,000	75.00	350,000	33.49
c) Children				
Child's shoes	100,000	12.50	50,000	4.78
Child's jumper	100,000	12.50	75,000	7.18

6. Utilities

a) Telephone				
Monthly rental	11,000	1.38	25,000	2.39
b) Average Monthly Bill, family of four				
Electricity	15,000	1.88	22,500	2.15
Gas	5,500	0.69	3,200	0.31
Water	3,000	0.38	6,400	0.61

7. Recreation & Entertainment

Personal Computer,				
IBM compatible	6,000,000	750.00	6,000,000	574.16
Medium Color TV	3,000,000	375.00	2,000,000	191.39
Paperback novel	3,000	0.38	14,000	1.34
Best seat in cinema	12,000	1.50	15,000	1.44
Best seat in theater	70,000	8.75	18,000	1.72

8. Transportation

a) Car				
Most Popular	35,000,000	4,375.00	55,000,000	5,263.16
Annual Insurance				
Premium	n/a	n/a	3,000,000	287.08
Unleaded				
Gasoline (1 l)	2,200	0.28	2,600	0.25
b) Public Transportation				
Average Urban				
Ride Cost	1,000	0.13	1,500	0.14

9. Municipal Housing

a) Monthly Rents				
1 Bedroom	50,000	6.25	60,000	5.74
2 Bedroom	110,000	13.75	80,000	7.66
3 Bedroom	150,000	18.75	110,000	10.53
4 Bedroom	200,000	25.00	160,000	15.31

10. Restaurants

Wine (glass)	25,000	3.13	11,000	1.05
Spirit	10,000	1.25	13,000	1.24
2-Course Meal	50,000	6.25	75,000	7.18
Big Mac				
(or equivalent)	7,000	0.88	12,000	1.15

ELECTION ROUNDUP

FEDOROV WINS SECOND TERM IN CHUVASHIYA. Chuvashiya elected President Nikolai Fedorov, 39, to a second term as president of the republic on 28 December with 57% of the vote, *Nezavisimaya gazeta* reported on 30 December. Communist Chairman of the republican parliament Valentin Shurchanov won 34%, with a turnout rate of about 60%. Fedorov had the support of the pro-government Our Home is Russia.

According to *Rossiiskaya gazeta* (16 December) he had strong support in the rural areas and among doctors, while teachers generally backed Shurchanov.

Fedorov was born in 1958 in Chuvashiya, and was elected to the USSR Congress of People's Deputies from the republic in 1989. He was a member of the Communist Party from 1982-91 and then joined the Party of Beer Lovers in 1994. He served as the minister of justice from 1990 until 1993, when he resigned in protest against what he called Yeltsin's authoritarian policies. He was elected for his first term as president of Chuvashiya on 4 February 1994.

He won enormous popularity by signing a decree in January 1995 that allowed citizens of Chuvashiya to opt out of military service in Chechnya. Fedorov is also credited with initiating the first local oil exploration, building houses, roads, and schools, and paying pensions on time, although salaries remain low, the *Moscow Times* reported on 30 December. In December 1995, the Communists who control the legislature and are traditionally strong in the republic, held a referendum to get rid of the presidency, but he beat it back. In the summer of 1996, Fedorov offered to resign after Communist leader Gennadii Zyuganov handily defeated Yeltsin in the republic during the presidential elections, but Fedorov did not have to make good on his offer. – Robert Ortung

COMMUNISTS TAKE NOVOSIBIRSK LEGISLATURE... The Communist Party won 28 seats in the 49-member Novosibirsk Oblast legislature in the 21 December elections, *Russkii Telegraf* reported on 23 December. Local Communist leader Viktor Kuznetsov is likely to be elected chairman and, as a result, will join the Federation Council. Novosibirsk Governor Vitalii Mukha said that he was happy with the results. Mukha has close ties to the Communist Party and 14 of the 17 candidates that he had unofficially backed were elected, *Segodnya* reported on 23 December. Candidates supporting Yabloko and Aleksandr Lebed won about six seats. Turnout was about 44% and over 60% in some rural areas.

Vladimir Zhirinovskiy's Liberal Democratic Party of Russia (LDPR) suffered a major defeat when it did not win a single seat in Novosibirsk or any other region. One year ago, the LDPR won 11 seats in the elections for the Novosibirsk City Council. Zhirinovskiy visited the oblast and his party nominated candidates in all 49 districts (*Izvestiya*, 18 December). The party had hoped to win 10-15 seats. The LDPR is relatively strong in the city with 3,500 members between the ages of 20 and 30. Its 12-page newspaper with 300,000 circulation warned that the Russian government is made up of the largest number of Jews since 1937. *Izvestiya* and many of the local media pointed out that many of the LDPR candidates have criminal records. Duma Member Yevgenii Loginov, the only LDPR candidate to win in a single-member district race in the 1995 State Duma elections, was among the losers. – Robert Ortung

... AND DO WELL IN SMOLENSK. In Smolensk on 21 December, the Communists won a third of the seats, but no other party won representation, according to RIA Novosti. Turnout was 43%. Only four of the incumbent deputies, including Speaker Sergei Antufev won reelection.

BUSINESSMEN WIN IN TOMSK... The business lobby won 30 of the 42 seats in the Tomsk legislature, *Izvestiya* reported on 23 December. Most of the 176 candidates competing in the 21 districts ran as independents, including current Speaker Boris Maltsev. Turnout was 38%, but more than 50% voted in some rural areas. In general, local political parties had very little success (*Segodnya*, 23 December). - Robert Ortung

... AND IN TAMBOV. Tambov is an example of a traditionally red bastion where the Communists did relatively poorly in the 21 December elections. The Communists won only 13 seats, down considerably from their previous representation. The majority of the seats went to local businessmen and enterprise directors (*Izvestiya*, 23 December). *Rossiiskaya gazeta* (23 December) claimed that a majority of the economic managers joining the legislature support Our Home is Russia. Turnout was 37%. - Robert Ortung

OPPOSITION SCORES VICTORY IN KRASNOYARSK. Following a second round of voting in Krasnoyarsk on 21 December, the Communists control the largest bloc, approximately 12 seats of the 41 available. Lebed's Honor and Motherland party now has seven seats. Both blocs are in opposition to Governor Valerii Zubov (See *IEWS Russian Regional Report*, 11 December). The local party of power, led by

Deputy Governor Aleksandr Uss, is in second place with 9 seats (*Segodnya*, 23 December). Only nine of the 35 incumbents seeking reelection won another term, RIA Novosti reported 22 December. - Robert Ortung

ADMINISTRATION'S REACTION. Deputy Chief of Staff Viktoriya Mitina described the results of the 21 December elections as good for the president because the voters continued a trend in which they elected centrists rather than leftists, RIA Novosti reported. Administration officials noted that many of the candidates had the support of both the regional leaderships and the local opposition. Mitina described the results as demonstrating the existence of a new economic elite that knows how to work the political system. The average turnout of 41% shows that the citizens are not yet tired of elections, she noted.

PATTERNS OF REGIONAL DEVELOPMENT

KHABAROVSK KRAI DUMA RE-ELECTS SPEAKER. The Khabarovsk Krai Duma held its first post-election session on 18 December. The main issue was the election of the speaker, who is guaranteed a seat on the Federation Council. Governor Viktor Ishaev's administration wanted to avoid a Communist victory at any cost. Because regional economies still largely depend on subsidies from the federal center, those regions cast as "red" might be budgetarily penalized. Two candidates were nominated: incumbent Duma Chairman Viktor Ozerov and former Communist Party Raikom Secretary Aleksandr Gromov. Ozerov was narrowly re-elected, beating the Communist challenger by only 4 votes.--Sergei Shilo in Vladivostok

TVER LEGISLATIVE ASSEMBLY ELECTS SPEAKER. On 26 December, V. Mironov, the president of Tver Technical University, was elected the new chairman of the Tver legislature. He was supported by the governor. He defeated former Speaker V. Kurbatov, who had the backing of the Communist Party. The Assembly refused to confirm deputy mandates for M. Husainov, mayor of Vyshny Volochek, and A. Doubov, the head of Olenino district administration. Both men refuse to leave their executive branch offices and seek to serve as deputies while remaining in office. The Tver Oblast deputies believe that this is a violation of the constitutional provision for the separation of power despite the fact that it is common practice in many other regions. If they are willing to leave their other positions, the Assembly is ready to confirm their election. Both administrators are preparing court appeals. -Boris Goubman in Tver

ETHNIC CONFLICT AND REGIONAL SEPARATISM

VIOLENCE FLARES IN DAGESTAN. During the early morning hours of 22 December a group of gunmen attacked a Russian tank unit near the Dagestani city of Buinaksk, 85 km from the Chechen border. The fighting was the most serious in the region since the end of the Chechen war last year and comes when President Yeltsin is considering plans to visit Chechnya. According to *Nezavisimaya gazeta* (31 December), at least two residents of Dagestan and one Russian soldier were killed. The fighters escaped into Chechnya. The Dagestani authorities believe that the attack was prepared in Chechnya. The authorities there denied any involvement, according to the *Moscow Times* 23 December. Clearly, the attack shows the weakness of the federal troops in the area. Below are several perspectives on the events gathered by the staff of *Novoe Delo*, a newspaper in Makhachkala, Dagestan.

CORRESPONDENT T. DZHAFAROV: I arrived in Buinaksk at 11 in the morning, shortly after the attack had taken place. At first glance everything seemed normal. But there were automatic weapons on the roofs of all the buildings where the brigade was located. When the authorities refused to speak to journalists, we walked to the edge of town where a column of smoke rising into the air was visible. By my count, at least 5-6 tanks were destroyed, not the two that had been officially announced by military and Dagestani officials. Local residents said that the shooting began at 2 in the morning and lasted for about two hours. The buildings in the area still showed the signs of battle. By the afternoon, everything was over and the fighters had left for Chechnya. Dagestan's Deputy Minister of Internal Valerii Beev said that the fighters were able to escape to Chechnya because of the thick fog that shrouded the area.

COMMANDER OF THE NORTH CAUCASUS MILITARY DISTRICT COL. GEN. VIKTOR

KAZANTSEV: A group of more than 100 fighters attacked the brigade on the outskirts of Buinansk. The attack was quick and well-planned. The main goal of the fighters was to steal weapons. However about 25 soldiers resisted them. Then the raiders opened massive fire on the base from more than 20 grenade launchers and high caliber guns. They destroyed two tanks and four barrels of aircraft fuel. Men from the unit fought the raiders as they withdrew into Chechnya. He said that the local residents took the most active part in searching for the raiders and blocking their departure.

He could not explain how a large group of well-armed men could penetrate about 100 km into the heart of Dagestan and return to the Chechen border. He said that it was better to direct such questions to the Dagestani Ministry of Internal Affairs.

GADZHI MAKHACHEV, LEADER OF THE AVAR PEOPLE'S MOVEMENT, MEMBER OF THE

DAGESTAN POPULAR ASSEMBLY: According to Makhachev, all the officials speaking to the media are lying. There was no battle at the military base. While they were being fired upon, the soldiers did nothing to fight back. No reinforcements from nearby units came to help. He argued that the power ministries were very poorly prepared for the attack. The units did not have sufficient ammunition or fuel for their vehicles.

He said that the purpose of the attack was not so much the destruction of military equipment, but an attempt by Chechen Commander Salman Raduev to show that he is in control of the situation. In response, Makhachev wants to strengthen the republic's popular fronts and arm the population along the border regions. Second, he recommended getting rid of the Chechen refugees in Dagestan since they served as a "fifth column." Third, he said that it was necessary to stop the black market sale of Chechen oil in Dagestan, since the proceeds only served to finance Chechen criminal groups. Finally, he charged that it was necessary to reevaluate the staff of the Dagestani Ministry of Internal Affairs. He alleged that many of them had been hired after offering bribes to get their jobs and therefore have little interest in actually carrying out their duties.

ECONOMIC ISSUES

NOVOSIBIRSK SCIENTISTS PRODUCE CHEAPER ASPIRIN. Scientists at the Novosibirsk Institute of Solid State Chemistry have developed a unique technology for the production of quick acting aspirin. According to Aleksadr Dushkin, the project's chief researcher, the aspirin produced with the new technology is 5-6 times cheaper than similar Western versions. A standard consumer unit costs about 1,000 rubles (\$0.18). The new technology also allows the production of other forms of aspirin. Currently the new substance is being tested by the Russian Health Ministry. The tests are expected to be completed by the end of 1998, after which the substance should be approved for medicinal use and the Institute should be licensed for commercial production of this new form of aspirin. Clinical tests will be fully financed by a long-term loan from the Science Ministry's Russian Technological Development Fund. According to Dushkin, the Institute has the capacity for relatively small-scale production of the new substance, but it should be enough to cover the city's and region's needs.--Konstantin Kanterov in Novosibirsk

NEW RESOURCE CONGLOMERATE TO BE CREATED IN MAGADAN. A new and powerful financial-industrial company is being created in Magadan. The company aims to control all the gold, finances, and power-production in the oblast. Analogous in its scope to Yakutia's ALROSA or Bashkortostan's BashkreditBank, the company is to be founded by the Russian Government, the oblast administration, and the region's leading banks and corporations. Creation of the company was delegated by the oblast Governor Valentin Tsvetkov to his deputy, the former Russian Minister of Industry Aleksandr Titkin. According to Titkin, the company plans to sign purchase agreements with gold-mining enterprises in 1998. The problem requiring the most attention right now, however, is the transfer of the controlling stake in the Magadanenergo utility (currently owned by the Unified Energy Systems) to the new entity. The high market value of Magadanenergo will significantly increase the new company's credit rating. By bringing together the gold-miners', power-producers' and the government interests, the oblast authorities hope to stabilize prices and simplify the schedule of payments among these sectors.--Sergei Shilo in Vladivostok

NEW FIGHTERS TO REPLACE PLANES LOST IN IRKUTSK. According to Vladimir Kovalkov, general director of Irkutsk Airframe Production plant, the two SU-27 UBK planes lost in the 6 December crash of the Ruslan cargo plane were being shipped to Vietnam's Air Force and were complete at the time of the accident. Because the planes were insured by the Gosstrakh insurance company, the Vietnamese will receive \$56.2 million in compensation. Kovalkov also noted that the two sides have already begun talks on replacing the lost fighters. To speed up the production process, the Irkutsk plant proposed replacing the SU-27s with another model, the SU-30K fighter plane. The SU-30K would be easier to produce, since many SU-30K's have already been partially constructed at the plant. Indeed, the company has already shipped 8 of these planes to India this year, while that country has ordered 40 in total. After the accident, a ban was imposed on the flights by AN-124 Ruslan cargo planes. If the ban is not lifted soon, the new fighter planes will have to be transported by civilian AN-124-100 cargo aircraft.--Natalia Michurina (Teleniform) in Irkutsk

FOREIGN TIES

KRASNOYARSK FORMS TIES WITH CHINESE REGION. Russia and China will sign an agreement to build a new power supply line in 1998, Vice President of the Russian Union of Industrialists and Entrepreneurs Yuriy Sakharov announced at a Moscow press-conference. About 1,500 kilometers in length, the new power line will transmit electricity from Krasnoyarsk Krai to neighboring China. The contract has enormous importance for the energy produces of Krasnoyarsk Krai. The planned contract will also facilitate Russian-Chinese economic cooperation in finishing construction at the incomplete Boguchansk Hydro-Electric power station on the Angara river. The station's construction site today lacks building materials and spare parts, while the workers have either been laid off or are waiting to receive their salaries. The situation was somewhat improved by the specially designed regional development program, promoted by the krai administration at investors' forums in Moscow and Vienna. While Americans and South-Koreans were approached, the most progress was made with the Chinese, who are interested not only in this power station, but also in the Berezovskaya Hydro-Electric station, the largest power station of its kind in Russia. This station is also incomplete--only two out of its 4 projected blocs are operational. If both of these projects can be completed, Siberia will be able to produce 30-45 billion kilowatt-hours of energy.

Another joint venture is also being planned between Krasnoyarsk and China's South-Eastern region. Representatives of the city of Nanning, province of Guangxi, visited Krasnoyarsk and expressed strong interest in the locally produced agricultural combines "Enisei." Yet, they were cautious to buy them. Indeed, it is two and a half times cheaper for them to produce similar combines at home than to buy from Krasnoyarsk. China's South-East produces 20% of the country's sugar as well as plenty of rice and wheat. So, the Chinese are interested in building their own agricultural machine-building plant. Since Krasnoyarsk's machine-builders plan to move on to a more advanced "Kedr" model, the "Enisei" production process will be transferred to the Nanning machine-builders. The project has received the endorsement of President Boris Yeltsin and, at Prime Minister Chernomyrdin's approval, it will be financed from a federal fund set aside for export-oriented enterprises. Local observers think that cooperation with China will revitalize Krasnoyarsk's agricultural machine building plant. The Chinese corporation "Huado" has so far committed \$120 million. To top off the visit, the two sides signed a sister-city agreement between Krasnoyarsk and Nanning.--Sergei Bondarev in Krasnoyarsk

SOCIAL ISSUES

FIRST NUCLEAR SUPERVISION CENTER TO OPEN IN NOVOSIBIRSK. As a part of Russian-American program, Novosibirsk will house the country's first Technical Support Center for the Control, Preservation and Accounting of Nuclear Materials. The project brings together the Russian State Committee on Nuclear Supervision and the U.S. Department of Energy, which in 1995 signed a corresponding agreement under the auspices of the Gore-Chernomyrdin Commission. The Center will be created on the base of the Siberian district of the State Committee on Nuclear Supervision and the G. I. Budker Institute of Nuclear Physics. The Institute will also house its headquarters.--Konstantin Kanterov in Novosibirsk

SINGLE FATHER ASSOCIATION FORMS IN IRKUTSK. A new organization designed to protect the interests of single fathers will be created in Irkutsk. The Single Father Association will help both fathers and

children cope with the tragedy of losing their the family's mother. Until now this problem has been addressed by the municipal department on family and children, which had earlier formed a club for single fathers. But the men have decided to take matters into their own hands. The association's organizers have already prepared a draft charter and other steps are being taken to make the group a reality. Today there are about 50 men in the city faced with the challenges of single parenthood. While "moral support" for each other is the first priority of the new organization, the men also want to provide competent legal advice and pursue entrepreneurial opportunities that would enable them to help families in need. The fathers also want to give their kids a support network of their peers who have suffered similar tragedies. The group is still lacking appropriate premises for its offices. --Alena Slavitskaya (Teleinform) in Irkutsk

REGIONAL PROFILE: MOSCOW CITY

Mayor: Yuri Luzhkov

Yuri Luzhkov was elected mayor in June 1996 with over 88% of the popular vote. From June 1992 until June 1996 he served as acting mayor and premier of the city government, appointed by President Boris Yeltsin, after former Mayor Gavriil Popov resigned.

Luzhkov was born in 1936 in Moscow to a family of carpenters. In 1958 he graduated from the Moscow Institute for Oil, Gas and Chemical Industry, where during his student years he was a Komsomol activist. After graduating, he worked for five years at the Research Institute for Plastic Materials, first as a junior researcher, then as a group head, and finally as a deputy head of laboratory. In 1964, he was promoted to the position of department head at the ministry for chemical industry where he stayed until 1987, eventually becoming the head of the department for science and technology.

In 1975 he was elected as a member of one of Moscow's district soviets, in 1977 -- Moscow City Soviet deputy, and in 1987 -- member of the Russian Federation Supreme Soviet. That same year, when Yeltsin was the first secretary of the Moscow Communist Party organization, Luzhkov was elected first deputy chairman of the Moscow City executive committee (gorispolkom), simultaneously heading the city committee on agriculture and commission on individual entrepreneurship.

In 1990, Luzhkov became acting chairman of the gorispolkom replacing the previous Communist Party appointee. In June 1991 he was the running mate of Gavriil Popov, then a prominent pro-reform activist who successfully sought the city's mayoral office. Under Popov, Luzhkov served as the premier of the city government, a position he has held until now. While Popov was a strong proponent of radical economic reform, Luzhkov, despite his claims, tended to be more conservative and when he replaced Popov as acting mayor, after Popov's resignation in June 1992, he considerably changed the city government's economic policies, particularly regarding privatization, which led him into direct conflict with Anatolii Chubais, then the head of the State Property Committee. However, Luzhkov declared his support for economic reform in general and supported both President Yeltsin and the first Russian prime minister, Yegor Gaidar, though he warmly welcomed his replacement with Viktor Chernomyrdin.

Many analysts agree that after being elected Moscow City mayor, Luzhkov launched a long-term presidential campaign. He has become one of the most active members of the Federation Council, the upper house of the federal parliament, often opposing federal policies when they attempt to limit the independence of regional leaders. Additionally, he has become the most vocal protector of the Russians living outside of the Russian Federation, particularly in Crimea. He also supports the policies of Belarus President Alyaksandr Lukashenka, who is often accused of violating human rights and the country's constitution.

Other Local Leaders

Chairman of the City Duma-- vacant following the 14 December 1997 elections, but the pro-Luzhkov Vladimir Platonov is likely to remain in this position.

Brief Overview

The capital city of the Russian Federation, Moscow is designated as a federal city along with St. Petersburg giving it status equal to an oblast. Moscow is located in the central part of the East-European Plain, on the banks of Moscow River. It was first mentioned in historical annals in 1147, a date usually celebrated as

Moscow's founding. During its early history, the city grew from a small settlement into the center of the increasingly powerful Moscow Principality. Its favorable location as an intersection of important trade routes encouraged growth. The military victories of Moscow princes over the Mongol and Lithuanian invaders in the 14th and 15th centuries strengthened the city's standing as the nucleus of a unified Russian state. Moscow remained the capital of Russia until Peter the Great moved his capital to the newly-built St. Petersburg in 1712. However, Moscow retained its status as the "first" Russian capital and the country's political, economic, religious and cultural center. The Soviet government moved the country's capital back to Moscow in 1918.

Moscow is one of the country's most advanced regions in terms of economic reform. It has become the largest financial center of the country, housing over one thousand banks which control 60% of the capital in the entire country. Moscow has one of the best regional programs to support small businesses – as a result 220,000 out of its 340,000 enterprises fall into this category and provide jobs for over 1.6 million people.

Moscow attracts approximately 57% of all foreign investment into Russia, far more than any other region. By January 1995, Moscow had over 5,400 joint ventures with companies from over 40 foreign countries. Most developed economic ties are with firms from Germany, Austria, USA, Canada, and Italy. The city government actively works on implementing several investment projects focusing particularly on housing construction, reconstruction of the city's center, and the development of communication and transportation infrastructures.

Basic Facts

1995 Population (est.): 8,717,400 (5.88% of Russian total)

Industrial production as percentage of all Russian production (Jan.-Aug. 1995): 4.80%

Average personal income index in July 1995: 316 (Russia as a whole = 100)

Price basket index in July 1995: 126 (Russia = 100)

Average back wages owed per person (September 1995): 8,000 rubles (Russian average = 37,100)

Urban population: 100% (Russia overall: 73.0%)

Student population (1993): 505 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1994): 25.54%

Percent of population with higher education (1989 census): 26.6% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 21.9% (Russian average: 29.9%); Agriculture: 0.3% (12.8%); Trade: 12.7% (9.1%); Culture: 24.7% (13.6%); Management: 3.6% (2.3%)

Number of telephones per 100 families (1993): 98.6 (Russian average: 41.5)

According to a 1997 survey by *Ekspert* magazine, the city is ranked 1 among Russia's 89 regions in terms of investment climate.

Electoral History

1996 Presidential Election

Yeltsin: 61.16%/77.29% (first round/second round)

Zyuganov: 14.85%/17.93%

Lebed: 9.62%

Yavlinskii: 7.96%

Zhirinovskiy: 1.46%

Turnout: 68.95%/70.38% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Our Home Is Russia: 19.05%

Yabloko: 14.94%

Communist Party of the Russian Federation: 14.84%

Russia's Democratic Choice: 11.55%

Congress of Russian Communities: 5.07%
Party of Workers' Self-Government: 4.45%
Forward, Russia!: 3.36%
Liberal Democratic Party of Russia: 2.53%
Women of Russia: 2.45%
In single-member districts: 2 Russia's Democratic Choice, 1 Pamfilova-- Gurov -- Lysenko, 2 Forward, Russia!, 1 Common Cause, 1 Yabloko, 1 Party of Economic Freedom, 1 89 electoral bloc, 6 independent
Turnout: 62.83% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 69.94% "No" -- 30.06%

1993 Parliamentary Elections

Russia's Choice: 34.73%
Liberal Democratic Party of Russia: 12.82%
Yabloko: 12.08%
Communist Party of the Russian Federation: 11.03%
Party of Russian Unity and Concord: 6.48%
Democratic Party of Russia: 5.56%
Women of Russia: 4.35%
Agrarian Party of Russia: 1.43%
In single-mandate districts: 7 Russia's Choice, 1 Party of Economic Freedom, 1 Dignity and Charity [dostoinstvo i milosredie], 1 Russian Movement for Democratic Reform, 5 independent
Turnout: 53.48% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 71.96%
Ryzhkov: 10.59%
Bakatin: 4.05%
Zhirinovskiy: 4.01%
Makashov: 2.67%
Tuleev: 2.60%
Turnout: 66.79% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995.

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BREAKING NEWS

6 JANUARY

KULIKOV CALLS FOR CRACKDOWN ON CHECHNYA. Minister of Internal Affairs Anatolii Kulikov called for pre-emptive strikes against bases of "bandits" including those on Chechen territory. First Deputy Prime Minister of Chechnya Movladi Udugov said that such strikes would "mean a return to war with all its consequences" (*Izvestiya*, 9 and 10 January). Prime Minister Viktor Chernomyrdin denounced the statement as Kulikov's personal view (NTV, 9 January). Moscow Mayor Yurii Luzhkov, nevertheless, gave his backing to Kulikov's statement (Ekho Moskvy, 8 January). The exchange of words has sharply increased tensions on the Chechen-Dagestani border.

8 JANUARY

LUZHKOVA MARKS GOOD YEAR. At a meeting to assess the results of the previous year, Moscow Mayor Yurii Luzhkov announced that the number of serious crimes in the capital had fallen by 20%. He also claimed that the city's industry had produced 2.1% more goods, with some sectors growing as much as 5%. Moscow produces 6% of Russia's industrial output and 10% of its consumer goods. The capital's two carmakers have improved on their abysmal performance in 1996. Overall, the city faced a shortage of labor keeping unemployment at bay. During 1997 Moscow transferred 52.6 trillion rubles (\$8.8 billion) to the federal budget, about one third the amount contributed by all regions. In 1998, the mayor expects incomes to go up 18%, while inflation remains at 10-12%. Whether the mayor met last year's plan to increase income by 22% is not yet clear. The city will spend 40% of its budget on social services and will not raise rents or charges for municipal services, with the possible exception of gas. Luzhkov critics point out that the city's accomplishments come from its privileged position rather than the mayor's leadership. (*Izvestiya*, 9 January and *Segodnya*, 9 and 12 January)

YAKOVLEV SIGNS POLITICAL AGREEMENT WITH PARTIES. St. Petersburg Governor Vladimir Yakovlev signed a joint statement with the leaders of local political parties calling for combined efforts in solving the city's political, economic, and social problems. Leaders from Our Home is Russia, Yabloko, Vladimir Zhirinovskiy's Liberal Democratic Party of Russia, the Communist Party of the Russian Federation, and the hard-line Russian Communist Workers' Party participated. The parties will set up a special consultative council for the governor though it is difficult to see how they will agree on a coherent set of policies. (*Segodnya*, 9 January)

FORMER VOLOGDA GOVERNOR ACCUSED OF TAKING BRIBES, EMBEZZLEMENT. The Russian procurator general has accused former Vologda Governor Nikolai Podgornov of taking bribes, stealing state property, and distributing credits from the oblast budget for his personal benefit while he was in office. Yeltsin removed Podgornov in March 1996, following the publication of an expose in *Izvestiya*, and his successor, Vyacheslav

Pozgalev, won 80% of the vote in the 6 October 1996 election. The Yeltsin administration is also prosecuting former Tula Governor Nikolai Sevryugin for taking a \$100,000 bribe. Such measures help the presidential administration limit the extent of the regional leaders' authority. (*Segodnya*, 9 January)

SAMARA PREPARES LAND LAW WITH RIGHTS FOR FOREIGNERS. Samara Oblast is preparing legislation that would allow foreigners to buy land in the oblast according to Governor Konstantin Titov. The law recently approved in neighboring Saratov only allows foreigners to acquire long-term leases. Saratov has valued its land at an average of \$1,000 per hectare and prices are expected to be similar in Samara. The Samara law is expected to be approved within two months. (Russian Public Television, 8 January)

GOVERNMENT OFFERS SUPPORT TO PRIMORSKII KRAI COAL INDUSTRY. The government approved a plan to provide 914 billion rubles (\$150 million) to the coal miners of Primorskii Krai. Investment from the krai and the mines themselves should lift the package to 1.5 trillion old rubles (\$250 million). The money will help close unprofitable mines, create new jobs for the laid-off workers, and provide social support for pensioners in the region. Approximately 8,000 miners are expected to be thrown out of work. However, Dalenergo is seeking coal from other regions in the Far East and Siberia, and has even signed a contract with China, forcing the local mines to drop their prices 30%. (Mayak, 8 January)

9 JANUARY

SAMOILOV DESCRIBES ADMINISTRATION'S WORK. The presidential administration's territorial department, headed by Sergei Samoilov, is responsible for studying the situation in the regions, working with Federation Council members, and coordinating media campaigns in the regional press. This office also coordinates the president's trips around the country and his meetings with governors in Moscow. With an overall staff of 72, the department's analysts generally cover 2-3 regions each, keeping track of the electoral situation, regional trends, personnel issues, and how program goals are being met. Samoilov said that his staff tracks whether the regional leaders are trying to handle the problems in their regions or merely seeking more money from the federal budget. The point of this work is to demonstrate to the regional leaders that the Kremlin knows exactly what is happening on the ground so that regional executives develop "constructive and correct" relations with Moscow. (*Segodnya*, 9 January)

COAL MONEY DELIVERED. The federal government spent the full 6.4 trillion old rubles (\$1 billion) that had been budgeted for the coal-producing regions in 1997 as promised by First Deputy Prime Minister Anatolii Chubais in August. However, coal miners still face an extremely difficult situation because their customers do not pay them. (*Segodnya*, 9 January)

BURYATIYA, IRKUTSK SIGN AGREEMENT ON BAIKAL. Buryatiya and Irkutsk signed a cooperation agreement that includes provisions to protect Lake Baikal, which straddles

their border. The two regions will also engage in a joint energy development program. In December, Irkutsk signed a similar agreement with Sakha (Yakutiya). (Radio Rossii, 9 January)

10 JANUARY

NEW TAX SERVICE FOR LARGE FIRMS. The State Tax Service is planning to set up a new division to encourage Russia's largest firms, such as Gazprom and Unified Energy Systems, to pay their tax bills. The companies are simultaneously among the largest contributors to the federal budget and its greatest debtors. The new service, to be based in Moscow, will have the power to investigate money flows through all the regions. The staff of the new service and the firms it will work with have yet to be determined. (*Izvestiya*, 10 January)

NEW CENSUS PLANNED. Russia will hold its next census in November 1999 to update the last national survey in 1989. The questionnaire will include points on nationality, ability to speak Russian and other languages, employment, housing conditions, migration, and sources of income. (*Segodnya*, 10 January)

POLISH RESTRICTIONS HURT RUSSIAN TRADERS. Polish enforcement of restrictions on Russian visitors is hurting shuttle-traders in the region. Although Russians do not need visas to enter the country, the Poles require hotel vouchers with stamps certifying that the vouchers are prepaid or personal invitations that have been registered with the authorities. The invitations require the host to cover any potential costs associated with the visitor. When many visitors were denied entry causing long lines at the border crossing, the Polish consulate in Kaliningrad agreed to issue one day visas for \$3. An accord removing all restrictions on travel between Russia and Poland is being held up by Russia's refusal to sign an agreement obliging it to take back citizens of third countries found to have entered Poland through Russia. Ukraine has such an agreement and there are no delays on the Polish-Ukrainian border. (*Moscow Times*, 10 January)

REGIONS FAIL TO PAY SALARIES, PENSIONS. By 10 January it became clear that the following regions had not cleared their salary and pension debts: Sverdlovsk, Altai, and Irkutsk oblasts, Nenets and Koryak autonomous okrugs, Altai and Buryatiya republics, and the city of Vladivostok. The governors blame the federal government for not sending enough subsidies, but many of the regions are behind in their transfers to the federal government. Irkutsk is the worst offender. (*Segodnya*, 13 January)

11 JANUARY

YAKUTSK MAYOR ELECTED. The head of the government's media department, Ilya Mikhalkhuk, defeated the chairman of the State Housing Committee, Frants Grobman, in Yakutsk's mayoral elections, 54%-38%. (*Segodnya*, 13 January)

12 JANUARY

CHUVASH PRESIDENT FACES DIFFICULTIES IN SECOND TERM. Chuvash President Nikolai Fedorov took the oath of office for his second term. Communist Republican legislative chairman Valentin Shurchanov, who lost the race by more than 23%, was supposed to preside over ceremony, but absented himself. Relations between Fedorov and Shurchanov have been strained since the 1996 presidential campaign and will complicate governing the republic. Fedorov describes the majority of the 46-seat parliament as unreconcilable Communists and hopes to replace many of the them in elections this summer. Fedorov is not planning a major cabinet shake-up at the beginning of his second term. Fedorov's relationship with Moscow reached its nadir in 1995 when he opposed the Chechen war. Since then he has met with the president twice and has worked to rebuild his ties. Now there are no major contentious issues separating the Kremlin and the republic. (*Izvestiya*, 13 January)

GOVERNMENT SEEKS TO HELP SMALL BUSINESS. First Deputy Prime Minister Boris Nemtsov chaired a meeting to determine ways to provide government aid to small business. The discussions focused on the imposition of one unified tax to replace all the existing taxes to simplify the tax-paying procedure for small businesses. Such a tax will be adopted no earlier than August. The 1998 budget has set aside 100 million new rubles (\$17 million) and 5% of privatization proceeds for small businesses. The small business sector produces 12% of Russia's overall output and employs 13 million people. (*Izvestiya*, 13 January)

COURT GIVES FEDERAL GOVERNMENT CONTROL OF FORESTS. The Constitutional Court ruled that the recently adopted Forestry Code, which gives the federal government control of the country's forestry resources, is constitutional. Kareliya and Khabarovsk had protested against the provision. The two regions believed that they were entitled to rights to the land because of provisions in the Federation Treaty and power-sharing agreements they had signed with the Kremlin. Federal representatives argued that the treaty with Kareliya was no longer in effect. The ruling is a victory for the public over the private sector. (*Russkii Telegraf*, 13 January)

13 JANUARY

NIZHNIi NOVGOROD BACKS SUCCESSFUL PLANTS. Nizhnii Novgorod Governor Ivan Sklyarov is offering a package of benefits to local plants in 1998 if they continue to increase output as they did in 1997. The firms must have growth of more than 5%, preserve or increase the number of workers, and pay wages and taxes on time. The benefits will go to big firms like GAZ, Norsi-oil, Pavlov Buses, and smaller firms like Sintez and Nizhfarm. (*Finansovie izvestiya*, 13 January)

ST. PETERSBURG PAPER ISSUES MOSCOW EDITION. *Sankt-Peterburgskie vedomosti*, the daily newspaper of the St. Petersburg governor, began publishing a weekly edition for readers in Moscow. The paper is the largest in the Russian Northwest. (*Izvestiya*, 13 January)

FEDERATION COUNCIL TO MEET IN ST. PETERSBURG. The Federation Council will hold its 28 January session in St. Petersburg, marking the first time that either house of the Russian parliament has met outside of Moscow, *Nezavisimaya gazeta* reported. Speaker Yegor Stroev said that the city on the Neva is one of the most developed in the country and the session will include a practical discussion of major investment projects. The newspaper pointed out, however, that while the political significance of the session will be great, its cost will be prohibitive.

BUSINESS BRIEFS

-- **MOSCOW** has put off the issue of its second issue of Eurobonds, valued at \$500 million, until the world financial markets improve. The crisis in South East Asia has considerably reduced interest in the issues. The city is now expected to float the bonds in May. Moscow floated a \$400 million bond issue on 12 May 1997 with **NOMURA** and **CS FIRST BOSTON** as the lead managers. (*Segodnya*, 10 January)

-- **MOSCOW OBLAST** is confident that its bond issue will find takers despite the uncertainties in the market. Deputy Governor for economic policy and development Viktor Vlasov said that the oblast has received preliminary offers of \$80 million. (Center TV, 5 January)

-- The British **SIR ROCCO FORTE**, which bought a 25.5% stake in St. Petersburg's Astoria Hotel complex for \$3.4 million in September, is planning to redecorate the Astoria into a five-star hotel and upgrade the next door Angleterre into a four-star business hotel. Part of its purchase deal was to invest \$7.05 million in the hotel and set up a \$5.5 million credit line.

-- Bank **ROSSIISKII KREDIT** has signed cooperation agreements with **PRIMORSKII KRAI** and **BELGOROD** and **PERM** oblasts. The bank, which focuses on small business, is known for its emphasis on developing regional ties. (*Ekho Moskvyy*, 6 January)

-- **LENZOLOTO**, which holds the rights to work the Sukhoi Log deposit in **IRKUTSK OBLAST** elected Irkutsk Deputy Governor Aleksandr Stefanovskii as its general director at the shareholders' meeting in December. A decision has yet to be made on who will be granted the mining license, holding up any work on the deposit. The Russian government, which owns a controlling stake in Lenzoloto, does not have the capital required to develop the site. The price for a troy ounce of gold has fallen from \$415 at the beginning of last year to \$325 now. (*Finansovye izvestiya*, 13 January)

-- **BRITISH PETROLEUM** and **SHELL** announced that they would significantly increase investments in recovering Russian oil over the next 10 years after the discovery of a deposit near **YAKUTSK** that is estimated to contain 10 billion barrels of oil valued at \$8 billion. (*Segodnya*, 13 January)

RUSSIAN REGIONS 1997: YEAR IN REVIEW

NEWLY ELECTED GOVERNORS GRAPPLE WITH MOSCOW, REGIONAL PROBLEMS

For the first time in Russian history, elected governors ruled every region of the country except for the republic of Karachaevo-Cherkessiya. The rise of a regional elite beholden to the electorate rather than the will of the president set off a struggle for power between the presidential administration and the governors with victories for both sides during the year. The regions also continued to develop at different paces, and the differences between them became more apparent as some pursued market reforms while others fought them.

Center reasserts lost authority

Russia finished 1996 with a marathon series of gubernatorial elections that brought elected officials to power in more than fifty regions, complementing the regional executives who had already been elected. The governors also demonstrated their importance in 1996 by helping President Boris Yeltsin win his presidential election against the competitive Communist challenger Gennadii Zyuganov. With the election season over and the victors settling down to the tasks of making their regions work, Moscow sought to maintain its traditional control over regional affairs while the newly elected regional elite sought to transform its popular mandate into greater leverage over the federal government. Although the Russian government clearly has lost much of the control over the regions that the Soviet Union exercised before 1991, in 1997 the federal government reasserted some of its lost authority. Of course, it is too much of a simplification to see the battle as one between the Kremlin and the governors, since the Kremlin has a strong interest in using powerful regional executive and legislative leaders, who collectively make up the national parliament's Federation Council, to oppose the Communist-dominated State Duma, the lower chamber.

The federal government had a powerful arsenal at its disposal in its battle to control the periphery. Since the vast majority of regions continue to receive subsidies from the federal budget, they must maintain good relations with the Kremlin to ensure the continued flow of funds. The Federation Council thus voted to approve the 1997 federal budget on 12 February because giving formal backing to the document improved the chances that the regions would receive transfers from the federal government. Passing the budget was a bitter pill to swallow because the governors objected to the way federal funds were distributed in the budget, the reliability of the numbers being used, and the criteria for determining allocations. The governors' objections were borne out a few months later when the administration had to admit that the budget had little relationship with reality.

Yeltsin's cabinet shake-up in March created a more consolidated executive under the leadership of the two new first deputy prime ministers, Anatolii Chubais and Boris Nemtsov. The two reformers tightened the Kremlin's grip on the federal purse strings and sought to reign in the natural monopolies, boosting the Kremlin's power over the regions. Yeltsin's appointment of Nemtsov, the former governor of Nizhnii Novgorod, put him in a good position with the

remaining governors who generally supported Nemtsov's promotion. Chubais used his new power base to fill federal coffers and rescind the advantages previously given to the ethnic republics - forcing Sakha (Yakutiya) to contribute a significant share of its diamond sales to the federal budget and revoking Ingushetiya's status as a tax-free trade zone.

Additionally, the federal government worked to strengthen local governments as a counterweight to the governors' power. Governors and mayors often fight over the distribution of budgetary funds and property, giving the federal government an opportunity to keep all regional leaders from becoming too powerful. On 25 September, Yeltsin signed a law on local government financing to make local governments more independent of the regional and federal governments above them. Earlier in the year, on 29 May, the president created a Council on Local Government that gave him direct access to the country's mayors. Additionally, the administration took the side of Izhevsk Mayor Anatolii Saltykov who was battling to protect his office in the Constitutional Court after Udmurtiya's parliament, under the chairmanship of Aleksandr Volkov, had sought to arrogate the power to appoint mayors in the republic. On 24 January, the court ruled in favor of the mayor, but Yeltsin had to issue a decree on 21 February to compel Volkov to enforce the ruling. The court decision had broad implications for other regions because it defended local government as an independent third level in the overall hierarchy.

An abortive tax strike in the spring also demonstrated the limits of the governors' powers. Sakhalin and Irkutsk declared that they would withhold payments to the center until the Kremlin paid all the money they felt that they were owed. The center quickly squashed the uprising, however, and Irkutsk Governor Yurii Nozhikov resigned in frustration on 21 April. He was only the second regional leader to willingly leave office after Moscow Mayor Gavriil Popov resigned in June 1992 under a cloud of corruption allegations.

Despite these setbacks, the governors were able to assert themselves at key moments. In a Federation Council meeting on 2 July, the governors stood behind Primorskii Krai Governor Yevgennii Nazdratenko when Yeltsin tried to fire him. While objecting to Nazdratenko's inability to resolve the severe energy crisis facing his Far Eastern region, the governors made clear that they would not let Yeltsin remove a regional executive who had been popularly elected. The administration's withdrawal from the battle showed that there were limits on the Kremlin's ability to punish governors it no longer liked. However, the administration sought to sidestep this issue on 9 July by strengthening the powers of the presidential representatives, handing them the authority to monitor the implementation of federal programs, the use of federal property, and the way federal money is spent in the region. Additionally, Yeltsin transferred much of Nazdratenko's power to his newly appointed representative in Vladivostok, Viktor Kondratov, who simultaneously served as head of the regional Federal Security Service.

The rise of Nemtsov and former Samara Mayor Oleg Sysuev gave much greater prominence to the regional leadership and demonstrated that the regional leaders could gain access to the highest levels of power. The regions also gained as the administration signed power-sharing agreements with an additional 14 regions, bringing the total to 40. In a 31 October radio address, Yeltsin praised the treaties as "strengthening the federal state," however,

with their secret protocols, the treaties often create friction between regions when some leaders become convinced that their neighbors are getting better deals than they are.

Gap between regions widens

The gap between the successful and struggling regions widened over the course of the year. Strong, reform-minded leaders seemed to be the key to success. Despite concern over the fate of the losers, the federal government's limited resources prevent it from taking much direct action. By the end of the year it was discussing a policy of helping those regions that could pull up the overall economy and succoring the neediest victims of change, leaving little for the many regions somewhere in the middle.

The rich regions of Moscow, St. Petersburg, and Nizhnii Novgorod became richer as they followed the national government's lead in issuing Eurobonds. Yeltsin authorized several more regions to do so, but the economic crisis in South East Asia forced many of these regional leaders to put their plans on hold. Before the crisis, however, Moscow celebrated its 850th birthday in grand style, launching a potential presidential bid by Mayor Luzhkov.

Saratov also took the lead in a crucial component of reform when Governor Dmitrii Ayatskov signed a law into force on 14 November that allows the buying and selling of land. The State Duma had stymied Yeltsin's attempt to get such private property guarantees approved at the national level. The move dramatically increased the interest of Moscow banks and foreign investors in Saratov, but as yet there is no active real estate market, nor provisions for mortgages.

Ayatskov was successful in obtaining legislative approval for the bill because the Communists did not win a single seat in the 31 August elections to the oblast legislature, while supporters of the governor took a majority. Many other regions are preparing to copy and expand on the Saratov example, while in places like Rostov land privatization is happening spontaneously, as residents simply divide the soil among themselves while ignoring the legal nuances. Luzhkov, however, bucked the national trend in Moscow by vetoing a municipal law to privatize the land under large enterprises.

A series of more than thirty elections to regional legislatures during the fall forced out many of the leftist incumbents and replaced them with more pragmatic entrepreneurs and factory managers. As a rule, the governors were able to win the election of supportive legislatures, pleasing the Yeltsin administration, but there were some exceptions such as in Primorskii Krai, Samara, and Krasnoyarsk, where the regional executives will face more opposition minded parliaments in 1998. Although no Communist won in the so called "red belt" Saratov, they were able to dominate in Stavropol, Chelyabinsk, Smolensk, and Penza. In general, political parties did badly in the regional elections, particularly Vladimir Zhirinovskiy's Liberal Democratic Party of Russia, which nominated numerous candidates and was shut out almost everywhere, even Novosibirsk where it had won 11 seats in the December 1996 city council elections.

Conditions seemed to worsen in many of the poorest regions. Coal miner strikes in Primorskii Krai deprived residents of electricity for as much as 18 hours a day during the spring and early summer. Numerous federal commissions that descended from Moscow were unable to resolve the underlying problems. The battle between reinstated Vladivostok Mayor Viktor

Cherepkov and Governor Nazdratenko also continued unabated. On 26 September the Nazdratenko-dominated krai дума voted to remove Chepekov from office again, but was overruled by the courts. In a surprise move, Cherepkov resigned on 12 November, setting mayoral elections for 1998, and began an abortive hunger strike. He rallied by the end of the year, however, to win a decisive victory in the 7 December elections to the krai дума, replacing his enemies with allies. The struggle is set to continue with further deterioration in the region's economy the only predictable result.

Things appeared to be looking up for Russia's relations with separatist Chechnya when Chechen voters elected Aslan Maskhadov president on 27 January. He had guided the Chechen fighters to victory, but espoused the most pragmatic views among the contenders, earning Moscow's tacit support. Maskhadov traveled to the Kremlin to sign a broad peace treaty in May, but the deal left the main question of Chechnya's status - independent or a part of the Russian Federation - vague. In December, a soon-to-be-hospitalized Yeltsin even announced his intention to visit Chechnya. But the year ended with violence, as well-armed fighters penetrated nearly 100 kilometers into Russian territory to strike a Russian tank unit based near the Dagestani city of Buinaksk early in the morning of 22 December. The attack revealed Russia's painful weakness in ensuring the integrity of the Chechen-Dagestani border against terrorist attack. The year ended with Maskhadov appointed the militant Shamil Basaev the acting prime minister of Chechnya.

Risky business

The year proved mixed for many of Russia's major enterprises and foreign investors. In a move forward, the State Duma on 24 June approved a list of seven natural resource deposits for development on the basis of production sharing agreements. The original list had contained 230 sites, but the parliamentarians feared that they were merely selling off valuable resources to rapacious western firms. The approval did not lead to any major investments as yet.

There were some bright spots. Arkhangelsk authorities began publicizing the Lomonosov diamond deposit that could hold up to \$12 billion worth of precious stones. Some major factories like St. Petersburg's Kirov Factory were able to score major turnarounds and the number of car assembly projects jumped dramatically, capped by a year-end deal between Fiat and Nizhnii Novgorod's Gorkii Automobile Plant.

Many foreign investors faced difficulties, though. Sweden's AssiDoman pulled out of the Segezhabumprom Cellulose and Paper Plant at the end of the year after complaining that the Russian authorities made it impossible to work there. Britain's Trans World Group also lost control of its empire of aluminum plants, including the one in Novolipetsk, where other shareholders were finally able to gain seats on the board of directors after a multi-year battle. In another well publicized struggle, Exxon battled Nenets Autonomous Okrug authorities to retain control of rights it had won to pump oil from the Timano-Pechora basin.

Many of Russia's behemoth producers continued to sink. Tatarstan truck-maker KamAZ, for example, fell far short of producing enough trucks to be profitable and had to shut its production line for weeks at a stretch for lack of ready financing. This failure came despite an attempt by the Tatarstan government to pay off the plant's debt to the federal government.

In a troubling development, the number of small businesses in Russia dropped by nearly 50,000 between 1995 and 1997 from 877,300 to 829,400. Despite the national trend, however, the number of small businesses in Moscow grew by more than 7,000, to 183,000.

Housing reform falters

Communal services take up 30-50% of regional budgets while households pay only 30% of the cost of their utilities. Following the cabinet shakeup in March, the government tried to reduce this burden by raising rents and utility prices, forcing residents to be more efficient by measuring their utility usage, and lowering prices by breaking up natural monopolies. According to a plan launched by Nemtsov in May, the share tenants pay for their housing costs is supposed to rise to 100% by 2003.

Luzhkov resisted the program in Moscow saying that it underestimated the number of people that would need assistance and overestimated the savings generated. Nemtsov on 12 May conceded that the regions would be free to implement their own policies. However, when St. Petersburg Governor Vladimir Yakovlev doubled rents at the beginning of the year, he faced a Communist attempt to recall him. Only a 5 June court ruling prevented the issue from going to a popular vote. In Samara, where housing reform had begun in 1996, newly elected Mayor Grigorii Limanskii announced that he would lower rents when it became apparent that increased charges did not greatly reduce state expenditures. By the end of the year, many regional leaders were increasingly opposed to the reform plans and utilities refused to introduce meters.

Regional foreign policies

Foreign policy became another area for dispute between the Kremlin and regional leaders as well as among regional leaders themselves. Luzhkov supported the Kremlin-initiated policy of unification with Belarus, but upset federal foreign policy-makers by embracing the return of Crimea to Russia, thereby offending Ukraine. Tatarstan President Mintimer Shaimiev, in contrast, denounced the idea of including Belarus in the Russian Federation, warning that such a move would lead him to reexamine his republic's bilateral treaty with Moscow. Growing weary of Belarusian President Aleksandr Lukashenka's authoritarian tactics in arresting Russian journalists reporting from Minsk, the Kremlin blocked his visit to Yaroslavl and Lipetsk just hours before the Belarusian leader was set to go on 2 October. Lukashenka had planned the trip hoping that the "red belt" leaders might give him a more sympathetic hearing.

The Russian regions have also become more vocal in pressing their interests, creating potential for international conflict. In the Northwest, Leningrad Oblast began construction of three ports that it hopes will be able to redirect the \$1 billion in transit fees that now goes to the Baltic states. The struggle for this revenue could lead to greater friction between Russia and its Baltic neighbors. Kaliningrad Governor Leonid Gorbenko has already offended the Poles and Lithuanians by his protectionist measures to help local bakers. In the Far East, Nazdratenko continues to protest the signing of a Moscow-approved Russian-Chinese border treaty that would cede some land to China.

Both Moscow and the regions have an interest in attracting greater foreign investment however. A 1 November summit "without neckties" between Yeltsin and Japanese Prime Minister Ryutaro Hashimoto seemed to open up the possibility of greater Japanese activity in Russian regions, while sidestepping the return of the Kuril islands, a dispute that has prevented the two countries from signing a WWII peace treaty.

In general, the election of Russia's regional elite did not give the governors considerably greater power in the struggle with Moscow. The regions are pursuing too many different interests to present a united front against the Kremlin. The process of increasing differentiation, with some regions succeeding and some falling farther behind, is likely to make such unity even more difficult in the future. -- Robert Ortung

HARVARD'S US-RUSSIAN INVESTMENT SYMPOSIUM

REGIONAL LEADERS LOBBY FOR FOREIGN INVESTMENT. The second annual U.S.-Russian Investment Symposium convened at Harvard University's Kennedy School of Government in Cambridge, Massachusetts, 9-11 January. More than 500 businessmen and officials - half of them from Russia - gathered to discuss the prospects and problems of foreign investment in Russia. The Russian delegation was led by Deputy Prime Minister and Economics Minister Yakov Urinson, and included four regional governors (Tyumen, Chelyabinsk, Tomsk, Magadan), three presidents (Sakha-Yakutiya, Komi, Tyva), and deputy governors from seven other regions.

The overall mood of the conference was to underscore that "business as usual" is now possible in Russia. The Russian participants stressed that reform in Russia is now irreversible. Macroeconomic stabilization has been accomplished, with low inflation and a stable currency creating a predictable climate for investors. On the political front, the presidential elections had ushered in a new era of stability. The only person who introduced a sour note, with his condemnation of "robber baron capitalism" was George Soros - and his analysis was not warmly received by the Russian participants. Indeed, former Deputy Security Council Secretary Boris Berezovskii ironically felt obliged to defend arch-rival Anatolii Chubais from Soros' attack in his own keynote speech. The president of Sakha (Yakutia), Mikhail Nikolaev, pointedly noted that "I have come here not from a bandit Russia, but from a normal, democratic, developing Russia," to applause from the audience.

The Russian delegates came with specific projects to pitch to Western investors. The networking in the corridors was more important than the formal presentations, although it was interesting to compare the varying styles of the regional governors who made their ten-minute pitches to the assembled audience of bankers and investment consultants. The substantive content of the regional presentations was largely similar. Each president or governor stressed that foreign investment was welcome, and that local legislation had either been prepared or already passed guaranteeing foreign investors against arbitrary local taxes and promising them temporary tax exemptions (usually up to five years) to ensure that they recoup their initial investment. Similarly, many of the regional leaders stressed that their region enjoyed strong political stability. Several governors sought to bolster their region's international attractiveness by

citing plans to issue Eurobonds, and their high level of exports as a proportion of GDP (from 25% to 50%).

The differences came when the presenters described the economic strengths of their respective regions, since the region's fate in the world economy will depend on whether it has a comparative advantage in diamonds or potatoes. Sakha president Mikhail Nikolaev underlined that his region's huge diamond wealth enables it to go directly to the international market for Eurobonds - and reported that De Beers has agreed to guarantee the Sakha bond issues. Perhaps the most polished reports came from the first deputy governors of St. Petersburg (Igor Artemiev) and Irkutsk (Valentin Mezhevich). Artemiev stressed the city's achievements in balancing the budget and refinancing the municipal debt - specific news which should reassure potential investors that they are dealing with competent and solvent authorities. The Irkutsk official presented a glossy brochure with useful information on the region's economy. Exports accounted for 30% of a regional GDP of \$5 billion, and aluminum alone accounted for 47% of Irkutsk's exports. Aleksandr Shkurin, the Amur first deputy governor, gave a long disquisition on the state of the region's soya industry: apparently, Amur accounts for 60% of Russia's soya production. Only 8% of the crop is processed locally, so there may be openings there for US food processors. Amur's other claim to fame is that it is the location of the new Svobodnyi satellite launch site. Some of the presentations were rather reminiscent of annual reports from the Communist Party first secretary, beginning with the size of the oblast and wading on through reams of production statistics. One sign of progress was that several of them gave regional dollar GDP figures, rather than reporting physical output levels.

Despite the overall air of down-to-business optimism there was an undercurrent of uncertainty. Eugene Lawson, the president of the US-Russia Business Council, noted that a year ago a survey of the council's members showed concern over three issues: macroeconomic stability, tax collection, and President Yeltsin's health. One year later, the macroeconomy is satisfactory, but tax collection has worsened, and Yeltsin's health is still a source of concern. Lawson also noted that most loans to Russia come under bilateral and multilateral government-sponsored programs, and because of congressional opposition "keeping those programs alive has been a political juggling act." -- Peter Rutland

US GOVERNMENT WILL STEP UP EFFORTS TO HELP REGIONS. US officials attending the Harvard investment symposium pledged that the US government will continue to assist in Russia's economic transition, and will redirect their efforts in order to steer investment straight into the regions. Alan Mendelowitz, executive vice president of the US Eximbank, told the conference that his bank has approved over \$2 billion in credits for US exports to Russia since 1991, and that his staff is now working with regional banks to arrange for credits to small businesses in Russia's provinces.

Mildred Collier, vice president at the Overseas Private Investment Corporation (OPIC) said that by 1997 OPIC had provided insurance guarantees for an investment portfolio totaling \$3 billion, and at the Helsinki summit last spring President Clinton promised Yeltsin that another \$2 billion of projects would be sought. So far, OPIC has only found \$500 million worth of new investments to insure. OPIC has also made regional investment one of its priorities (along with small business promotion and defense conversion).

However, not all is plain sailing. Tyumen governor Leonid Roketskii noted that the Gore-Chernomyrdin commission had closed its one-man office in Tyumen after a year, citing budgetary problems. Tyumen, source of 90% of Russia's gas and 65% of its oil, is the most popular investment destination after Moscow, with 15% of total inflows. Tomsk governor Viktor Kress complained that some of the international financial institutions seem to have favorite regions and leave the rest to their own devices. He complained that his region has never received any representations from the World Bank or EBRD. -- Peter Rutland

ECONOMIC ISSUES

TVER FACTORY DIRECTOR BREAKS WITH SWISS OWNERS. In October 1995, the Swiss Stahel Hardmeyer AG bought a 92.5 % share of Tver Oblast's Vagzhanov textile factory. With assets of \$1 billion, the Swiss firm was considered to be a reliable business partner, initially helping the Tver factory win a \$3 million Swiss bank loan thus solving the plant's immediate problems. Last year, however, Stahel Hardmeyer fell on hard times after substantial losses. Its economic problems provoked a conflict between Vagzhanov General Director Alekdandr Pereverzev and Jurg Bollman, the deputy general director of the Swiss company. Perverzev accused the leaders of Stahel Hardmeyer AG of stealing \$116 million causing the firm to go bankrupt. To pay back its creditors, the company is now selling off its property. Bollman and his partners have set up a new company and expressed their readiness to buy the 92.5 % Vagzhanov stake, but on the condition that the Russian plant downsize, shedding 200 of its 980 workers. Opposing this kind of solution, Pereverzev sent a letter stating that he was no longer willing to deal with Bollman and his partners. Pereverzev is now negotiating with Menatep bank to buy the factory. Tver Deputy Governor Sergey Poltshikov is also helping in the search for a new owner. -- Boris Goubman in Tver

NIZHNI AND MITSUI TO BUILD PHARMACEUTICAL PLANT. The Japanese firm Mitsui and the government of Nizhnii Novgorod oblast signed a contract to build a pharmaceutical factory in the city of Kotovo. The project will cost \$150 million and will be built in part by Nizhnii Novgorod contractors. The factory is expected to begin production in 2.5 years and will concentrate on cardio-vascular medication, currently in great demand in Russia. Altogether, the factory plans to produce up to 68,000 tons of medicine a year. The Japanese investors expect to fully recover their investment after 5 years of operations.--Yury Rodygin in Nizhnii Novgorod

RIVER PORT CAPACITY IN NIZHNI TO BE EXPANDED. As a result of a tender organized by the European Commission, British consulting firm Scott Wilson Kirkpatrick won the right to develop a business plan for the reconstruction of the Nizhnii river port, the second largest on the Volga in terms of the volume of cargo turnover. The project must be developed in 1998-99. The first step will be construction of an additional cargo terminal adjacent to the existing port facilities. It will enable the port to process larger international shipments and raise its annual cargo turnover from 4 million tons to 6 million tons. In the future, the port might

become a Special Economic Zone, equipped with a large-scale warehouse terminal servicing auto-routes, railways and river shipping routes.-- Yury Rodygin in Nizhnii Novgorod

ST. PETERSBURG BUDGET PASSED ON TIME. Breaking with already traditional and almost expected delays in the passage of government budgets, the city of St. Petersburg managed to adopt its 1998 budget before the end of 1997, on 24 December. With 40 deputies voting "Yes" and 1 abstaining, the city Legislative Assembly approved 15.9 billion old rubles (\$2.7 million) worth of revenues and about the same amount of expenditures. Thus, St. Petersburg has distanced itself from other regional governments, as well as the federal government, whose attempts to pass the budget on time have so far been fruitless. The adopted budget is virtually deficit-free, which should boost the confidence of foreign investors, raising the city's investment rating. According to the chair of the legislature's finance committee Igor Artemiev, St. Petersburg's budget exceeds budgets of many European and American cities in terms of its volume and transparency.-- Valeri Ianovski in St. Petersburg

ST. PETERSBURG GOVERNOR GAINS ANOTHER JOB. St. Petersburg Governor Vladimir Yakovlev was appointed chairman of the Federation Council's economic policy committee in the end of December. In this capacity he replaced the former chairman of the Perm Oblast Legislative Assembly, Dr. Evgenii Sapiro. Although the latter was reelected to the assembly, he failed to be elected its chairman, thus losing his seat on the Federation Council.-- Valeri Ianovski in St. Petersburg

SOCIAL ISSUES

PRISON AMNESTY THREATENS T-B EPIDEMIC IN NIZHNII

by Yury Rodygin

NIZHNII NOVGOROD--At the end of the year, the State Duma usually amnesties prisoners older than 60, women with small children, and those suffering from tuberculosis as a humanitarian gesture. Both Russian and Nizhnii Novgorod police officers believe that the measure will not increase the level of crime in the country. In fact, many support it because one of its results is to allow the terminally sick to die in the comfort of their homes surrounded by family members. However, experience shows that good intentions do not always translate into sound policies.

Today Russian prisons house countless convicts diagnosed with tuberculosis, which is why the amnesty for this particular group has become so controversial. In Nizhnii Novgorod Oblast rates of infection among inmates exceed the national average 80 times (see *IEWS Russian Regional Report*, 22 May 1997). Crowded prison cells, malnutrition, a shortage of medication and medical staff, and the low quality of prison hospitals all contribute to the deterioration of the health situation in the oblast's correctional facilities. As a result, of the 2,000 inmates housed in the oblast, 150 inmates, with an average age of 22, die every year. For this

group, the amnesty is a chance to pass away in their families' care, and for the Ministry of the Interior it is a way to rid itself of an uncomfortable burden.

But what will the amnesty bring to the outside world? The oblast's chief health care official refused to comment on the subject. A. Shkarin, the chief physician of the oblast's specialized tuberculosis hospital, however, was not afraid to speak out. "The amnesty will let up to 1,500 seriously ill and contagious people loose on Nizhnii Novgorod oblast, which will only worsen the already critical situation in the region. Today, it is possible to obtain treatment in our hospital, the only sure way to deal with tuberculosis. Tomorrow, hospital treatment will become inaccessible."

Despite government regulations, many freed inmates do not register with local tuberculosis hospitals or police precincts. Yet every so often one of them turns up among meat or pastry vendors, for example, endangering the health of his customers; nobody knows how many more he will infect. And how must we deal with such a person, if medical supplies to specialized tuberculosis hospitals are barely one tenth of what they were in 1991. Every one knows that Russia's penal system is largely responsible for the growing spread of tuberculosis in the country. Therefore, the amnesty, much-acclaimed for its humanitarian motivations, seems more and more like an attempt by the Ministry of the Interior to shift one of its most serious problems on the shoulders of the healthcare agencies and regional and local governments. A much more humanitarian step would have been for the State Duma to have the government find funds for the treatment of the infected inmates in the prisons, and only free those who are healthy and can productively reenter society.

FOREIGN TIES

FIAT AND GAZ ALLY AHEAD OF SCHEDULE

by Yury Rodygin

NIZHNII NOVGOROD--Italian car manufacturer Fiat and the Nizhnii Novgorod-based Gorkii Automobile Factory (GAZ), together with the European Bank for Reconstruction and Development, signed a general agreement to form the Nizhegorodmotors joint venture on 22 December. The project will cost \$850 million, of which 20% will be contributed by EBRD while the car makers will contribute 40% each. The agreement was signed one and a half months ahead of the scheduled date, most likely in an effort to outrun competitors, such as the recently formed Moskvich-Renault (Moscow) and VAZ-Opel (Samara Oblast) alliances.

By committing to this project GAZ encroaches on these companies' territories. GAZ plans to assemble three Fiat models in its facilities: Siena, Marea, and Palio Weekend. While Siena is most similar to the VAZ product, Marea and Palio resemble cars produced by Moskvich. No wonder that days after the agreement was made public, chief executive of VAZ A. Nikolaev called it a "breach of ethics," apparently resenting the impending competition from GAZ. The Moskvich-Renault project has long enjoyed the patronage of Moscow mayor Yury Luzhkov. This is why GAZ and Fiat had to speed up their cooperation plans.

At first, the partners were expecting certain tax breaks for their new venture, specifically several years worth of deferments on federal tax payments and customs duties. But these plans

were never realized. When that failure became clear, GAZ proposed another scheme which would give tax breaks to car makers who assemble finished products from parts produced in Russia. Although this proposal is currently under consideration, no federal tax breaks have been approved yet for the joint venture.

On the other hand, the GAZ-Fiat partnership enjoys favorable treatment by the regional and local governments. The oblast Legislative Assembly, followed by the Nizhnii Novgorod city duma, passed a favorable tax law affecting joint ventures in car manufacturing, if foreign investment amounts to at least 40% of the company's charter capital. Under this law, the joint venture will enjoy a 4-year tax holiday on the value added tax (VAT), the property tax, and the dues collected toward the regional road construction fund. This tax break will enable the joint venture to stand firmly on its feet, after which the oblast hopes to begin collecting \$200 million in taxes every year. Additionally, no exemptions have been granted to the partnership for any of the "social" taxes. Altogether, Nizhegorodmotors will directly account for 5,000 jobs on its premises, and indirectly for 15,000 jobs in supporting enterprises.

According to the GAZ President Nikolai Pugin, the partners' short-term goal is not to begin production as soon as possible, but rather to prepare production facilities for the main assembly line and for the production of spare parts. The latter will be produced in cooperation with both old and new GAZ partners, numbering 15-20 altogether, which will enable the company to keep unit costs down to \$12-17,000 per car. Fiat's Executive Director Paolo Cantarella expects the quality of spare parts produced by Nizhegorodmotors' partners will live up to Fiat quality standards.

Production facilities are being prepared now and the first shipment of Sienas should come down the assembly line at the end of 1998. The business plan stipulates the production of 5,000 units in the first year, rising to 100,000 after four years (or 150,000 including a night shift). Today GAZ produces 125,000 Volgas annually, taking up 2/3 of its capacity.

Future projects include a potential agreement to produce Lancias specifically for Russian government officials. First Deputy Prime Minister Boris Nemtsov, the force behind making government officials use Russian-made cars, said at a 1 October press-conference in Nizhnii Novgorod that it makes no difference what the car is called, as long as it is produced in Russia and lives up to the world quality standards. However, these reports are yet to be confirmed.

RUSSIAN ARMS-DEALER OPENS A NIZHNII OFFICE. Nizhnii Novgorod Governor Ivan Sklyarov and the Rosvooruzhenie state arms dealer signed a cooperation agreement on New Year's eve. Under the terms of the agreement, Rosvooruzhenie will open a regional branch in Nizhnii Novgorod in the first quarter of 1998. Its main function will be to channel locally-produced military equipment abroad. The company highly values Nizhnii's military products: they can compete with the best foreign equivalents and generate \$100 million worth of annual sales. But the company sees much greater potential for Nizhnii arms on the world market and would like to sell more, which is why the Nizhnii branch office is being established. Moreover, the office will supply managers of Russian military enterprises with information on the world arms market, as well as provide them with some consulting services.-- Yury Rodygin in Nizhnii Novgorod

MORE US MONEY FOR URALS SMALL AND MEDIUM BUSINESSES.

According to a recently concluded agreement between the U.S.-Russia Investment Fund and the Yekaterinburg bank Severnaya Kazna, a \$3.5 million credit line will be extended to small and medium businesses in the Urals, *Delovoi kvartal* (Yekaterinburg) reported in the end of 1997. The project's credit procedures are similar to those practiced by the European Bank for Reconstruction and Development. Loans are issued under the consolidated responsibility of both entities, so each applicant has to be considered separately. Already over 20 Urals firms have been approved for \$2 million worth of credit, with annual interest rates at about 15-18%, a favorable rate in the current financial climate.

Additionally, Severnaya Kazna and the U.S.-Russia Investment Fund opened up a \$1 million credit line for firms wishing to purchase cars. Individual car loans range from \$5,000 to \$20,000, which most surveyed entrepreneurs find appropriate in the current business situation in Russia. Credit recipients will include businessmen from both Yekaterinburg and Novouralsk, a city 70 kilometers from the oblast capital.

American experts at the U.S.-Russia Investment Fund believe that positive results achieved in the small and medium business financing testify to the long-term potential of the project as a whole. In terms of overall support for entrepreneurship in Russia, the U.S. has invested \$10 million through 14 Russian banks and an additional \$100 million in direct investment. The Fund's activities will help to bolster the economic sustainability of small and medium enterprises in the Middle Urals.--Dmitry Strovsky in Yekaterinburg

TAX ISSUES

THREE PERCENT THAT SHOOK KAZAN. That headline topped an article in one of Kazan's newspapers describing the municipal sales tax introduced 1 January 1998. The mayor's decree set a 5% tax on the sale of alcoholic beverages and a 3% tax on the sale of all other consumer goods and services, provoking a storm of popular protest. Something was fishy about the tax from the start. First, the timing for introducing the new tax was poorly chosen. For the last six months the Feds and the Central Bank of Russia have been trying to convince the people that the ruble redenomination (removing three zeros) will not cause prices to rise. Because the tax was introduced simultaneously with the redenomination, rumors began to spread about another government scheme to fool the common people. Not everybody understood that the redenomination and Tatarstan's latest tax folly were completely separate actions.

Second, from the very beginning it was clear that Kazan's mayor would not have imposed the new tax without the approval of Tatarstan's President Mintimer Shaimiev. But the latter remained silent, waiting for popular reaction. Only on 8 January, after the tax's unpopularity became clear, did the President issue a decree which suspended (but did not revoke) the city's new tax.

Third, the mayor's edict contradicts federal legislation. According to the Russian Constitution, government entities below the federal level do not have the right to impose taxes that are not enumerated in national legislation. And Article 18 of the federal law "On the

fundamentals of the tax system in the Russian Federation" has an exhaustive list of permissible federal, regional and local taxes, but nowhere does it list a sales tax. It is true that a federal law allowing for sales taxes has been passed by the Russian parliament, but it is yet to be signed by the President.

Fourth, Kazan residents, upset with the new tax, reminded Shaimiev that he had once promised no new taxes.

Even though the controversial sales tax was temporarily suspended, local governments have more "New Year's presents" in store for the people. For example, a higher telephone surcharge was introduced in 1998. Instead of paying 20,000 old rubles (\$3.40), the people will now pay 27 new rubles (\$4.60) a month. Additionally, 1998 will also bring fees for local calls. In another example, administrative fees for the housing privatization process have doubled and will amount to 63 new rubles (\$10) to complete all the necessary paperwork, or 75% of the national minimum wage (*Kazanskoe vremia*, 9 January).--Midkhat Faroukshine in Kazan

REGIONAL LINKS

Moscow-Regions (<http://www.vlux.ru/>) An "information system for entrepreneurs," this site includes databases on securities, currency, banking services, advertising, and the media.

Russian Military Industrial Complex (<http://www.vpk.ru>) The site's ambition is to provide current operational, legal, commercial, financial, economic and factual information about the Russian Military Industrial Complex (VPK). No classified information is offered, however.

REGIONAL PROFILE: TAIMYR AUTONOMOUS OKRUG

Governor: Gennadii Nedelin

Gennadii Nedelin was elected governor on 22 December 1996 with 64% of the vote.

Nedelin was born in 1938 in a village in Krasnoyarsk Krai. After finishing a technical school, he served in the army and later graduated from the Krasnoyarsk Agricultural Institute. At the age of 25, he began working as a komsomol and party functionary. From 1963 until 1971, he worked as a secretary of a district komsomol organization. After that, for nineteen years, Nedelin was a deputy chairman of the Taimyr executive committee. In March 1990, he was elected to the Krasnoyarsk Krai Soviet and a month later -- chairman of the Taimyr executive committee.

President Boris Yeltsin appointed Nedelin governor of the okrug in December 1991. In December 1993 he was elected to the Federation Council, the upper house of the Russian parliament.

In June 1997 Nedelin became a member of the Board of Directors of the Norilsk Nickel plant which is located in the region.

Other Local Leaders

Chairman of the Okrug Duma -- Aleksandr Zabeivorota, elected in 1995

Brief Overview

Taimyr Autonomous Okrug is situated in the north of Krasnoyarsk Krai and borders Sakha (Yakutiya), Evenk AO and Yamalo-Nenets AO. The okrug includes Taimyr peninsula, which is the most northern part of Eurasia and takes up almost half of the okrug's territory. The okrug is rich in water resources, boasting the second largest lake in Siberia after Baikal -- Taimyr. One tenth of the okrug's territory is occupied by three nature preserves - Taimyr, Putoran, and Big Arctic.

The okrug is also rich in mineral resources, such as copper, nickel, gold, diamonds, coal, oil, and gas, but due to an extremely inclement climate most of the deposits are not being exploited. The mammoth Norilsk Metallurgical Works draw on the most valuable deposits of copper and nickel.

Basic Facts

1995 Population (est.): 47,300 (0.03% of Russian total)

Industrial production as percentage of all Russian production (Jan.-Aug. 1995): 0.00%

Price basket index in July 1995: 108 (Russia = 100)

Average back wages owed per person (September 1995): 100,400 rubles (Russian average = 37,100)

Urban population: 66.2% (Russia overall: 73.0%)

Percent of population with higher education (1989 census): 4.3% (Russia overall: 11.3%)

Number of telephones per 100 families (1993): in cities : 48.3 (Russian average: 41.5); in villages: 31.2 (17.2)

According to a 1995 survey by Bank Austria, the oblast is ranked 72nd among Russia's 89 regions in terms of investment climate.

Electoral History

1996 Presidential Election

Yeltsin: 49.47%/71.62% (first round/second round)

Zyuganov: 12.08%/21.57%

Lebed: 14.91%

Zhirinovskiy: 10.07%

Yavlinskii: 6.47%

Turnout: 65.89%/61.74% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Liberal Democratic Party of Russia: 15.40%

Our Home Is Russia: 13.84%

Women of Russia: 8.00%
Party of Workers' Self-Government: 6.80%
Yabloko: 6.14%
Communist Party of the Russian Federation: 6.12%
Congress of Russian Communities: 4.46%
Russia's Democratic Choice: 3.07%
In a single-member district: 1 independent
Turnout: 59.67% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 79.99% "No" -- 20.01%

1993 Parliamentary Elections

Russia's Choice: 27.99%
Liberal Democratic Party of Russia: 17.37%
Party of Russian Unity and Concord: 13.46%
Women of Russia: 9.64%
Yabloko: 7.85%
Democratic Party of Russia: 6.58%
Communist Party of the Russian Federation: 4.67%
Agrarian Party of Russia: 1.04%
In a single-mandate district: 1 independent
Turnout: 58.47% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 58.12%
Ryzhkov: 13.56%
Tuleev: 11.78%
Zhirinovskiy: 8.91%
Bakatin: 2.60%
Makashov: 1.72%
Turnout: 75.00% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995.

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BREAKING NEWS

13 JANUARY

ST. PETERSBURG, LENINGRAD OBLAST PENSION FUNDS MERGE. On 1 January the St. Petersburg and Leningrad Oblast pension funds merged. Leningrad Oblast will benefit greatly because its fund is chronically short of money to pay the region's pensioners, generally collecting 130 billion old rubles (\$21 million) a month and paying out 160 billion (\$27 million). To meet the gap, the oblast must receive a subsidy from the central pension fund. At the same time, St. Petersburg was sending a surplus to the federal government larger than the needs of the oblast. The decision to exclude Moscow from the process was taken 29 December and the director of the St. Petersburg fund, Andrei Andreev, will head the new combined fund, of which the oblast is one department. (*Russkii Telegraf*, 13 January)

ALTAI PRESIDENT INAUGURATED. The new president of the Gorno-Altai republic, one of the poorest regions in Siberia, is unique among current governors because of his membership in Yegor Gaidar's Russia's Democratic Choice. He may have trouble governing because his party is in competition with the local Our Home is Russia, which won 20 of the 42 seats in the republican legislature, the El Kurultai. The republic could serve as a testing ground for Gaidar's party in the same way that Nizhnii Novgorod did under Boris Nemtsov for Yabloko or Pskov today is for Vladimir Zhirinovskiy's Liberal Democratic Party (*Nezavisimaya gazeta*, 16 January). The economic situation is dire, however. The former president of the republic, Valerii Chaptynov, died last summer in Moscow awaiting news of the republic's subsidies. (*Kommersant-Daily*, 14 January)

NEW #2 IN ST. PETERSBURG. At his first press conference, new First Deputy Governor of St. Petersburg Ilya Klebanov said that he would save the city's industry by signing an agreement with the Finance Ministry to take control of the federal government's local property, much of which is in desperate condition, and use bankruptcy procedures more widely. Klebanov is the former director of the Leningrad Optical Mechanical Association (LOMO), and has close ties to First Deputy Prime Minister Anatolii Chubais. Last year, Yeltsin praised him in one of his radio addresses. (*Kommersant-Daily*, 14 December)

14 JANUARY

NESTE BUILDS PORT IN PETERSBURG. The Finnish oil company Neste is building a \$30 million port to import gasoline and diesel fuel into Russia in Bronka, near the city of Lomonosov. It will have the turnover of 500,000 tons a year of light oil products; construction is expected to be complete in 1999. Surgutneftegaz is planning to build a large export terminal nearby and many believe that the two projects are not compatible. Both former St. Petersburg Mayor Anatolii Sobchak and current Leningrad Oblast Governor Vadim Gustov opposed the Neste project. However, St. Petersburg Governor Vladimir Yakovlev backs it. The port is being built within city limits, while the Surgutneftegaz port is in Leningrad Oblast. (*Kommersant-Daily*, 14 January)

PLATONOV REELECTED IN MOSCOW. The Moscow City Duma reelected Vladimir Platonov as its chairman by a vote of 32-0. Platonov had the strong support of Mayor Yurii Luzhkov. Platonov was born in Moscow in 1954, studied economics and law at Patrice Lumumba University, and worked in the procurator's office before winning a seat in the city duma (*Kommersant-Daily*, 15 January). During their first session, the deputies also voted to strip themselves of immunity from prosecution (*Segodnya*, 16 January). In 1997 federal law deprived regional deputies of this right to reduce the number of criminals seeking public office.

ATTACK ON ROSSEL. A bomb exploded near Governor Eduard Rossel's official car as he was being driven to work at 7:40 in the morning. Hundreds of police are working on the case. One possible theory is that the attack was in response to a police crackdown on a birthday party for a local "thief in law." Several crime bosses from around the country had converged on the city for the celebration. Many in the oblast are unhappy with the governor's policies. In particular, state employees and pensioners are furious that the government is behind on its payments to them. On 20 January, 600 teachers, doctors, and university lecturers picketed Rossel's offices (*Uralskii rabochii*, 21 January, <http://ur.etel.ru>). The governor also has deteriorating relations with Yekaterinburg Mayor Arkadii Chernetskii in the runup to April's oblast legislative elections. Chernetskii could run against Rossel in the 1999 gubernatorial elections. (*Kommersant-Daily*, 15 January)

TOMSK GOVERNOR ON SIBERIAN ACCORD, ELECTED OFFICIALS. Tomsk Governor Viktor Kress told *Izvestiya* that the Siberian Accord regional association, which brings together 19 republics, kraia, and oblasts, cannot focus purely on economics because the interests of its members are too different. As a result it is more of a political organization. The association "works as a unified regulator that smooths out differences in the approach of one or another region toward the center," he said. Kress believes that 89 regions is too many, especially when each governor appeals to the federal government for help. He believes that ultimately the number of units will be reduced, but that the process will take a considerable amount of time. On the institute of elected officials, he said that his popular mandate makes him feel that he is the equal of other officials. However, elections, he believes, create "local czars." To counter this problem, he argued for "rationally setting strict boundaries" and giving the president the ability to remove governors who cross the line and likewise giving governors the ability to fire elected local officials.

BELARUS TO OPEN CONSULATES. *Rossiiskaya gazeta* published a Yeltsin decree allowing Belarus to open consulates in Kaliningrad, Krasnodar, Murmansk, St. Petersburg, and Tyumen. Meanwhile Lipetsk Governor Mikhail Narolin met with Belarusian President Aleksandr Lukashenka in Minsk. The two leaders did not sign any substantive agreements because of poor preparatory work. Lukashenka had tried to travel to Lipetsk on 2 October but was denied entry to Russia because of the controversy surrounding his arrest of a Russian Public Television correspondent. (*Russkii Telegraf*, 15 January)

15 JANUARY

LUZHKOV FOR PRESIDENT. Moscow Mayor Luzhkov did not deny his presidential ambitions for the first time in answering the usual questions from journalists. He only said that "I can only say for sure that in 2000 I will run for mayor." Luzhkov has repeatedly denied presidential ambitions in the past. (*Kommersant-Daily*, 16 January)

TULEEV DEMOBILIZES STRIKERS IN KEMEROVO. Workers at 78 of Kemerovo Oblast's 130 pits participated in a one-day warning strike, but many stayed at work following the request of Governor Aman Tuleev. The average worker in the oblast has not been paid in 5 months, and some have gone as long as a year (*Izvestiya*, 15 January). Since Tuleev's election last October, the trade unions have had difficulty mobilizing their workers. On the eve of the strike, Tuleev convinced Prime Minister Viktor Chernomyrdin to add an additional 2.3 trillion rubles (\$383 million) to the 1.2 trillion (\$200 million) already appropriated for the region in 1998 (*Kommersant-Daily*, 16 January). Ministry of Fuel and Energy officials charged that the miners were striking to draw more money out of the federal budget for themselves rather than restructuring the industry. They point out that Tuleev denounces the World Bank-financed programs while "forgetting" the much of the money went to the region's miners.

KHABAROVSK PROTESTS SUKHOI PRIVATIZATION. On 27 December 1997, President Yeltsin issued a decree reorganizing the Sukhoi military aircraft construction holding company. Among its provisions, the decree allows just under 50% of the Komsomolsk-na-Amure plant to be privatized. The oblast government will only be able to acquire 25% of the stock. Khabarovsk Governor Viktor Ishaev is upset about the decree because the federal authorities did not work out the deal with him in advance as had been agreed to in the power-sharing treaty. The staff of the plant has also denounced the government for the decision. There has been conflict within the company since the government began trying to restructure it two years ago.

Sukhoi sold only 15 planes last year. However, in addition to the plant in Khabarovsk, the firm has factories in Irkutsk and Novosibirsk. It could easily sacrifice one of these. The Irkutsk plant is in the best shape, so attention is focusing on Novosibirsk and Komsomolsk-na-Amure. The plants do not have any prospects of orders, but are among the largest in their regions and closing them would have dire social consequences (*Segodnya*, 15 January). Vladimir Potanin's powerful UNEXIMbank, which has close ties to the Irkutsk plant, will benefit most from the closing. (*Nezavisimaya gazeta*, 16 January)

16 JANUARY

ST. PETERSBURG MCDONALD'S BOMBED. An unidentified person threw a bomb through the window of a McDonald's restaurant under construction just off Nevskii Prospekt in St. Petersburg. The reason for the bombing is unclear. Although some neighbors have been upset about the construction, authorities do not believe that they were responsible. Other McDonald's in the city have been operating without incident. (*Moscow Times*, 20 January)

RUSSIA PLANS SECOND RAILROAD LINK AROUND CHECHNYA. Russia will build a second railroad link skirting Chechnya beginning in the first quarter of 1998. The 224 km

line will connect Budennovsk (Stavropol Krai) with Kochubei (Dagestan) through Neftekamsk. The new transportation link will improve the opportunities for recovering oil in eastern Stavropol Krai. The region produces more than 1 million tons a year which before 1994 was sent for processing in Groznii. The other non-Chechen line connects Kizlyar with Karlan-yurt. (*Nezavisimaya gazeta*, 16 January)

19 JANUARY

CONFERENCE EXAMINES FEDERALISM. A conference of regional leaders examined the future of Russian federalism in Moscow on 19-20 January. In the runup to the session, Ryazan Oblast Duma Speaker Vladimir Fedotkin complained that many regions do not have enough money to pay for social security, housing construction, and other benefits. Ryazan, for example, needed 471 billion old rubles (\$79 million) to meet its expenses during the first 11 months of 1997, but only received 197 billion (\$33 million). The federal government cannot meet all its obligations because it only collected 77% of its taxes in 1997.

Long term trends also show a widening gap between the poorest and richest regions. In 1990 the 10 least developed regions had average industrial and agricultural productivity 2.3 times lower than the 10 most developed regions; in 1997, the figure grew closer to 5 times. Additionally, many governors believe that the current tax system unfairly transfers money from richer regions to their poorer neighbors. Such a system, they argue, deprives regions of any incentive to increase their productivity above the average. (*Finansovye izvestiya*, 15 January)

At the conference, many participants, including Federation Council Chairman Yegor Stroyev complained that the practice of signing power-sharing agreements created unequal conditions for the different regions. He suggested adopting a uniform set of laws, a proposal that found considerable support. Astrakhan Governor Anatolii Guzhvin, who is also head of the Great Volga Association, cautioned against the hasty adoption of a federal law regulating relations between the center and the regions. (*Kommersant-Daily*, 20 January)

SARATOV FORCES FACTORIES TO BUY INSURANCE. Saratov Governor Dmitrii Ayatskov signed a law forcing all companies in the region to buy insurance to cover the costs of potential accidents. For the first time in Russia, victims of such incidents can receive compensation from the relevant insurance companies. Yeltsin signed a law requiring such insurance last year, but it has not been well implemented. Saratov, already a leader in the privatization of land, is the first to take action. Among the firms affected are the Balakov Nuclear Power Plant and several chemical and petro-chemical plants. (*Kommersant-Daily*, 20 January)

YELTSIN BACKS KULIKOV ON CHECHNYA. President Yeltsin backed the statements of Minister of Internal Affairs Anatolii Kulikov supporting preemptive strikes against terrorists in Chechnya. He said that "I am also close to your position," but called for minor clarifications to avoid provoking a stormy reaction. Chechen officials have denounced the statement as threatening war. (*Nezavisimaya gazeta*, 20 January)

FORMER YAMAL-NENETS SPEAKER ELECTED CHAIRMAN OF TYUMEN LEGISLATURE. The Tyumen Oblast Duma elected Sergei Korepanov, the former chairman of the Yamal-Nenets legislature as its chairman. The vote is seen as the first move in a plan by the Yamal-Nenets and Khanty-Mansii autonomous okrugs to remove Tyumen Governor Leonid Roketskii. The two okrugs, which control 90% of Russia's gas and 60% of its oil, are formally part of the oblast but are seeking independence to increase their control over tax revenues generated by the exploitation of their natural resources. Fifteen of the 25 legislators backed Korepanov's candidacy. Roketskii's election last year was not valid in the okrugs, where turnout was less than 25%, although he had enough votes in Tyumen proper for the results to stand. The legislature may now call for new elections, with the backing of Gazprom, which obtains the majority of its gas in Yamal-Nenets. *Kommersant-Daily* speculates that Yamal Nenets Governor Yurii Neelov will seek the Tyumen governorship, although he denies it. (*Kommersant-Daily*, 20 January)

BUSINESS BRIEFS

-- **ROSTOV'S ROSTSELMASH**, the CIS's largest producer of grain harvesting machinery, resumed production at the beginning of 1998 following an agreement with Prime Minister Viktor Chernomyrdin to restructure the plant's 440 billion old ruble (\$73 million) debt to federal and regional governments. According to the Agriculture Ministry, the country needs 440,000 combines, but today only has 230,000. During the Soviet era, the factory produced 85,000 combines a year. In 1996, its output reached a low of 1,640, climbing only to 2,000 in 1997. For 1998, the plant has orders for 8,500 combines. (*Kommersant Daily*, 13 January)

-- **TYUMEN OBLAST** produced about 200 million tons of oil in 1997, about 1.7% more than in 1996. Gas production dropped 4.9% to 521 billion cubic meters during the last year because Gazprom cut off supplies to many customers that did not pay. Otherwise output could have been 550-560 billion cubic meters. (*Kommersant-Daily*, 13 January)

-- The German **STOLLWERCK** is planning to double the output of its chocolate Alpen Gold at its Pokrov (**VLADIMIR OBLAST**) plant in 1998 at a cost of 100 million DM. The plant will have a capacity of 30 million tons a year. At the moment the plant meets 50% of the demand of the Russian market with the rest supplied from Hungary and Germany, often at a lower price. The larger capacity of the Pokrov plant should even out the prices and lower them overall. In 1997, Russians consumed 411,000 tons of chocolate and consumption is expected to rise to 450,000 - 460,000 in 1998. (*Kommersant-Daily*, 13 January)

-- **VLADIMIR OBLAST** Governor Nikolai Vinogradov signed an agreement with **ROSTEKSTIL**, the country's largest producer and seller of textiles, to revive the industry that makes up a majority of Vladimir's output. The deal obliges Rostekstil to supply an as yet undefined amount of materials and orders to the oblast's factories in exchange for a variety of tax reductions. During the last six years, the market for Russian textiles has dropped to a tenth of its former size, largely due to cheap imports from South East Asia. Additionally, the

European Union limited the import of Russian textiles to \$140 million in 1997. Western textile imports are not restricted and last year amounted to \$900 million. (*Kommersant Daily*, 13 January)

-- **BANK OF AMERICA** has opened a 100% American-owned subsidiary in Moscow with \$50 million capital. After **CITIBANK**, it is the second American bank operating in the country and the 12th foreign subsidiary. By the end of 1998, there should be at least 16, including **DEUTSCHE BANK, COMMERZBANK, and J. P. MORGAN AND CO.** Bank of America is already serving Russian oil, gas, and telecommunications companies. Its office of 30 employees will also work with state agencies and other foreign firms (*Kommersant-Daily*, 16 January). It has operated in Russia since 1973.

-- The price of **PALLADIUM** has risen dramatically on world markets, to a high of \$240 a troy ounce after Russian bureaucrats began holding up exports in February 1997. The mines of **NORILSK NIKEL** provide 70% of the world's supply, much of which goes to Japan. Russia has yet to sign a contract with Japan and its first shipment will reach Japanese customers in March at the earliest. The metal is used in making catalytic converters for cars. (*Kommersant-Daily*, 16 January)

-- On 12 December, **MOSCOW** Mayor Luzhkov signed an agreement in Boston with the **INTERNATIONAL FINANCE CORPORATION, BANK BOSTON, and FANNIE MAE** to develop a mortgage system in the capital in 90 days. Implementing the program will take a lot longer, however. Moscow builds 3 million cubic meters of housing a year, but some residents have been waiting 16 years for housing. Additionally, Russian banks are used to lending money for 3-6 months and are likely to shy away from the at least 10-15 year loans required for home buyers. Since Russians' rights to housing is constitutionally guaranteed, up to 40% of the capital's residents don't pay rent and cannot be evicted. The average Russian also lacks a credit history making it difficult for banks to judge citizens' ability to pay back their loans. (*Segodnya*, 14 January)

-- The Dutch **ABN AMRO BANK** has extended a \$11.5 million credit to **ROSNEFT-SAKHALINMORNEFTEGAZ** to finance oil and gas exploration work for the **SAKHALIN-1** project. (*Finansovaya Rossiya*, 16 January)

-- **NOVGOROD OBLAST'S KVANT** factory once produced 240,000 television sets a year with a staff of 7,600. Now it is making satellite telephones, ovens, wood-processing machines, and medical instruments. It produces goods for the military, to the tune of 25 billion old rubles (\$4.2 million) in 1997, but the armed forces have yet to pay. Beginning in March 1997, the firm began producing television sets with a 63 cm screen and digital signal processing, the first in Russia. Due to the poor implementation of tax laws, however, it is still easier to import TVs into Russia, than the parts required for the Kvant sets. Companies like **GOLDSTAR** and **SAMSUNG** have offered to work with the factory, but the foreigners do not want to use Kvant's technology, seeking only land and tax benefits to build their own factory. Kvant is going

its own way and hopes to survive by making smaller sets that are cheaper than the foreign imports. (*Nezavisimaya gazeta*, 16 January)

-- The **EBRD** will provide a DM100 million credit to the Danish **DANSK TYGGEGUMMI FABRIK A/S** (Dandy) project to build a second chewing gum factory in **NOVGOROD OBLAST**. (See *IEWS Russian Regional Report*, 20 November 1997). Overall investment in the projects is worth \$145 million. (*Russkii Telegraf*, 14 January)

-- The Japanese trading firm **ITOCHU** will build a 34-story hotel, apartment, and business center valued at \$200 million within the overall City business complex planned in **MOSCOW**. The city plans to hold a tender for constructing the first stage of the complex in the first three months of 1998 suggesting that the search for a strategic investor for the project is coming to a conclusion. (*Russkii Telegraf*, 14 January)

-- **OPEL**, the German division of the US's General Motors, and **AvtoVAZ** have cancelled their plans to build an Opel assembly plant in Vyborg (**LENINGRAD OBLAST**) and will now assemble the cars in Togliatti, the **SAMARA OLBAST** headquarters of AvtoVAZ. According to AvtoVAZ General Director Aleksei Nikolaev, the refusal of the third partner, Finland's **VALMET AUTOMOTIVE**, caused the change of plans. Valmet apparently dropped out because it is difficult to sell the cars in Western Europe. Eventually the plant will produce up to 200,000 Opels a year. Governor Konstantin Titov has long supported bringing the assembly project to Samara. Overall, AvtoVAZ produced 749,509 cars in 1997 yielding sales of 24.8 trillion rubles (\$4.1 billion), up 12.23% over 1996. However exports of the cars dropped from 132,288 in 1996 to 93,375 in 1997. (*Russkii Telegraf*, 16 January)

-- Sweden's **ASSIDOMAN** has failed to win a Russian government guarantee of the \$60 million reconstruction program for its Segezhabumprom plant in **KARELIYA**. Officials from the company met with First Deputy Prime Minister Boris Nemtsov on 12 January but could not come to an agreement. The government said it could do nothing until the courts determined whether AssiDoman's ownership of a controlling stake in the plant was valid. In December the Moscow Arbitration Court declared illegal the original purchase of the stake by the US's Stratton Paper which is now wholly owned by AssiDoman. Upak, a Russian company that holds 10% of the shares and used to be the plant's main distributor, may have brought the charges. (*Moscow Times*, 14 January)

-- The US's **QUALCOMM** won a \$10 million contract to install a CDMA wireless telephone system in **KRASNODAR**. The company's employee Richard Bliss was arrested on charges of spying while he was installing a similar \$5.8 million system in **ROSTOV**. The Russian government let him return home before Christmas and has said that he does not need to return to stand trial. More than 250,000 people in Krasnodar are waiting for phone service. The region is the fourth where Qualcomm will be working. (*Moscow Times*, 14 January)

-- **FORD MOTOR CO.** hopes to announce that it will set up a \$150 million factory in Vsevolozhsk (**LENINGRAD OBLAST**) during the first half of this year. The Ford plant would be built on the basis of Russkii Diesel engine factory. It is waiting for the government to provide tax holidays for the deal to go ahead. The plant would initially produce 25,000 cars a year, creating 2,000 jobs in the area. Ford sold 7,000 cars in Russia in 1997. **ST.**

PETERSBURG officials were upset that Leningrad Governor Vadim Gustov beat them out of the deal. A law approved by the oblast last summer makes it one of the most investment friendly in the country (*Moscow Times*, 16 January). Ford had also been considering working in **UDMURTIYA** (*Russkii Telegraf*, 17 January)

-- **LUFTHANSA** will close its office in **NOVOSIBIRSK** on 26 March and end flights to the city. The office opened three years ago counting on strong German activity in the area, but half the German firms have closed their regional offices since then. Also several Russian airlines and the Dutch KLM offer much cheaper flights to the city from Moscow, competing with Lufthansa's Frankfurt-Yekaterinburg-Novosibirsk route. (*Kommersant-Daily*, 20 January)

-- **RUSSIAN AIRLINES** carried 30 million passengers in 1997, 3 million more than in 1996. However only 40 of the 315 airlines carried 90% of the passengers. By the year 2000, there are likely to be only 40-45 regional airlines and 8 national carriers. (*Finansovie izvestiya*, 20 January)

-- The **HOLIDAY INN** US hotel chain will enter the Russian market in March with a 180-room hotel in a northern suburb of **MOSCOW**, a 40-minute drive from Red Square. The chain will manage the hotel, but has not invested in it. Room rates will be \$150-\$180 a day, relatively moderate by Moscow standards. Analysts, however, suggest that the hotel might have to go as low as \$120 to be competitive. (*Moscow Times*, 20 January)

SUCCESS STORIES: NOVGOROD OBLAST

GOVERNOR PRUSAK: A VACUUM IS WORSE THAN BAD GOVERNMENT.

With foreign investment per capita trailing only that of Moscow, Novgorod Oblast is considered one of the regions' greatest successes. Firms like Fiat, British Petroleum, Siemens, and Coca-Cola rank it at the top in terms of investment climate. Cadbury has built a chocolate factory in Chudovo, one of the poorest cities in the country. Oblast officials claim that this year Novgorod will join the handful of donor regions, who give more to the federal budget than they take. Much of the credit for these accomplishments is given to Governor Mikhail Prusak, who has reportedly turned down three offers to join the federal government.

Prusak began his career as a school teacher. He then worked as a Komsomol organizer and the director of a state farm. Yeltsin appointed him governor in 1991 at the age of 31. In December 1995, the voters gave him a popular mandate to stay in office. He won 56.2% of the vote in that election.

In a 15 January interview with *Russkii Telegraf*, Prusak explained some of his views. For one of the leaders of Russia's race to market reform, Prusak has surprising opinions about

the old Communist Party of the Soviet Union. In 1989, as a member of the USSR Congress of People representing the Komsomol, he claimed that he did not support the abolition of Article 6 in the Soviet constitution, which enshrined the party's right to a monopoly on power, arguing that "a bad set of authorities is better than none." Even though Prusak felt that he did not really know what he was doing when he took power, he believed that the key lesson of history was not to create a power vacuum.

Part of Prusak's record has been an ability to get along with everyone. He now boasts that during the 1995 gubernatorial elections, he had the support of Russia's Democratic Choice, Yabloko, Our Home is Russia, and the Communists and that he has managed to maintain good relations with the oblast legislature. Following the 1996 oblast legislative elections, the body is filled with local executives and factory directors, but no political party members.

Prusak considers himself loyal to Yeltsin. However, he does not support the institution of presidential representatives in each region. He is also critical of the size of the federal presence in the city. The oblast administration employs 500 while there are 7,000 federal bureaucrats.

Among his heroes he counts the wildly unpopular Gennadii Burbulis, Yeltsin's former State Secretary who was responsible for his appointment as governor. Burbulis provoked the ire of Yeltsin's opponents in particular for his role in the dismemberment of the Soviet Union at the end of 1991.

Much of Novgorod's success in attracting foreign investors comes from the tax holidays it provides (see next story). Prusak stresses that taxes on firms should be small and that individuals should bear the main burden.

BUSINESS SUPPORTS NOVGOROD REFORMS

by Boris Goubman, Tver State University

TVER - It is not difficult to find examples of scandalous activities by large businesses working in Russian regions. At the same time, the economic, social, and cultural revival of the country cannot proceed without the resurrection of large-scale private industry. The role played by the Acron Company in the development of Novgorod Oblast's reforms serves as a positive example of the fruitful cooperation between local authorities and an industrial giant.

Acron is Russia's largest producer of nitrogen and compound fertilizers and the most important tax payer in Novgorod. Its payments make up 30% of the region's total budget revenue. In this respect, the company's significance for the Novgorod economy is similar to that of Gazprom for Russia overall, as Acron Coordinating Board Director Vyacheslav Kantor recently pointed out (*Delovye Ludi*, November 1997, No. 83, p. 29). Between 1993-1997, Acron paid \$34 million in taxes to Novgorod, more than \$50 million to the federal budget, and \$43 million to a host of non-budgetary funds. If Novgorod needs Acron as its leading budgetary donor, Acron has found that the city provides fertile ground for its industrial initiatives.

According to the World Bank and the International Finance Corporation, Novgorod oblast ranks among the top six Russian regions in terms of investment climate. To facilitate

greater international cooperation, on 27 December 1996 the Novgorod Oblast Duma approved a law offering joint ventures in the region involved in production a local tax holiday until they fully recover the money they invested. The overall effort to attract investors boosted the inflow of foreign capital almost 15 times, from \$3.5 million in 1994 to \$166 million in 1996. More than 160 joint ventures are registered in the oblast. Acron is the leader in attracting foreign capital and effectively investing it in the industrial development of the region. The company's ability to produce 30% of Russia's mineral fertilizers while controlling only 10-13 % of the existing production capacity makes it the symbol of the Novgorod reform.

The Acron Joint Stock Company (JSC) emerged as a result of the privatization of Azot Scientific-Industrial Association that was completed in 1992. Effective management and sound foreign and domestic economic policy guaranteed steady development of the company's sales and output. In 1996, the company's pre-tax earnings exceeded \$70 million on sales of \$500 million. Despite the downturn in the mineral fertilizers market that became evident at the beginning of 1997 (the price for urea, for example, dropped 60%), Acron managed to increase its output, earnings, and sales, according to preliminary projections. This success was primarily due to the stable demand of compound fertilizers containing nitrogen, phosphorus and potassium on the domestic and international markets.

In recent years, Acron gained a good reputation as a supplier of mineral fertilizers on the international market. High quality and moderate prices permitted the firm to sell its products successfully throughout Europe, Africa, the Americas, the Middle East, South Asia and Central Asia.

Acron is now planning to diversify into a number of chemical and consumer products. Widening the production base will guarantee the financial stability of the company against fluctuations on the fertilizers market. The company spent \$80 million to modernize its factories in 1993-1996 and should spend \$120 million more according to the program adopted in 1995.

Among the top priorities of Acron is the expansion of sales of mineral fertilizers on the domestic market. Taking into account the current crisis of Russian agricultural sector, Acron is relying on a sophisticated financial strategy aimed at providing special credits from large Russian banks to regions willing to buy fertilizers on credits backed by regional authorities. SBS-Agro, Vneshtorgbank, Sberbank, Rossiiskii Kredit, and Menatep are accepting promissory notes guaranteeing an 8% interest rate. Acron provides the preliminary analysis of the ability of the clients to repay their loans and follows up by checking the payment schedule. Acron Chairman Kantor believes that the mineral fertilizers industry, its clients in the agricultural sector, and food producers should create a unified system in order to achieve the highest degree of profitability in every unit of this chain.

With all this in mind, Acron has taken part in the creation of Nivy Nechernozemya holding company in alliance with producers of agricultural products and food, as well as trade companies from different regions that purchase its mineral fertilizers. Federation Council Chairman Yegor StroeV praised this experiment as helping to revive the Russian food industry. Novgorod Governor Mikhail Prusak, the head of the Federation Council's Foreign Trade Committee helped in the formation of Nivy Nechernozemya. This new holding company is planning to obtain investment capital from the sale of its stock both in Russia and in foreign countries (including ADRs on the American market).

With about 10,500 employees, Acron tries to serve as a good neighbor by allocating substantial sums of money for solving environmental, social, and cultural problems. It spent more than \$1.5 million on ecological projects in 1996 for the Novgorod region. It subsidizes its employees' educations at colleges and universities (currently - 140 individuals), as well as continuous vocational training and improvement courses. Employees have access to home mortgages that can be paid back over 20 years. In 1997, the company constructed a 60-unit apartment building and is planning to finish a 72-unit building soon. The company has also donated medical equipment to a Novgorod veterans' hospital.

PATTERNS OF REGIONAL DEVELOPMENT

NORTH CAUCASUS VOTERS REPLACE PRESIDENT. Over 77% of the voters in North Osetiya backed State Duma Deputy Aleksandr Kzasokhov in his bid to unseat Akhsarbek Galazov in the presidential elections held 18 January in the North Caucasus republic. The incumbent won only 10% of the vote in a part of the country where sitting presidents usually are returned to office by large majorities. Turnout was over 70% of the 430,000 eligible voters, high by Russian standards, though other republics in the Caucasus have done better (*Nezavisimaya gazeta*, 20 January).

North Osetiya is the only majority Orthodox Christian republic in the Muslim-dominated region. It faces conflict on its southern and eastern borders, with Georgia and Ingushetiya respectively, is floating in weapons and black-market vodka producers, and suffers high levels of corruption (*Segodnya*, 9 January). The new leader will bring wholesale change at the top though it is not yet clear what the impact will be.

During his tenure, Galazov failed to resolve North Osetiya's economic problems and its on-going conflict with Ingushetiya over the republic's Prigorodnii raion. The local business elite also criticized him for lacking sufficient ties to Moscow since he could not protect them against the federal government's campaign against illegally imported alcohol from Georgia, a dispute that hurt local business (*Russkii Telegraf*, 17 and 20 January). Despite these problems, the incumbent campaigned as fostering an "island of stability in the Caucasus." He lost despite extensive control of the republican state media and access to the Our Home is Russia imagemakers.

Dzasokhov announced that he would form a cabinet without the participation of Galazov's team (*Russkii Telegraf*, 20 January). During the campaign, he had the support of young people, veterans, local intelligentsia, and half of the members of the republican parliament (*Kommersant-Daily*, 10 January). Dzasokhov also reportedly won the backing of 70% of the men serving in Russia's military, police, and border forces (*Nezavisimaya gazeta*, 20 January).

Regional leaders such as Ingushetiya President Ruslan Aushev have said that Dzasokhov's election will help resolve the conflict over Prigorodnii. His career, including service in the politburo, demonstrates an ability to negotiate in difficult situations and a knack for survival during turbulent political change.

Dzasokhov, now 63, started in 1957 as a Komsomol functionary going on to serve in other Soviet youth organizations. From 1967-1986 he worked in the Soviet Committee for Solidarity with the Countries of Asia and Africa, eventually becoming its director. He served as

Soviet ambassador to Syria from 1986 to 1988. During this period he caught the attention of the party leadership for his ability to manage the Moscow-Damascus relationship, then strained over debt issues, according to UCLA Historian Theodore Karasik. He took over the leadership of his native republic as first secretary of the North Osetiyan Obkom from 1988 to 1990. In July 1990, the Communist Party of the Soviet Union made him a member of its politburo. After the 1991 coup, he was elected to the Russian Congress of People's Deputies in 1992 and then to the State Duma in 1993 and 1995. In the current Duma, he was a member of Nikolai Ryzhkov's pro-Communist Popular Power faction. Despite his membership in the opposition, he received praise from Yeltsin for his work on the Russian-American summit in Helsinki in March 1997. He is also the chairman of Russia's delegation to the Council of Europe's Parliamentary Assembly.

Moscow was happy with both candidates in the race since both are known as pro-Russian politicians, but formally supported Galazov as someone it was used to working with. Chernomyrdin promised to pay off all pension and salary debts before the elections. However after the voting, Presidential Spokesman Sergei Yastrzhembskii said that Dzasokhov's pro-Moscow orientation was more important than his reputation as a Communist. Dzasokhov has said that among his main tasks will be changing the republic's relationship with Moscow since the capital is not capable of funding projects in the region. -- Robert Orttung

ASSASSINATION ATTEMPT MAY BE LINKED TO CONTROVERSIAL FILM.

No progress has been made in the investigation of the most sensational crime to take place so far in Novosibirsk in 1998--the assassination attempt on Yakov London, an influential TV executive. London is the Vice President of the NTN television company, the President of the NTSC television company, the regional representative of the Russian State Tele-Radio Company, and a member of the board of the Russian National Association of TV Broadcasters. An assassin fired four bullets into him at 11pm on 2 January, right in front of his apartment. He remains in the hospital guarded by police.

No official explanation has been offered yet, but the media continues to put forward a number of possibilities in identifying the person or persons behind the attack. One theory connects the murder attempt with the recent broadcast by NTN of Martin Scorsese's controversial "Last Temptation of Christ." When one of the local Russian Orthodox Church leaders, Aleksandr Novopashin, was asked by a regional nationalist newspaper to comment on the broadcast, he compared the people who made and broadcast the film to Salman Rushdie and stated that nobody who partakes in tarnishing the image of Christ in such a fashion will escape God's wrath. He predicted that they would die an unnatural death. Even though, despite Novopashin's statements, both Scorsese and the actor who played Christ in the movie are still alive, his public statements could have created an atmosphere of hate that facilitated the assassination attempt.

In response to the incident, the National Association of TV Broadcasters created a special fund to aid law-enforcement officials in solving the crime. It posted a \$50,000 reward for providing the police with tips that lead to the arrest of the perpetrator. - Konstantin Kanterov in Novosibirsk

CENTER-PERIPHERY RELATIONS

YELTSIN SEEKS SYMBOLICALLY IMPORTANT STALINGRAD FROM OPPOSITION.

by Ivan Kurilla, Volgograd State University

VOLGOGRAD - The battle for Stalingrad was the turning point for World War II in Europe. Today the decisive victory continues to resonate politically in contemporary Russia. Until recently the opposition has used the city to its benefit. Now President Boris Yeltsin is hoping to continue an effort started in 1996 to connect the great war victory symbolically to his rule.

The current battle was touched off by an upcoming anniversary, the celebration of which will be as political as it is festive. Last week Volgograd officials announced that the State Duma had decided to declare the 55th anniversary of the Stalingrad battle an all-Russian celebration, making available federal money to finance the events and necessary repairs for local monuments. Moreover, after meeting with First Deputy Prime Minister Boris Nemtsov, Volgograd Deputy Mayor Stanislav Glindzhev announced that the president is ready to support the Duma's decision. The original fighting took place between July 1942 and February 1943.

During its first years in office, the Yeltsin administration paid little attention to national symbols. As a result, Stalingrad became a rallying cry for the "patriotic" and Communist oppositions. From their point of view, the westernization of Russia had to be stopped in the same way that the Fascist invaders were halted in Stalingrad. Opposition leaders from across the country began to converge on Volgograd on 2 February (the city of Stalingrad was renamed Volgograd in 1961). In February 1993 -- the 50th anniversary of the battle -- Volgograd inhabitants witnessed a huge rally led by politicians from across the opposition spectrum, ranging from orthodox Communists to nationalist extremists. The government was not ready to react and did not participate in that celebration. At the time, Yeltsin officials seemed afraid of visiting the city that was then "occupied" by the "National-Patriotic" forces. The leaders of the February 1993 rally several months later stood on the front lines in the September-October parliamentary uprising in Moscow.

Since that time, the presidential administration has sought to grab a larger piece of the patriotic field for itself. Yeltsin made his first attempt to wrest the Stalingrad symbol away from the opposition on 9 May 1996 (Victory Day in Russia) on the eve of the presidential elections. That day he visited the city and greeted large crowds of people. The president was happy with his favorable reception. Now Volgograd residents wonder who will visit the city on 2 February 1998.

SOCIAL ISSUES

IRKUTSK LAUNCHES HOUSING REFORM

by Ekaterina Vorobieva, Teleinform

IRKUTSK - On 12 January, Irkutsk Governor Boris Govorin signed a decree reforming the oblast's public housing complex. About 2.5 million new rubles (\$417,000) will be spent over the course of 1998-2003 to implement the reform program. The majority of expenses (938,600 new rubles) will come out of local governments' pockets, and the rest from the oblast budget (786,900 new rubles). Five pilot projects under the program's auspices will be launched in various oblast cities (Irkutsk, Bratsk, Ust-Ilimsk and Shelekhov).

The program's main goal is to decrease the costs and increase the quality of the oblast's public housing and municipal services. As the first step, heating meters will be installed in all public buildings, and the savings in the amount of utilities used will offset the costs of installing the expensive equipment in about a year. On the other hand, equipping each residential unit with such a meter will be more problematic, so at first only buildings will be metered, and usage will be regulated by the building's residents' council.

While temperature control technology for apartments will be available only in the next century, meters for hot and cold water can be installed already today. They cost 30-35 new rubles (\$5-6). Soon, the oblast administration will approve which brands of meters can be used and will issue licenses for firms to install the equipment. Today up to 70% of the oblast's water supply is wasted.

The administration predicts that 80% of the residents will be able to afford their utility bills this year. The rest can count on getting housing subsidies, as the oblast government plans to strengthen social protection of the low-income people in the housing sector. Overall, if the program works, the region's public housing residents will enjoy lower utility costs and higher quality of service.

At the same time, one should not forget the critical situation in the housing complex. Overall, the oblast has 48 million square meters of housing, but the buildings are rapidly deteriorating. Today about 57,000 people live in dilapidated buildings, and over 6% of the region's housing needs urgent renovation. But instead of increasing, the number of apartments renovated is actually going down every year.

ECONOMIC ISSUES

FOLLOWING PRIVATIZATION TENDER, LENENERGO STRUGGLES TO EVOLVE

by John Varoli, *St. Petersburg Times*

ST. PETERSBURG - Lenenergo, St. Petersburg's second largest company in terms of capitalization, has been in the throes of great change for several months now. And the pace will not likely let up soon, as the new management is refining a strategy of restructuring and growth.

Lenenergo is one of the four largest Russian regional electricity distribution companies. It serves the Leningrad region and St. Petersburg, and provides these areas with almost 100 percent of their electricity and 58 percent of their heating energy. The latest major round in this process of change was December's privatization of 16.97% of Lenenergo, St. Petersburg largest privatization tender to date. It has left ambivalent results, however. The state failed to

maximize profit from the sale, originally hoping to net at least \$130 million, but ending up only with \$115 million. Also, 1.5% of Lenenergo's total shares remained unsold. The current trouble in the Russian stock market was the main culprit. Lenenergo CEO, Sergei Vyzalov, had urged the government to postpone the sale, arguing that it was an inopportune time to privatize the shares. But the government refused.

Sergei Bayev, director of the St. Petersburg office of the Estonian Hansa Investments, which served as chief adviser to the city on the sale, said that slippery conditions in the Russian market dimmed interest from international investors, despite an intense PR campaign abroad on Lenenergo's behalf. Inkombank, however, emerged triumphant, buying 10 percent of the company. It has strengthened its position in Northwest Russia's energy sector and is now Lenenergo's second largest shareholder, after Unified Energy Systems (UES) which owns 49% and a majority of voting shares. Solomon Brothers bought 4%, according to Ekho Moskv.

Inkombank's victory is hardly surprising, for two reasons. First, the energy sector is one of the company's vital interests. Second and most important, Sergei Vyzalov, was formerly a financial advisor at Inkombank in St. Petersburg. He became Lenenergo CEO in early November after his predecessor had been deposed by UES' Boris Brevnov, who was implementing a federal government initiative to reform the energy sector. Vyzalov was also a former first deputy in the city finance committee when Alexei Kudrin was head of city finance. Kudrin is now a member of First Deputy Prime Minister Anatoli Chubais' team.

Vyzalov is currently purging Lenenergo's staff and bringing in his own people. "The old Lenenergo administration was not friendly to outside investors, and did not want to be transparent to external government auditing," said Sergei Bubnov, a utility analyst at Credit Suisse First Boston in London. "Vyzalov has good relations with city hall, which is important, and it is also good that he is bringing new people into management." Bubnov added that the most important goal facing the new management is to control costs, but stressed that higher tariffs are needed because Lenenergo needs money to finance modernization and capital expenses. A rate hike can only be approved by the regional regulator which is controlled by the city government.

Lenenergo raised retail rates for household users by 50% in February 1997. For the first nine months of 1997, the company declared a loss of 261 billion old rubles (\$43.5 million), compared to a pre-tax profit of 152 billion rubles (\$25 million) for the same period in 1996. According to Lenenergo's press center, 1997's poor results can be blamed on the 1 July freeze on electricity rates imposed by Unified Energy Systems, which in turn was under pressure from the government striving to reform the so-called natural monopolies and bring their costs and rates under control.

Electricity export is one of Lenenergo's great hopes for the future, and it is already working with western companies toward this end. The Baltic Ring Project will give Lenenergo access to the markets of Northern Germany, Scandinavia and the Baltic States. Such an agreement will allow Lenenergo to sell more of its electricity, which because of the current difficult times in St. Petersburg industry, is finding little demand at home.

But the Baltic Ring project is temporarily stopped while Lenenergo's new management redefines its goals. In the long run it will continue with the project, said Hansa's Bayev.

"The Baltic Ring project has long term possibilities. While I am not certain of some technical and financial aspects, I have hope for it because the German utility, Preussen Elektra, is very interested in it," said Bubnov.

According to Hansa Investments, Lenenergo spent \$135 million on modernization in order to reduce production costs in 1996. Most of this sum was provided by UES in the form of grants. In the future, management plans to garner resources to finance modernization from operating cash flows, and Bayev said that there is interest in issuing a new share offer toward the end of 1998.

He added that management might go for an ADR issue, but was cautious, calling this a "fashionable instrument" for raising money. "As the Russian market becomes more transparent, ADRs will be less important," he said.

TATARSTAN GETS CREDIT RATING. Moody's gave Tatarstan a Ba2 investment risk rating, the same as Russia, the company announced in London, *Vremia i Dengi* reported (17 January). The Tatarstan Ministry of Finance feels that this rating will boost foreign investment in the Tatarstan economy. Early in 1997 the government of Tatarstan announced its intent to issue \$200-400 million worth of Eurobonds in Western financial markets. Consequently, in August 1997, the Ministry of Finance, ING Barings and Alfa Bank signed an agreement to work together on the bond issue. However, the world financial crisis altered plans and the issue was temporarily suspended. At this point, it has been rescheduled for sometime in the first half of 1998, as long as favorable conditions prevail on the world financial markets. Among Tatarstan's private corporations, only Tatneft oil company has been accorded a credit rating. Standard & Poor rates it at B+, Moody's rates it at Ba2, and IBCA gives it a BB+ rating. - Midkhat Faroukshine in Kazan

SMALL BUSINESSES STRIVE FOR INVESTMENT IN MOSCOW OBLAST

by Denis Makarov and Svetlana Zotova

MOSCOW--As the recent commercial presentation of Moscow Oblast in the United States and the Harvard Investment Symposium vividly show, there is a strong interest abroad in investing in Russia as a whole and in the region surrounding the capital, in particular. However, in both instances only large-scale projects are usually considered, while experts state that the small business sector could be the most promising area for foreign investments in Moscow oblast. For one, small businesses enjoy certain tax breaks and are less risky. Also, they are more mobile and dynamic, capable of rapid reaction to the government's changing macro- and microeconomic policies. Additionally, small business is a very popular sphere of entrepreneurship. For example, if a small Moscow oblast town wants to build a General Electric plant or a medium size McDonald's, the latter is bound to win wide popular approval, while the former is likely to be publicly criticized. A thriving small business sector is crucial for a developing market economy.

At the close of 1997, Moscow oblast hosted 31,200 small enterprises, according to *Kalita*, the supplement to *Narodnaya Gazeta* on January 16, 1998. Over 33% of these worked in retail and food service, 21% specialized in industrial production, 16.3% worked in

construction, and 8.1% in research. Today, small businesses in the region are mostly privately owned (90%). In industrial production the share of private firms accounts for 88%, in construction it is 98%, in transport and communications it is 82%, and in retail and food service it is 95%. Among those employed in small businesses, over 88% work in the private sector. On average, each small business employs 4.7 full time workers. However, small businesses actively recruit part time employees too (over 20% of the total). This category is much higher in research (68%), education (58.2%), and information technologies (34.3%). In the spring of 1998, a trade fair and conference on small business will take place in Moscow oblast.

IRKUTSK GOVERNOR BLASTS PREDECESSOR, LARGE COMPANIES.

Speaking at a 15 January meeting with regional enterprise directors, bankers, and other members of the Chamber of Commerce and Industry, Irkutsk Oblast Governor Boris Govorin said that the policies of the previous administration, supported by the region's industrial managers, are responsible for the oblast's economic decline. Indeed, he said, the oblast is next to last on the scale of economic performance among all other East Siberian territories, leading only Tuva. Industrial production declined by 13% last year. While the oblast boasts a wide range of projects that would be attractive to investors, it also poses some of the greatest risks because of its poor environmental and criminal situations.

Govorin spoke at a meeting which was called to deal with lack of coordination between government agencies and large business leaders. From now on, the oblast administration intends to actively use its shareholder's rights to influence the policies of companies where it holds stakes. A coordinating council will be created under the governor in the near future with the goal of synchronizing the activities of government agencies and firms.

The governor proposed the oblast administration play a much greater role in resolving the problems of the Angarsk Petrochemical Company. It will work to convince the Russian Government, company shareholders, and other industrialists to provide raw materials to the firm and a market for its products. Overall, the oblast administration is dissatisfied with the company's performance, and has even hinted that if the plant fails to pay what it owes to the regional budget, some company assets will be seized.--Ekaterina Vorobieva (Teleinform) in Irkutsk

TAX ISSUES

TAX POLICE PREVENT US GRANT FROM BEING IMPLEMENTED. A recent story published in *Nizhegorodskaya gazeta* tells an intricate tale of how funds from an American grant became entangled in the labyrinthine Russian tax collection system. When Tatyana Timofeeva organized the first independent agricultural farm in Nizhnii Novgorod Oblast five years ago, she bought 50 hectares of land and built several food processing plants. She also won a 4-year U.S. grant (1.5 billion old rubles, or \$250,000) under the Gore-Chernomyrdin program to build a meat-processing plant. Instead of paying it back, she agreed to use the money to build a new public bridge in her village, essentially a gift from the US. In the spring of 1995, tax inspectors visited the farm and concluded that she had failed to pay the

value added tax as well as another special tax prior to building the plant. They fined Timofeeva 2 billion old rubles (\$333,000), despite her protests that grant money is not taxable.

Angered by the tax inspectors' arbitrary decision, she wrote to then Governor Boris Nemtsov, who energetically lobbied on her behalf in Moscow. In the meantime, the U.S. Embassy did its share of lobbying among Russian government agencies as well. Finally, by the end of 1996 the Russian Tax Police agreed to cut the fine in half. But Timofeeva was not satisfied. She reasoned that if the President exempted from taxes U.S. and German grants toward resettling Russian military officers returning from Europe, why not exempt the agricultural grants in a similar fashion? So, Timofeeva kept waiting for help from Moscow, refusing to pay the unjust tax. Consequently, the authorities began to crackdown on her and were ready to auction off her property to pay off the fine. At the same time, some newspapers came to her defense. In contrast, newly elected Governor Ivan Sklyarov remained silent and the now First Vice Prime-Minister Nemtsov is no longer responsive.

So, Timofeeva wrote to the U.S. Senate, informing it how American taxpayers's money is being misused. As the letter made its way to Washington, the Russian Tax Police informed her that partial exemption from taxes for agricultural grants can be granted by the regional government, but the oblast government still did not do anything. By this time, the Americans managed to dig out an obscure provision in the original U.S.-Russian agreement, according to which recipients of agricultural grants do get temporary tax exemptions. When confronted with the document, the Tax Police became evasive, taking time to consult with their superiors. At the moment, Timofeeva is still living with the fear that her farm and plants will be confiscated and sold off. - Yury Rodygin in Nizhnii Novgorod

REGIONAL LINKS

ST. PETERSBURG RAILROAD GOES ON-LINE. Joining many other Russian companies and organizations with an Internet presence, the October Railways company opened up its own Web server (<http://www.rwa.spb.ru>). Users can now log on to find out the latest train schedule information, as well as check prices and peruse the list of services. Also posted are various regulations and documents governing the company's operations. The homepage, moreover, provides information on company history and the history of the Russian railway industry. Most importantly, however, the server is the first one in Russia (and one of the few in Europe) to allow users to purchase train tickets over the Internet. - Valeri Ianovski in St. Petersburg

Russian Business Cooperation Network (<http://www.rbcnet.ru>) Affiliated with the Russian Chamber of Commerce and Industry, this site provides numerous news sources, data on key regional government officials, information on various Russian and CIS industries, updates on financial markets, and economic analysis.

Internet Technologies Center (<http://www.rocit.ru>) This site seeks to popularize the Internet and its application in commercial, civic and cultural spheres. To this end, the Center facilitates

the spread of appropriate technologies, promotes information exchange, and provides technical support on various Internet topics.

REGIONAL PROFILE: CHUKOTKA AUTONOMOUS OKRUG

Governor: Aleksandr Nazarov

Aleksandr Nazarov was elected governor in December 1996 with 63% of the vote.

Nazarov was born in a Kazakhstani village in 1951 to a family of collective farmers. After serving on a Soviet submarine, in 1972 he worked for a year as an electrician at a submarine repair works in Arkhangelsk Oblast. Then, the Komsomol sent him to the Far North where he helped build the Bilibino Nuclear Power Plant, and the Magadan, Arkagalinsk and Luchegorsk thermal power plants. During this time, Nazarov graduated from the Makeevsk Engineering Construction Institute and a correspondence course from the Khabarovsk Communist Party School.

During the 1980s he served in various Communist Party positions. In 1990 he was elected chairman of the okrug ispolkom and a year later Yeltsin appointed him governor. He is a regional leader of the Our Home is Russia movement and serves as the chairman of Federation Council Committee on the Far North and Indigenous People.

Other Local Leaders

Chairman of the Okrug Duma Upper Chamber -- Vasili Nazarenko, elected in January 1997

Brief Overview

Chukotka Autonomous Okrug is located on the Chukotka peninsula, the eastern-most point of Eurasia, and shares borders with Magadan Oblast and Koryak Autonomous Okrug.

Economic development of the okrug began in the 1930s with increased air and sea traffic in the region. The discovery of tin and gold fields in the 1940s brought additional interest. Since World War II, the okrug has been one of the country's main suppliers of industrial gold. Reindeer-breeding dominates the region's agriculture.

Basic Facts

1995 Population (est.): 99,700 (0.07% of Russian total)

Industrial production as percentage of all Russian production (Jan.-Aug. 1995): 0.08%

Agricultural production as percentage of all Russian production (1994): 0.10%

Average personal income index in July 1995: 221 (Russia as a whole = 100)

Price basket index in July 1995: 241 (Russia = 100)

Average back wages owed per person (September 1995): 534,400 rubles (Russian average = 37,100)

Urban population: 70.6% (Russia overall: 73.0%)

Pensioner population (1994): 12.72%
Percent of population with higher education (1989 census): 17.3% (Russia overall: 11.3%)
Percent of population working in (1993): Industry: 26.3% (Russian average: 29.9%);
Agriculture: 7.7% (12.8%); Trade: 12.5% (9.1%); Culture: 9.8% (13.6%); Management:
3.5% (2.3%)
Number of telephones per 100 families (1993): in cities: 63.1 (Russian average: 41.5); in
villages: 43.3 (17.2)

According to a 1995 survey by Bank Austria, the oblast is ranked 80th
among Russia's 89 regions in terms of investment climate.

Electoral History

1996 Presidential Election

Yeltsin: 48.49%/74.29% (first round/second round)
Zyuganov: 13.50%/19.14%
Lebed: 17.06%
Zhirinovskiy: 7.56%
Yavlinskii: 6.37%
Turnout: 73.10%/76.55% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Our Home Is Russia: 17.40%
Liberal Democratic Party of Russia: 13.32%
Communist Party of the Russian Federation: 11.03%
Women of Russia: 7.60%
Party of Workers' Self-Government: 6.73%
Yabloko: 6.51%
Congress of Russian Communities: 3.58%
Communists -- Workers' Russia: 2.74%
Kedr: 2.55%
Forward, Russia!: 2.34%
Common Cause: 2.01%
In a single-member district: 1 independent
Turnout: 66.82% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 74.10% "No" -- 25.90%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 23.32%
Russia's Choice: 14.40%
Yabloko: 12.25%

Women of Russia: 11.42%
Party of Russian Unity and Concord: 9.49%
Democratic Party of Russia: 8.70%
Communist Party of the Russian Federation: 6.60%
Agrarian Party of Russia: 0.97%
In a single-mandate district: 1 independent
Turnout: 54.00% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 57.65%
Ryzhkov: 12.53%
Zhirinovskiy: 9.48%
Tuleev: 8.86%
Bakatin: 5.21%
Makashov: 3.08%
Turnout: 75.86% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [*Russian regions on the eve of 1995 elections*], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [*Results of the 17 December 1995 elections, regional breakdown*], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [*State Duma elections 1995*], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [*Governors of Russia*], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995.

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BREAKING NEWS

POLITICS

PRIME MINISTERIAL CAMPAIGN HEATS UP IN KARELIYA. Petrozavodsk Mayor Sergei Katanandov announced on 16 January that he will seek to replace incumbent Prime Minister Viktor Stepanov in the April 1998 elections. He accused the current republican leadership of being unable to resolve the republic's economic problems, merely taking money from the "donor cities" to subsidize other parts of the republic. Petrozavodsk officials are outraged because funds for the city are planned to be cut 20% in 1998, from 640 million new rubles (\$107 million) in 1997 to 476.2 million new rubles (\$80 million) in 1998. He also blasted Stepanov for being too dependent on Moscow while not pushing the republic to earn money independently. In particular, he stressed moving away from large projects and focusing on smaller businesses, *Guberniya* [Petrozavodsk] reported 22 January. The newspaper clearly supports the mayor and complains of being excluded from important press conferences by Stepanov's staff.

SMOOTH POWER TRANSITION IN NORTH OSETIYA. Following a long meeting alone, newly elected North Osetiya President Aleksandr Dzasokhov and his predecessor Akhsarbek Galazov made a joint radio broadcast to the republic's residents. Galazov said that he would take joy in Dzasokhov's accomplishments in his new post (*Kommersant-Daily*, 21 January). Transitions in other regions have been less friendly. Former St. Petersburg Mayor Anatolii Sobchak failed to show up at the 5 June 1996 inauguration of Governor Vladimir Yakovlev, his former deputy who bested him in a bitterly fought race.

KRAI AUTHORITIES CANCEL VLADIVOSTOK MAYORAL ELECTIONS. The Primorskii Krai Electoral Commission canceled the pre-term mayoral elections called by Vladivostok Mayor Viktor Cherepkov. Cherepkov resigned late last year and set the elections for 29 March charging that Governor Yevgenii Nazdratenko made it impossible for him to carry out his duties. The electoral commission believes that Cherepkov does not have the right to set new elections because federal law does not allow for changing the term of locally elected leaders. Cherepkov was elected to office on 26 June 1993 for a five-year term. He said that he will accept the court's decision and is ready to compete in elections in March or June. The city council elections will go ahead on 29 March. Cherepkov said that the governor wants to postpone the mayoral election because it does not have a candidate capable of beating him. The governor's supporters argue that Cherepkov's resignation was just an attempt to gain popular sympathy. The mayor's supporters won a surprising victory over Nazdratenko's team in December's Krai legislative elections. (*Kommersant Daily*, 23 January and *Vladivostok*, <http://vl.vladnews.ru/>, 29 January)

OUR HOME IS RUSSIA LOSING GOVERNORS... Many governors are forsaking the pro-governmental party Our Home is Russia (NDR) to set up local political organizations of their own, *Nezavisimaya gazeta* reported 21 January. Governors in 11 regions, for example, have failed to set up NDR factions in their local legislatures despite their ability to do so. (These regions are: Novgorod, Saratov, Astrakhan, Tyumen, Perm, Belgorod, Rostov, Lipetsk, Karachaevo-Cherkessiya, Khabarovsk, and the Jewish Autonomous Oblast.) The local parties are not organizations based on one man, but rather represent local elites with access to

considerable resources. An additional local party in Vologda, "Vologodchina," for example, is located in Cherepovets, near a large metals plant with lucrative exports. According to the paper's estimates, governors of powerful regions control between \$1 billion and \$5 billion in budgetary funds.

... WHILE CHANGING DUMA ELECTORAL LAW COULD HAND GREATER POWER TO THEM. The governors' decision to distance themselves from the NDR could have significant consequences for the 1999 Duma elections, especially if Yeltsin succeeds in changing the electoral system so that all deputies are elected in single-member districts. Under the current system, half are elected on the basis of party lists. According to NDR First Deputy State Duma Speaker Vladimir Ryzhkov, Yeltsin's attempt to change the electoral system would be a terrible mistake for the president. The election results would return State Duma members under the control of the governors and create factions that divided along regional lines. Ryzhkov asserted that the lower house would then be "another Khasbulatov-style Supreme Soviet," the body that launched a bloody rebellion against Yeltsin in 1993. Rejecting the idea that the change would have negative consequences, the Federation Council backs Yeltsin's proposal (*Kommersant Daily*, 27 January). Yeltsin wants to change the electoral law because he believes that such an amendment would reduce the number of Communists and Zhirinovskiyites in the lower house.

CHECHEN PRESIDENT MARKS FIRST YEAR WITH LESS POWER. The Chechen people elected President Aslan Maskhadov to office on 27 January 1997 and he has lost much of his influence since then. Moscow saw him as the most pragmatic candidate and hoped that he would be able to find a way to keep the republic within the Russian Federation. However, he was either unable or unwilling to crack down on radicals like Shamil Basaev, the field commander who led the assault on the Budennovsk hospital. On 1 January Basaev returned to the government as acting prime minister and now appears to hold the upper hand. (*Kommersant Daily*, 27 January)

KARACHAEVO-CHEKKESSIYA MEETING CALLS FOR ELECTIONS. A protest rally of 6,000 gathered in Cherkessk to demand the resignation of President Vladimir Khubiev, the only regional executive in the Russian Federation who has not been popularly elected. The meeting began as a protest against the government's actions against the local firm Merkurii, which produces vodka and mineral water. Merkurii's taxes make up 25% of the republican budget and 50% of the city's budget. However, after a truck carrying 10,000 bottles of underground vodka allegedly from Merkurii was detained in Stavropol Krai, the authorities halted production at the plant and filed charges against management for not paying taxes. While a direct link between the underground vodka and Merkurii has not been established, the authorities continue to hold up production, costing the firm 15 billion old rubles (\$2.5 million), according to management.

The protesters see political reasons behind the closure of the republic's most profitable factory. The former director of the plant, Stanislav Derev, was elected mayor of Cherkessk, the republic's capital, last year, despite the republican leadership's opposition. He won with 75% of

the vote and many now see him as a likely contender for the presidency, if elections are held. (*Kommersant Daily*, 27 January)

FEDERATION COUNCIL MEETS IN ST. PETERSBURG. The Federation Council held its first meeting outside of Moscow 27-28 January in St. Petersburg to strengthen federalism in Russia and increase the role of the regions in running the country. On the 28th picketers outside the palace demanded the timely payment of salaries and greater social protection (*Sankt-Peterburgskie vedomosti*, <http://www.dux.ru/spbved/>, 29 January). During the session, the regional leaders discussed ways to boost industrial production. However, as *Sankt-Peterburgskie vedomosti* noted, the governors expressed their unhappiness with the government's current policies, but did not propose an alternative. The paper suggested that members of the Federation Council see themselves more as regional leaders than senators who can influence federal policy.

ECONOMICS

TOGLIATTI BOASTS OF TAX COLLECTING SUCCESS. The city of Togliatti, Samara Oblast, claims that it has come up with a better way for cities to collect taxes. In the past, cities have taxed enterprises based on their profits and payrolls, but most enterprises have found ways to hide the true numbers in these categories, thereby lowering their taxes. In taxing small businesses and retailers, Togliatti officials measure resources which are not easily concealed, the size of business' storefront, for example. Such a tax encourages the firms to use their resources more effectively therefore holding down prices, city officials claim. They are now encouraging other cities to use this method. (*Delo* [Samara], <http://www.info.samara.ru/delo/>, 20 January)

PRIMORSK PORT IN TROUBLE. The developer of the Primorsk port, Baltport corporation, is suing Leningrad Oblast over the involvement of Swedish investor Arne Larsson & Partners AB in the project. Larsson said that he has organized \$125 million to finance an oil terminal for the port. Baltport claims that it owns the land on which the port will be constructed and want to build the oil terminal itself. However, Leningrad Oblast took the land away in a 22 January decree and ordered Larsson to build the terminal. Baltport Vice President Aleksandr Vertinskii argues that the terminal should not be built by foreigners. The oblast counters that Baltport only had a one-year lease on the land and that it has since expired. Baltport is now owned by OBIP, a consortium of banks that this summer quietly took control of the St. Petersburg port. Assassinated Deputy Governor Mikhail Manevich protested that purchase. (*St. Petersburg Times*, 26 January-1 February, <http://www.spb.ru/times/>)

NEW NORTH OSETIYA PRESIDENT SEEKS ECONOMIC REVIVAL. In his first days in office, Dzasokhov is seeking to kickstart the economy of North Osetiya. Among his suggestions are establishing relationships between the republic's light industry and firms in Belarus and Bulgaria. He also hopes to interest the Russian government in refurbishing the Georgian military highway and the Trans-Caucasus highway to increase freight traffic. Additionally, he plans to make the republic's flourishing underground vodka production

legitimate and seek investors in local sources of mineral water. He hopes to put many of the 70,000 unemployed workers in the republic to work in small businesses. He also intends to lobby heavily for federal support.

Dzasokhov stressed that his long political career in the Soviet Union, eventually culminating as a member of Gorbachev's politburo, provides serious benefits for him now. Among the colleagues he worked with, and is close to, are Georgian President Eduard Shevardnadze and Azerbaijani President Heidar Aliiev. (*Izvestiya*, 23 January)

ACCIDENT SHUTS NORILSK NIKEL. The roof of the copper factory at Norilsk Nickel collapsed on 20 January forcing the plant to shut down for an indeterminate period. Norilsk Nickel is Russia's largest metal factory and is known for a series of serious accidents. Fixing the roof could take up to five months. The plant supplies 25% of the world's nickel and 5% of its copper. However, there has been no consequences for world prices because of the accident. There is currently an oversupply of both metals on the international market. (*Kommersant-Daily*, 23 January)

FOREIGN DIRECT INVESTMENT \$4 BILLION FOR 1997. Foreign direct investment in Russia totaled about \$4 billion in 1997, mostly in the energy, food, and to a lesser extent, communications industries. The figure is about 50% higher than last year. (*Finansovye izvestiya*, 22 January)

FALL IN GOLD PRODUCTION SLOWS. Overall, Russia produced 121.3 tons of gold during 1997, dropping 2.2 tons from 1996. In 1996, production fell 18.6 tons from the previous year. The construction of several large mining enterprises in Krasnoyarsk Krai, Magadan Oblast, and the Chukotka Autonomous Okrug was responsible for slowing the drop in production over recent years (*Finansovye izvestiya*, 22 January)

COAL MINERS OFF TO DIFFICULT START IN 1998. Russia's coal miners so far this year have been involved in an 18 January mine explosion in Vorkuta (Komi Republic) in which 17 miners are still missing (*Kommersant Daily*, 27 January), strikes in Kemerovo and Khakasiya, the closing of five mines in Rostov's eastern Donbass, and actions to close the Trans Siberian Railroad on 27 January (*Vladivostok*, <http://vl.vladnews.ru>, 28 January). Coal miners work in 21 different regions of Russia (*Izvestiya*, 21 January). In 1997, the miners produced 244 million tons of coal, slightly more than half of the 415 million tons excavated during the Soviet Union's heyday. The 1997 figures were 4.8% lower than in 1996. Moscow Oblast and Rostov saw the greatest output drops (*Segodnya*, 21 January).

NORTH CAUCASUS REGIONS SEEK GREATER INVESTMENT IN SMALL BUSINESS. The North Caucasus Congress of Chambers of Industry and Trade has been created at the instigation of the Rostov Chamber of Industry and Trade. Chambers from Krasnodar, Stavropol, Adygeya, Dagestan, Karachaevo-Cherkessiya and North Osetiya are participating. Their main goal is to change federal investment priorities. Now the vast majority of federal money goes into the state sector in an effort to support unprofitable enterprises with little

noticeable result. At the same time, the small business sector is growing rapidly, creating new jobs and adding to regional tax bases. Directors of the Chambers want to see more federal money spent in an effort to increase the size of the small business sector. The next congress of Russia's chambers will take place in Moscow at the end of February. (*Segodnya*, 21 January)

HIGH TAXES MAKE LAWS MEANINGLESS FOR VLADIVOSTOK SMALL BUSINESSES. Despite federal attempts to simplify tax payments by small businesses (those with less than 15 employees), a ruling by Primorskii Krai Governor Yevgenii Nazdratenko has blocked the law's implementation in the region, according to *Vladivostok* 22 January. The federal government passed a law allowing small businesses to pay one tax on 29 December 1995. The tax would be based on the enterprise's results for the year calculated by a simple procedure. On 27 March 1996, the krai дума determined that the tax would be 10%, with 6.67% going to the krai and local governments and 3.33% going to the federal government. However, on 7 May 1996, the governor decreed that the cost of a licence to register for the tax would range in cost from 40 million to 250 million rubles (\$6,700 - \$42,000). Just to pay for the licence would require the firms to have sales of 400 million to 2.5 billion rubles (\$67,000 - \$420,000) a year. Most small businesses could not afford this fee in their first year of operation. As a result the federal law is not being implemented in the krai. By contrast, licences in Khabarovsk are 25.5 million rubles (\$4,250), in Moscow Oblast from 8.3 million to 25.5 million rubles (\$1,400 - \$4,300), and in Moscow they are free.

TOLLS CONSIDERED TO FINANCE ROAD CONSTRUCTION. The Russian Federal Road Service is considering the use of toll roads to provide financing for improving the quality of the country's highways. One bridge in Voronezh already charges one new ruble for crossing, generating one third of its operating costs. Marketing studies suggest that drivers would be willing to pay to travel in comfort (*Segodnya*, 24 January). Fourteen roads have been designated as potential toll ways, including those connecting Moscow-Klin, St. Petersburg-Vyborg, Vyborg-Finish border, and Khabarovsk-Vladivostok-Nakhodka. Also roads on which construction was begun but remains unfinished are likely to be turned into toll ways. The number of cars on the road has increased 176% during the last six years. Optimally Russia should have 1.5 million km of roads, but currently there are less than one million. More than half of the federal roads need immediate repair, but funds are only available for 15-20% of these expenditures. (*Nezavisimaya gazeta*, 24 January)

SOCIAL ISSUES

ST. PETERSBURG, LENINGRAD CRIME RATE DOUBLES. Figures for 1997 show that the number of crimes committed in St. Petersburg and Leningrad Oblast jumped to 114,313 from 57,883 in 1996. Crimes involving guns or explosives rose by 200%, to 49,325. Violent crimes (armed robberies, murders, rapes) increased 19% in the city and 9% in the oblast. Police Chief for the city and oblast Anatolii Ponidelko pledged to publish accurate figures and dismiss corrupt officers when he took office in 1996. While the figures that were just published may have underreported the actual number of crimes committed, they are probably

more accurate than earlier figures which were often falsely reduced for political purposes. (*St. Petersburg Times*, 26 January-1 February, <http://www.spb.ru/times/>)

PETERSBURG READY TO EVICT DEADBEAT RENTERS. Chairman of the St. Petersburg State Property Committee German Gref announced 21 January that the city is ready to move people who don't pay their rents out of their apartments and "into accommodations suitable for living," presumably crowded dormitories. The city plans to make examples of about 20 cases before spring. St. Petersburg is trying to balance its budget and is owed 200 billion old rubles (\$33 million) from tenants. The first three cases are already in court and the city is considering evicting the deadbeat tenants without providing alternative housing, a legal procedure that is permitted by existing law. In deciding whether to evict an individual, the court may take into account whether or not the tenant has been paid his salary. Once the court rules, the housing agency will carry out its decision. In Moscow, tenants served with a summons generally pay off their debts. (*Kommersant-Daily*, 22 January)

MEDIA

VOLGOGRAD GOVERNOR TIGHTENS GRIP ON MEDIA. Volgograd Governor Nikolai Maksyut signed a decree 22 January which effectively limits public subsidies to publications that are wholly or partially owned by the regional authorities. The editor of the oblast's only independent newspaper *Inter*, Yefim Shusterman, warned that the governor had given himself almost complete control of the media before the next gubernatorial and legislative elections. He complained that it will be difficult to compete in the "artificially created" conditions. (*Kommersant Daily*, 23 January)

NIZHNII MAYOR REWARDS CRITICS. Acting Nizhnii Novgorod Mayor Vladimir Gorin sponsored a contest among local journalists to determine who had written or filmed the best critique of the city administration. The jury of 12 newspaper and TV editors considered 11 newspaper articles and 7 television broadcasts. The administration had threatened lawsuits against several of the journalists when their work had been published, but all cases turned out well for the reporters. Gorin sponsored the contest in hopes of building good relations with the media before the 29 March mayoral and oblast legislative elections. Gorin became acting mayor when Ivan Sklyarov was elected governor last year. (*Izvestiya*, 22 January)

BUSINESS BRIEFS

-- **MOODY'S** gave **SAMARA OBLAST** a Ba2 rating for its upcoming Eurobond issue, the same as for Russia overall. (Standard and Poor's has rated the region BB-.) Ratings for regions cannot be higher than for the country of which they are a part. The oblast is planning to raise up to \$500 million. Russia's rating places it on the level of Mexico and a little lower than the Czech Republic and Hungary. The main factors in lowering the rating for the country as a whole are relatively high levels of political risk, low rates of tax collection, and an incomplete legislative base. In Samara's favor was its status as a donor region, a long history of exports, a strong

industrial base, reasonably balanced budget, and a lack of serious debts. Minuses included high tax arrears and continuing structural problems in making the transition to a market economy, particularly at AvtoVAZ, the region's largest plant (*Delo* [Samara], 20 January). In addition to Moscow, St. Petersburg, and Nizhnii Novgorod, Sverdlovsk, Tatarstan (see *IEWS Russian Regional Report*, 22 January) and Krasnoyarsk (<http://www.moodys.com/>) have received Ba2 ratings.

-- **COCA-COLA** has approved a test batch of aluminum cans produced from metal supplied by the Samara Metallurgical Factory, **SAMEKO**. The cans were produced by **PLM**, which has plants in several west European countries. Russia currently imports about 1 billion empty cans a year for the 20 bottlers producing soft drinks. Sameko hopes to produce 750 million cans a year by 1999-2000. PLM is building a plant in **MOSCOW OBLAST** and the **SIBERIAN ALUMINUM FACTORY** is also gearing up to produce the cans. (*Delo* [Samara], <http://www.info.samara.ru/delo/>, 20 January)

-- During 1997, **SAMARA'S AVIAKOR** sold only 2 Tu-154 airplanes. However, this year it has plans to sell 13 Tupolevs and will begin producing AN-140s. (*Delo* [Samara], 20 January)

-- A **MCDONALD'S** under construction in **ST. PETERSBURG** near Nevskii Prospekt was bombed for a second time 16 January. The authorities have not yet identified the perpetrator of the attack or the motivation. (*St. Petersburg Times*, 26 January-1 February, <http://www.spb.ru/times/>)

-- The **KRASNOYARSK ALUMINUM FACTORY** has ended its seven-year relationship with the American **KAISER ALUMINUM** which was helping to reduce the level of pollution produced by the factory. In renovated parts of the plant, fluoride emissions still are twice the acceptable level. (*Kommersant-Daily*, 22 January)

-- The **PETERSBURG TELEPHONE NETWORK** was less profitable in 1997 than it had been in 1996. Despite increased turnover, from 870 billion old rubles to 1 trillion (\$145 million - \$167 million), its profit fell from 198.1 billion rubles to 180 billion (\$33 million - \$30 million). General Director Valerii Yashin blamed the drop on increased operating costs. The number of customers increased 3% to 1,780,000 subscribers. In Petersburg there are 40 telephones per 100 residents (126 in Washington, 75 in Paris and 45 in Prague and Madrid). (*Kommersant-Daily*, 22 January)

-- Switzerland's **NESTLE** bought a controlling stake in the **ALTAI** and **KAMSKAYA CONFECTIONARY FACTORIES**, located in **BARNAUL, ALTAI KRAI, and PERM OBLAST**. The Swiss firm has set aside \$25 million to refurbish the two plants. Nestle will also invest \$10 million in the **SAMARA OBLAST KONDITER FACTORY** and \$20 million in the **NESTLE-ZHUKOV ICE CREAM** joint venture in **MOSCOW OBLAST**. Nestle also owns the Rossiya confectionary plant in Samara. (*Kommersant-Daily*, 23 January)

-- Chief Engine Designer for the **GORKII AUTOMOBILE FACTORY (GAZ)**, Nikolai Parkhomenko, has unexpectedly lodged a protest with the Russian Procurator General asking that the joint venture with **FIAT** be halted. The new joint venture will be located in the engine-building plant, leading Parkhomenko to assert that it will damage "Russia's technical and economic sovereignty and its defense security." Parkhomenko is reported to be ready to retire soon. (*Kommersant-Daily*, 23 January)

-- Korea's **HYUNDAI** has produced its first Accent model at **UDMURTIYA'S IZHMASH** plant. The deal signed in the fall of 1997 provides for the production of 5,000 cars. The cars produced in Udmurtiya are expected to cost \$1,000 to \$1,500 less than Korean-made models on sale in Moscow. The two sides are expected to establish a more extensive relationship in February, but it is not clear how the economic crisis in Korea will affect Hyundai's plans. (*Finansovye izvestiya*, 22 January)

-- **ROSTOV'S KRASNYI AKSAI** factory has begun selling **DAEWOO** cars under the brand name **DONINVEST**. Last year the factory sold 14,000 Nexias. Doninvest will now begin assembling Korean cars at the **TAGANROG COMBINE FACTORY**. Of the \$150 million needed for the plant, Doninvest has raised \$117 of its own money and is expecting support from the local and regional governments. (*Kommersant-Daily*, 24 January)

-- The **ST. PETERSBURG** branch of the Anti-Monopoly Committee is investigating a deal signed between the St. Petersburg administration and **ROYAL DUTCH SHELL** in the spring of 1997. The deal called for Shell to build a network of 25 gas stations in the city for an overall investment of \$30 million in a period of two years. The Anti-Monopoly Committee is examining the manner in which the city transferred the 25 plots of land to Shell. The investigators are looking for evidence to support the claims of local gasoline dealers that the city gave Shell unfair preferences. (*Russkii Telegraf*, 21 January)

-- **COMMERZBANK** will open a subsidiary branch in **MOSCOW** in July with \$50 million in initial assets and a staff of 40. It will focus on import-export credit operations, project financing, organizing syndicated loans, and helping Russians raise capital abroad. The bank already has offices in Moscow, **ST. PETERSBURG**, and **NOVOSIBIRSK**. It is also interested in **ASTRAKHAN, NIZHNI NOVGOROD, YEKATERINBURG, SAMARA, ROSTOV,** and **NOVGOROD**, where plans by the oblast to liberalize access for foreigners to land are particularly attractive to the Germans. The German **DRESDNER BANK** and **WESTDEUTSCHE LANDESBANK** also have subsidiaries in Russia. (*Russkii Telegraf*, 22 January)

-- **TATARSTAN** truckmaker **KamAZ** remains shut and will not resume before early February. Every truck produced incurs further losses, so it is cheaper to let the main production line stand idle. The plant's creditors are currently negotiating a plan to restructure its debt. The plant owes its creditors 7 billion new rubles (\$1.2 billion) and 1.5 billion to its suppliers (\$250 million). The current plan would give 25% of the plant's stock each to the Russian government,

the Tatarstan government, the main banks involved, including the EBRD, and a final 25% to small shareholders. (*Kommersant Daily*, 23 January)

-- **MOSCOW** is now planning to float up to \$500 million in Eurobonds by the middle of February. (*Segodnya*, 27 January)

-- **ST. PETERSBURG'S FRUNZENSKII DEPARTMENT STORE**, gutted by a 1988 fire, will partially reopen next month. Local businessman Ilya Baskin has invested \$10 million in the reconstruction. The project will require another \$1.5 million to be completed. He has signed up 30 new tenants, with prices ranging from \$800 to \$1,800 per square meter per year. Among the retailers will be **NIKE, ADDIDAS, REEBOK, GIOVANNI, ORIENT**, and **CITIZEN**. (*Moscow Times*, 27 January)

-- The American **MARS** has reached an agreement with **NOVOSIBIRSK OBLAST** to build a \$14 million plant to produce 15,000 tons of Whiskas and Pedigree pet food annually in the village of Prokudskoe. Mars has a similar plant in its Stupino (Moscow Oblast) complex with a capacity of 50,000 tons a year. (*Kommersant-Daily*, 27 January) Mars' investment is the second largest in the oblast, behind the Coca-Cola's bottling plant project.

PATTERNS OF REGIONAL DEVELOPMENT

PROTEST RALLY FOR PRESS FREEDOM STAGED IN ULYANOVSK. *Simbirskie gubernskie vedomosti* and other local opposition media sponsored a protest action in support of freedom of speech in Ulyanovsk on 27 January. About 800 people attended the rally, which followed a wave of repressive anti-media policies by the oblast government. Today in Ulyanovsk the media are denied access to data, such as information on budgetary expenditures, that by law should be in the public domain. Publications loyal to Governor Yuri Goryachev receive significant public funding. Local courts consistently rule in his favor when he sues journalists who allegedly "defame his honor and dignity," even if their articles never mention the governor by name. State Duma Deputy Aleksandr Kruglyakov charged that the court system in Ulyanovsk Oblast has become a repressive tool for rampantly arbitrary bureaucrats to keep down critical journalists. The rally participants demanded that the oblast government respect the public's constitutional rights and liberties. They also called for an end to the persecution of journalists who were trying to do their job, and for equal economic and informational rights to all the media in the region. - Sergey Gorin in Ulyanovsk

CONTROVERSIAL ST. PETERSBURG CONSTITUTION SIGNED

by Valeri Ivanovski

ST. PETERSBURG -- A surprise compromise on 23 January ended (at least temporarily) an intense battle between St. Petersburg Governor Vladimir Yakovlev and the city's Legislative Assembly over the new city charter. The charter, which serves as the city's constitution, was

adopted by the Legislative Assembly on 14 January, but on 21 January Governor Vladimir Yakovlev sharply criticized the document. His list of grievances included: the apparent supremacy of the legislative branch over the executive; the delineation of the posts of city secretary (who will ensure that the public obtains access to official documents) and city commissioner on human rights; the ban prohibiting the governor from engaging in commercial activities; and full-time positions for the legislators.

Most deputies rejected the governor's complaints and Legislative Assembly Chairman Yurii Kravtsov exacerbated the situation with his accusations that the executive branch has been pressuring and even blackmailing the deputies. Additionally, the presidential representative in the region, Sergey Tsypliaev, took the governor's side, citing several constitutional improprieties contained in the charter, such as the encroachment of the city authorities on federal prerogatives, unlawful limitation of the city residents' electoral rights, and the legislature's meddling in the affairs of the executive branch. He threatened to recommend that the president ask the Constitutional Court to review the document.

Contributing to the crisis was a letter signed by 24 out of 50 deputies, who claimed that they voted against the bill, yet the charter was officially passed by a majority of 34 votes. However, the electoral commission and the Assembly's legal department both put their stamp of approval on the charter's legitimacy, spurning allegations of impropriety.

As to the wide-spread fears that the governor would refuse to sign the charter, lawyers were suggesting that based on the Constitution and certain presidential decrees, no such signature was even necessary. Indeed, according to the charter's text, it enters into full legal force from the date of its publication. Yet, it was important for the city government to reach some kind of compromise on St. Petersburg's basic document, and the public was relieved to see the Governor and the Chairman of the Legislative Assembly side by side at the signature ceremony on 23 January. Speaking at the ceremony and the subsequent press-conference, Yakovlev stated that he was able to reach a compromise with the parliamentarians on many issues. The governor also expressed his hope that the compromise will restore the appropriate balance of power and will facilitate stability in the city. Both leaders agreed that concrete changes to the charter will be worked out by a conciliatory commission and will be adopted by the Assembly in accordance with the appropriate procedures. Even though the charter has indeed been adopted, both the governor and the assembly speaker decided to put off discussions of its implementation. On 28 January, the Assembly began the task of preparing amendments.

CENTER-PERIPHERY RELATIONS

MAGADAN GOVERNOR SPARS WITH MOSCOW OVER GOLD. Magadan Governor Valentin Tsvetkov is embroiled in an angry dispute with the federal government over the oblast's gold. It all started with a letter from Minister of Internal Affairs Anatolii Kulikov to Prime Minister Viktor Chernomyrdin, chastising the Magadan governor as an accomplice in the embezzlement of Russian gold. Shortly thereafter over 170 kilograms of gold were seized from the Precious Metals Fund of Magadan Oblast, an illegally-created entity from the point of view of the national police. In response, the governor sent an open letter to the regional legislature on

22 January. The governor complained that federal law-enforcement agencies used the lack of a proper legal framework for precious metals transactions as a pretext for confiscating the Fund's property. He further accused the police of condemning gold miners to starvation and the mines to collapse. Labeling the top leadership of the Ministry of Internal Affairs "criminal," the governor called on the legislators to resist illegal encroachments by the Feds on the oblast's turf. The Russian government has sent a special federal commission from Moscow to the oblast in order to sort out the story. - Sergey Shilo in Vladivostok

ECONOMIC ISSUES

TOURISM THRIVES IN ST. PETERSBURG. The number of tourists visiting St. Petersburg from other cities and the CIS grew to 500,000 in 1997. Moreover, the number of foreign tourists from beyond the former Soviet Union has continuously increased, reaching 1.7 million in 1997, or 80% more than in the previous year. UNESCO data shows that Russia's northern capital holds 8th place in the world in terms of attractiveness for foreign visitors. Today, tourism brings 4 billion new rubles (\$670 million) in profit to the municipal budget, or 10-15% of the city's gross income. In turn, taxes from the tourism bring 800 million new rubles (\$133 million) to the municipal and federal budgets. Finally, the hospitality industry creates 60,000 full time jobs on the Neva banks. - Valeri Ianovski in St. Petersburg

SAKHALIN GAS TO SUPPLY PACIFIC MARKETS. Sakhalin Governor Igor Farkhutdinov and President of the Sakhalin Energy company Frank Daffield met to discuss the search for customers to buy the gas produced from the Sakhalin-2 project, of which Sakhalin Energy is a main participant. According to Daffield, the most likely consumer is the Korea Gas Company. Representatives from Sakhalin Energy and the oblast administration will travel to Seoul for negotiations in February. After that, the search for potential customers will continue in Japan, via meetings with representatives of Tokyo Electric and Kansa Electric. Another potential market for Sakhalin's liquefied gas is Eastern China, as well as Taiwan. Daffield emphasized that Sakhalin-2 is not in competition with the so-called "Irkutsk project" undertaken by a consortium between British Petroleum, Sidanko, and the UNEXIM group, formed last year (See *IEWS Russian Regional Report*, 4 December). That consortium plans to build a pipe-line to supply northern and central parts of China with natural gas. - Sergey Shilo in Vladivostok

KEMEROVO PREEMPTS FEDERAL LAND LAW. Kemerovo Governor Aman Tuleev has promised that every resident of his oblast will be allotted a plot of land free of charge for permanent lease by spring 1998. Priority will be given to laid-off miners, recent college graduates who suffered from downsizing, young families, families of military servicemen, and forced migrants. This is how the oblast government is trying to protect the population from the possible negative consequences of the expected federal law authorizing the buying and selling of land. Today, about 380,000 hectares of arable land in the region are abandoned, which is why future land owners will have to live up to certain expectations. For example, if the new owner

fails to use his allotted plot for three years, the land will be returned to the oblast. - Konstantin Kanterov in Novosibirsk

BARRICK WINS GOLD RIGHTS IN KRASNOYARSK. The U.S.-Canadian company Barrick International Ltd. won a tender conducted for the exploration of the Ayakhtinsk gold mine in the North-Yenisey district of Krasnoyarsk krai. The company plans to spend the next five years examining the deposits; with extraction operations to follow. Barrick is the second largest producer of gold in the world. - Konstantin Kanterov in Novosibirsk

TATARSTAN AND NIZHNI TO COOPERATE ON OIL

by Yury Rodygin, AVE-Info

NIZHNI NOVGOROD--On 16-17 January Tatarstan hosted a festival to boost economic ties with Nizhni Novgorod Oblast. Among the 57 regions of Russia with which Tatarstan has active business relations, Nizhni holds third place after Moscow and Moscow Oblast in terms of the volume of economic cooperation. This relationship accounts for 1.5 trillion rubles, or 12% of the total volume of trade between Tatarstan and the Russian Federation. Both regions face similar problems, such as improving regional tax and investment policies, paying for social expenses, developing more entrepreneurship, and implementing housing reform.

During the visit, the two sides signed an economic cooperation agreement. As a result, about \$20 million worth of business-plans will be implemented and trade turnover between Tatarstan and Nizhni will rise by 1.5 billion new rubles (\$250 million). The agreement will open doors for more trade fairs and exhibitions as well as joint ventures. Moreover, the new phase of closer trade relations will establish a cooperative regime under which persons, corporations and goods from each side will enjoy the rights and privileges of their counterparts in the partner region.

The main accomplishment of the two days was a quadrilateral agreement among the government of Tatarstan, the government of Nizhni Novgorod oblast, Tatneft oil company and NORSI-OIL company. The signatories agreed to work out the details of the arrangement by 1 February. The tentative plan for this year is for Tatneft to ship 2 million tons of raw oil to Nizhni, and for NORSI to send back oil products. Additionally, from now on the two companies will work directly with each other, avoiding middlemen.

The deal as well as the subsequent cooperation will be profitable for both sides. Indeed, combined with the 9 million tons of oil expected from LUKoil in 1998, the 2 million tons from Tatneft will fill up NORSI's processing capacity, guaranteeing a profitable year. This is important for Nizhni Novgorod Oblast, as NORSI's taxes account for 20-25% of the region's budget revenue. The agreement will provide \$360 million worth of funding for the renovation of old facilities at both NORSI and Tatneft. Furthermore, there is a special budget line of 560 billion rubles for a full reconstruction of the NORSI plant.

Moreover, Tatarstan President Shaimiev announced that Tatneft has further designs for the future. In alliance with other potential investors (most likely LUKoil and Inkombank), Tatneft intends to participate in the auction of NORSI's 40% shares currently held by the

government. The tender will start in February-March and NORSI President D. Saveliev said that he is happy to see another potential serious investor on the horizon.

The agreement signed in Kazan is a *de-facto* recognition of NORSI as an attractive investment target. This should not be surprising; indeed in 1997 the company began to pay off its debts. Deadlines for covering tax arrears to the regional and local budgets have been postponed and the Russian government is about to sign a decree on the restructuring of NORSI's federal tax debt of 200 billion rubles. Saveliev further noted that the first results of the cooperative effort will be clear by the end of 1998, when NORSI will have received 15% more oil for processing than in the previous year.

FALL IN WATER LEVEL THREATENS IRKUTSK ENERGY SUPPLY. Today Irkutsk Oblast is in a critical condition, caused by the rapid fall of the water level in the Bratsk water reservoir. In only a few days the level could reach the critical minimum mark--395 meters on the Pacific Ocean scale. If the water level falls below this point, power supply to a large part of the region will stop, forcing the closure of industrial enterprises and leaving some cities and towns without water.

Despite the critical situation with the oblast's water resources, electric power is still exported outside the region above and beyond the norm set by the Federal Energy Commission. Generating this power consumes precious water. In 1996 the flow of energy outside Irkutsk Oblast amounted to 7.4 billion kilowatt-hours, or 2.3 billion over the federal requirement. In 1997 the flow was 3 billion kilowatt-hours, or 1.68 billion kilowatt hours over the quota. At the same time, according to Deputy Governor Aleksandr Petrunko, even if the oblast complies with all the rules and regulations governing the usage of water resources, there is no guarantee that the water level in the reservoir will be restored.

The situation is further complicated by the seasonal low temperatures. Heating power stations cannot supply Irkutsk Oblast with electric energy as they lack money for fuel, and power utilities have failed to introduce limits on consumption. "If we fail to keep the water level above the critical mark, there is no guarantee we will make it through the winter. And next year's situation might even be more catastrophic," warned Petrunko. - Ekaterina Vorobieva (Teleinform) in Irkutsk

VOLGOGRAD REPORTS MIXED RESULTS FOR 1997. On 22 January Volgograd officials invited the directors of the city's enterprises to discuss the results of 1997. The region's overall output was approximately equal to that of 1996, with the growth in services compensating for the industrial decline. While the figures are preliminary, they suggest that though the regional economy has not recovered yet, some results of restructuring may already be seen. Productivity increased at 28% of the city's enterprises: most dramatically in the food industry (particularly at the Volgogradskii spirits factory - up 340% over 1996; Milk factory #3 - 139%), chemical and oil plants (up 112.9% at Khimprom, 116,9% at Caustic, and 114,8% at Lukoil Oil Refinery) and some other industries. As for declining enterprises, the "leaders" are ferrous metallurgy (62% of what was produced in 1996), light industry (73%), and machine-building (67%). - Ivan Kurilla in Volgograd

VOLGOGRAD SEEKS TO INSURE INVESTMENTS. Volgograd has worked out a new model for attracting investment, according to *Delovoe Povolzhie*. The idea is to create a mediator between the bank or other potential investor and the enterprise or project in which the money is invested. The middleman will guarantee the investment and monitor how the money is used. The Volgograd Oblast administration recently established the Sfera firm to fulfill these functions. Through Sfera, investors will receive shares of enterprises as a security for their investments. These shares are currently owned by the oblast government. However, it is still not clear whether the new company will work effectively to attract investment to the region or just serve as a way to privatize the shares of enterprises held by the regional government. - Ivan Kurilla in Volgograd

FOREIGN TIES

BRITISH PETROLEUM RETURNS TO JOINT VENTURE IN IRKUTSK. For the first time since the agreement between British Petroleum (BP) and Sidanko oil company was signed in December 1997, representatives of the British oil giant visited Irkutsk. They met with First Deputy Governor Valentin Mezhevich and again emphasized their intention to invest in the Kovyktinsk project, according to the general director of RUSIA Petroleum company Lev Platonov. BP Vice President Ian Rushby said that "We came to Irkutsk to explain the nature of the agreement and to further discuss cooperation on the Kovyktinsk project. One of the most decisive factors in BP's decision to revisit the deposit after a five year break was the determination of the Chinese government to import natural gas." Vice president of BP Exploration noted that last week Sidanko and BP began detailed work on the creation of the joint venture which will hold 60% of RUSIA Petroleum's shares and in which BP will have a 45% stake. - Natalia Michurina (Teleinform) in Irkutsk

JAPAN AIMS TO EXPAND ITS URALS PRESENCE

by Dmitry Strovsky, Urals State University

YEKATERINBURG-- The most significant economic event of 1997 for the Middle Urals was the visit of a delegation from the region to Japan, *Delovoi kvartal* reported. As a result of the visit, a \$645,000 contract was signed between Mitsui & Co, Ltd. and the regional telephone company Ural. Under the terms of the deal, the Japanese will supply Yekaterinburg with modern communication equipment which will be ready for use by May-June 1998. The first set of equipment will service 456 users. The equipment will simplify and speed up information exchange between mainframe computers and individual work-stations in regional banks. Additionally, the oblast further expanded telecom cooperation with the Japanese. Uraltelecom, Mitsui and NEC signed a \$1 million contract for new digital telephone equipment with the capacity to serve 100,000 subscribers. It will be used by the region's towns and raions.

This burst of Urals-Japanese activity is undoubtedly connected to the creation of a special Urals sub-committee of the Russian-Japanese economic cooperation committee. Chaired by Sverdlovsk Governor Eduard Rossel, the subcommittee will meet again in the spring

in Yekaterinburg to discuss further opportunities for Japanese investments in the region. There is plenty of interest for such investment projects among Japanese machine builders and car manufacturers, including Suzuki, Honda and others, as well as producers of consumer electronics. Therefore, the spring meeting will discuss the creation of one or more joint ventures in the region to produce jeeps, economy cars, and heavy motorcycles.

The apparent eagerness of the Japanese to expand in the Urals market seems to be rooted in both economic and political considerations. Japan is concerned that it trails many of its Far Eastern neighbors, such as China and South Korea, in terms of market penetration in the Urals. For example, today China is the region's largest trading partner, as illustrated by the wide variety of Chinese-made consumer products on local store shelves. Last year China held its second trade fair in the region, with over 400 Chinese firms exhibiting their products. China plans to open a consulate in Yekaterinburg, the third such representation, after those of the U.S. and Great Britain. South Korea has been establishing its presence in the region as well, as manifested by joint ventures and car and consumer electronics dealerships. Daewoo seems to be leading the South Korean expansion, having significantly increased the sale of its products in the Urals.

In this context, Japan's own accomplishments seem very modest. Experts think that the creation of the Urals subcommittee will attract the attention of more Japanese investors to the region's economic potential and will facilitate the expansion of more Japanese companies there. This activity could eventually lead to the opening of a Japanese consulate in Yekaterinburg, a possibility mentioned by several Japanese officials.

CORRECTION: In last week's report, Ilya Klebanov was incorrectly identified as first deputy governor of St. Petersburg. He is a deputy governor. Igor Artyemev, who is in charge of finance, is first deputy governor, and thus holds the second most powerful spot in Governor Vladimir Yakovlev's administration.

REGIONAL PROFILE: EVENK AUTONOMOUS OKRUG

Governor: Aleksandr Bokovikov

Aleksandr Bokovikov was elected governor in March 1997. With the backing of the opposition National Patriotic Union of Russia (NPSR), he won the gubernatorial race in late December 1996, beating incumbent Anatolii Yakimov by 65 votes. However, the electoral commission annulled the election results claiming there had been numerous irregularities. Bokovikov won the second race with a margin of 9% of the vote.

Born in 1956, Bokovikov graduated from the Krasnoyarsk Polytechnic Institute in 1978 after which he worked as a mechanic in Irkutsk. He studied for five years at the Irkutsk Agricultural Institute in the hunting department, but he did not finish his course work. Then, he returned to the Evenk okrug and worked as an animal farmer. Later, he was appointed director of a state farm, ultimately becoming the chairman of the okrug agricultural-industrial complex.

In March 1994, Bokovikov won a seat in the Sulgan, the okrug legislature, and in June that year became its chairman. In January 1996, he joined the Federation Council, the Russian

parliament's upper house, where he served on the Committee for the Affairs of the Far North and Indigenous Peoples.

Other Local Leaders

Chairman of the Legislative Sulgan -- Anatolii Amosov, elected in December 1996.

Brief Overview

The Evenk Autonomous Okrug was founded in 1930. It is a part of Krasnoyarsk Krai and shares borders with Taimyr Autonomous Okrug, the Republic of Sakha (Yakutiya), and Irkutsk Oblast. Despite its designation as an ethnic region, Russians make up 67.5% of the population. The Evenks are only 14%, followed by the Ukrainians (5.2%) and the Yakuts (3.7%).

Major industries are hunting, fishing, reindeer-breeding, and forestry. The okrug is also rich in mineral resources, particularly oil and graphite. Geologists believe that diamond fields will be discovered in the region in the near future.

Basic Facts

1995 Population (est.): 20,800 (0.01% of Russian total)

Industrial production as percentage of all Russian production (Jan.-Aug.1995): 0.00%

Price basket index in July 1995: 129 (Russia = 100)

Average back wages owed per person (September 1995): 76,300 rubles (Russian average = 37,100)

Urban population: 28.4% (Russia overall: 73.0%)

Percent of population with higher education (1989 census): 11.6% (Russia overall: 11.3%)

Number of telephones per 100 families (1993): in cities: 69.4 (Russian average: 41.5); in villages: 11.3 (17.2)

According to a 1995 survey by Bank Austria, the oblast is ranked 78th among Russia's 89 regions in terms of investment climate.

Electoral History

1996 Presidential Election

Yeltsin: 43.42%/65.76% (first round/second round)

Zyuganov: 20.00%/28.33%

Lebed: 16.41%

Zhirinovskiy: 7.05%

Yavlinskii: 6.29%

Turnout: 65.50%/62.39% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Elections

Communist Party of the Russian Federation: 13.73%

Liberal Democratic Party of Russia: 13.02%

Women of Russia: 10.48%
Congress of Russian Communities: 8.52%
Our Home Is Russia: 6.66%
Party of Workers' Self-Government: 5.84%
Yabloko: 4.97%
Communists -- Workers' Russia: 3.62%
Kedr: 2.20%
Russia's Democratic Choice: 2.17%
Power to the People: 2.09%
In a single-member district: 1 independent
Turnout: 61.96% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 68.94% "No" -- 31.06%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 20.94%
Women of Russia: 17.39%
Russia's Choice: 15.36%
Party of Russian Unity and Concord: 10.48%
Yabloko: 7.94%
Communist Party of the Russian Federation: 7.45%
Democratic Party of Russia: 7.32%
Agrarian Party of Russia: 3.58%
In a single-mandate district: 1 independent
Turnout: 59.66% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 39.11%
Ryzhkov: 19.64%
Tuleev: 17.48%
Zhirinovskiy: 16.33%
Bakatin: 2.84%
Makashov: 1.66%
Turnout: 74.35% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995.

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BREAKING NEWS

POLITICS

CHEREPKOV CANCELS VLADIVOSTOK CITY COUNCIL ELECTIONS.

Vladivostok Mayor Viktor Cherepkov on 28 January canceled the city council elections set for

29 March. He said that a decision of the krai дума, which before last December's elections was controlled by Governor Yevgenii Nazdratenko's supporters, to divide the city into a number of smaller districts, which would then be ruled by people not necessarily under Cherepkov's control, had made the city ungovernable. The mayor said that his decision to postpone the elections until a later date would save money. The move will only add to the city's political instability. (*Kommersant Daily*, 3 February)

YEKATERINBURG PLANNING SUMMIT. Sverdlovsk Governor Eduard Rossel met with President Boris Yeltsin 29 January to plan the 25-26 March "summit without neckties" between Yeltsin, French President Jacques Chirac, and German Chancellor Helmut Kohl. Rossel is hoping to use the occasion to strengthen trade ties with France and Germany. He also continued to lobby Yeltsin to bury the remains of Czar Nicholas II and his family in the oblast. St. Petersburg and Moscow are also interested in this privilege (*Russkii Telegraf*, 30 January). *Nezavisimaya gazeta* (3 February) reported that a special government commission recommended St. Petersburg as the most appropriate burial site, with the ceremony to take place on 17 July, the anniversary of the czar's execution. Yeltsin has not made a final decision.

LEBED CONSIDERS RUNNING FOR KRASNOYARSK GOVERNOR. Former Security Council Secretary Aleksandr Lebed announced that he is considering running for governor in Krasnoyarsk Krai's 26 April elections. Lebed's younger brother, Alexei, the governor of the neighboring Khakasiya, noted that the rich Krasnoyarsk would provide a strong launch pad for a presidential campaign in 2000 (*Russkii Telegraf*, 30 January). According to *Izvestiya* (3 February), Lebed would have the support of powerful acting Krasnoyarsk Aluminium Plant Director Anatolii Bykov (*IEWS Russian Regional Report*, 11 December 1997). The paper claims that Lebed would not have an easy time winning the governorship, with his prospects depending on the strategy chosen by the Communists. They are likely to nominate the popular State Duma member Petr Romanov. He is the former director of the Yenisei plant, one of Russia's largest defense enterprises. Incumbent Valerii Zubov will also run. The risks are high for Lebed and there is little likely payoff. If he loses, his attempt to win the presidency in 2000 will be finished. If he wins, Moscow will do everything it can to make life difficult for the new governor. Lebed's party won about 14% of the vote in December 1997's legislative elections, suggesting that he does not have widespread support.

YELTSIN TEAM DIVIDED ON CHECHNYA. Security Council Secretary Ivan Rybkin and Interior Minister Anatolii Kulikov are pushing Yeltsin in different directions on defining Russia's relationship with Chechnya. Both have made opposing statements to the media in recent days. Kulikov claimed that Yeltsin supported his plan to deal with Chechnya as a "rebellious region" that does not recognize Russian law. His proposals stress the inevitable use of force against Chechnya. Rybkin has suggested instead that Russia recognize Chechnya as a "sovereign and independent state freely associated with the Russian Federation." (*Russkii Telegraf*, 30 January) On 29 January, Yeltsin created a new Security Council interdepartmental committee on Chechnya and the north Caucasus in general chaired by Deputy Prime Minister Ramazan Abdulatipov and including representatives of the federal government, governors of

southern regions, and scholars. (*Kommersant Daily*, 30 January) Despite the opposition of his aides, Yeltsin continues to state that he will visit the republic to examine the situation for himself.

INGUSHETIYA'S AUSHEV SEEKS EXPANDED POWER AT MOSCOW'S EXPENSE. Ingushetiya President Ruslan Aushev has set a referendum for 1 March asking voters in his republic if they think that the republic should control local branches of the procuracy, Ministry of Internal Affairs, and courts. Moscow currently has the right to appoint these officials, although *Nezavisimaya gazeta* (31 January) points out that Aushev has taken many of these decisions into his own hands even before the referendum is held. The Russian Procurator General has asked the Supreme Court to overturn Aushev's decree and cancel the referendum. Ingushetiya's electoral commission is proceeding with preparations for the vote despite the fact that it is clearly unconstitutional (*Russkii Telegraf*, 30 January). The Moscow press describes this incident as another example of how the republics are trying to avoid obeying Russian law, terming it a "latent variation on Chechen separatism." Yeltsin has so far remained silent on the issue.

The ploy is clearly part of a move by Aushev to hold on to his office in the presidential elections set for the same day. Aushev will face at least three credible candidates: the head of the international-legal department of the Russian General Procurator's office, Issa Kostoev, the deputy chief of the military academy of the army's missile defense forces in Smolensk, Lt. Gen. Magomed Sultygov, and State Duma Member Mukharbek Aushev. Although Aushev remains the favorite, the other candidates are gaining. Among the major influences working against Aushev are Aleksandr Dzasokhov's victory over the incumbent in neighboring North Osetiya, demonstrating that change is possible, and discontent in some rural areas that feel they have been ignored by the leadership in Nazran, Ingushetiya's capital. Critics also charge that Aushev has spent state money unwisely, the republican leaders lack a good relationship with Moscow, the administration has not dealt with the problems of refugees, unemployment rates are as high as 80%, crime rates are high, and public officials are corrupt. Opposition candidates have additionally complained that the republican electoral commission has not sought to provide a level playing field for all contenders.

REGIONAL LEADERS AT DAVOS. Russia sent a large, high-level delegation to the World Economic Forum at Davos, led by Prime Minister Viktor Chernomyrdin, and composed of 12 members of the government, and 23 entrepreneurs. The regional elite was represented by Samara Governor Konstantin Titov, Novgorod Governor Mikhail Prusak, and St. Petersburg Governor Vladimir Yakovlev. (*Izvestiya*, 29 January and *Nezavisimaya gazeta*, 30 January)

NOVGOROD RETURNS GREAT TO ITS NAME. A joint session of the Novgorod City and Oblast legislatures voted on 27 January to restore the title "great" to the city's name - making it once again Velikii Novgorod. The title was originally given in the 12th century as a mark of the city's special status and disappeared from usage without ever being formally voted out (*Kommersant Daily*, 29 January). According to *Segodnya* (28 January), Peter the Great issued an oral command to drop the use of "great" when he moved Russia's capital from Moscow to St. Petersburg. The federal government will have the final say on whether the city

can be renamed. The city hopes to attract tourists by restoring the historic look of its downtown (*Segodnya*, 3 February). Today many modern buildings have corrupted the city's former views.

ST. PETERSBURG LEGISLATURE HANDS YAKOVLEV DEFEAT ON CITY CHARTER. The St. Petersburg Legislative Assembly rejected all of Governor Vladimir Yakovlev's major concerns in examining possible amendments to the city charter on 28 January, handing him one of the most significant set-backs of his tenure. The charter prevents Yakovlev from ruling by issuing decrees, transforms the assembly from a part-time to a full-time legislature after the next elections later this year, gives the legislature the right to approve key economics appointments in Yakovlev's cabinet, and leaves in place the provision for two-round gubernatorial elections. One round elections tend to favor the incumbent, so Yakovlev supported this form of election. In fact, in 1996, if the elections had had one round instead of two, former Mayor Anatolii Sobchak would have remained in office. As a concession to Yakovlev, the assembly agreed to hold the next gubernatorial elections in June 2000 with the presidential elections, although after that they will be held in April.

The assembly passed the charter into law 14 January without Yakovlev's approval, which was not required in any case (*IEWS Russian Regional Report*, 29 January). He attended the ceremony in which Legislative Assembly Speaker Yurii Kravtsov signed the charter, suggesting that he accepted the legitimacy of the charter, but did not himself sign it. The charter officially came into effect after the legislature quickly published 100 copies of it. The St. Petersburg legislature is one of the few regional legislatures in the country to have real influence. (*St. Petersburg Times*, 2-8 February, *Kommersant Daily*, 30 June)

MORDOVIAN PRESIDENT KNOCKS OPPONENTS OUT OF ELECTIONS. The Mordovian electoral commission has refused to register the leader of the republic's branch of the Communist Party of the Russian Federation, Evgenii Kosterin, as a candidate in the 15 February presidential elections. During the 1996 presidential elections, Communist Gennadii Zyuganov edged Yeltsin 48% - 46% in the second round, though the Communists only control 10 of the 75 seats in the republican legislature. Three other candidates were also denied registration. Kosterin was dropped from the race allegedly because he did not submit enough valid signatures. Now the only candidates are incumbent President Nikolai Merkushkin and Anatolii Sharov, the director of a pasta factory with no political ambitions. Sharov is apparently in the race to give at least the facade of competition since single candidate races are illegal (*Kommersant-Daily*, 29 January). In a clear attempt to cover up the obvious dirty tricks, Merkushkin told *Izvestiya* (28 January) that he was less concerned about the refusal to register the candidates than the fact that "weak opponents are beginning to play on ethnic differences in the republic by convincing people that the leadership of Mordovia is a 'puppet in the hands of the Kremlin' and that the republic stands on the verge of an economic crash."

KOMI PRESIDENT REFUSES TO OBEY CONSTITUTIONAL COURT RULING ON LOCAL GOVERNMENT... The newly reelected Komi President Yurii Spiridonov announced 2 February that he is not required to obey a Russian Constitutional Court decision overturning a republican law on local government. His refusal calls into question a basic tenet of

the Russian Federation - that the Constitutional Court's rulings are mandatory for all regions. On 15 January the court overturned several provisions of the republic's constitution which limited the rights of local governments in the republic (for the text of the decision, see *Rossiiskaya gazeta*, 31 January). Spiridonov argued that the power-sharing treaty between his republic and the Kremlin gave the republic the right to determine its political institutions independently. Last year Yeltsin had to issue a decree to force Udmurtiyan authorities to implement a similar ruling (*Russian Regional Report*, 27 February 1997) (*Kommersant Daily*, 3 February).

... WHILE ADMINISTRATION PLANS CRACKDOWN ON OTHER REGIONS.

The presidential administration has announced that it will examine how local governments are treated in 14 regions during February. These regions are Adygeya, Kalmykiya, Komi, Sakha (Yakutiya), Tyva, Udmurtiya, Stavropol, Kamchatka, Novosibirsk, Smolensk, Tula, Ulyanovsk, Koryak Autonomous Okrug, and St. Petersburg. The decision to carry out this examination was made at the last meeting of the Council on Local Government last year. The administration has already found some problems with the situation in Sakha and in Novosibirsk, where Governor Vitalii Mukha personally appoints mayors, a violation of federal law (*Kommersant-Daily*, 3 February). Yeltsin's administration often seeks to work with local governments to constrain the power of the governors. According to *Kommersant-Daily*, all these regions have some form of conflict with Moscow. Overall, the Ministry of Justice believes that 51 of Russia's 89 regions violate provisions of the law on local government.

ECONOMICS

LENINGRAD OBLAST: ONE PORT MOVES AHEAD, ANOTHER IN TROUBLE.

Construction began on 26 January of a mineral fertilizer terminal at the new port being constructed at Ust-Luga. The overall port is expected to be completed in 2010 at a cost of \$4 billion. It will include terminals for handling coal (construction began in February 1997), general cargo (October 1997), containers, grain, sugar, chemicals, cement, and timber. It is the only port of the three planned for Leningrad Oblast to be proceeding smoothly.

Surgutneftegaz's port at Batareinaya Bay is in trouble because the estimated cost of construction is now \$1 billion, far above the initial estimate of \$300 million. The pipeline connecting the Kirishinefteorgintez factory near St. Petersburg and the port is also now projected to cost \$342 million, more than three times the original estimate. Company officials said that they will not invest if the project proved too costly. They also suggested that the port may not be competitive with the Baltic ports of Tallin or Ventspils, because those ports are closer to the west. The third Leningrad port under construction in Primorsk, estimated to cost \$3.7 billion, is now tied up in court (*IEWS Russian Regional Report*, 29 January). (*St. Petersburg Times*, <http://www.spb.ru/times/>, 2-8 February)

MOSCOW INSURANCE COMPANIES PROTEST PETERSBURG RULING.

A group of Moscow-based insurance companies has complained to St. Petersburg Governor Vladimir Yakovlev of his city's decision to allow only St. Petersburg firms to insure city projects. The Petersburg government complained that it would have no ability to monitor

companies that were not registered in the city and that they might not keep their financial resources in the city's market. The Moscow firms will now either have to have the decision rescinded or acquire registration in the city. (*Russkii Telegraf*, 29 January)

MOSCOW CITY PLANS FOREIGN TRADE REPRESENTATIVES. Mayor Luzhkov's administration is planning to open foreign trade missions in eight major international cities - Madrid, Paris, London, New York, Johannesburg, Singapore, Buenos Aires, and Sofia. The offices will market products and services made in Moscow abroad. The offices will be set up as joint stock companies, with the stocks owned by the city and outside investors, who will have the right to work out of the offices. A similar trade representation has been operating in Helsinki for two years but has found that Moscow firms are hesitant to market their products through the office. (*Kommersant-Daily*, 29 January)

KALININGRAD DUMA REJECTS LAND LAW. The Kaliningrad Oblast Duma on 29 January voted down a proposed law that would have allowed the buying and selling of land, 21-5. The bill went further than the law adopted in Saratov Oblast last year because it allowed agricultural land to be used for other purposes five years after it was sold, while the Saratov law does not foresee such a change in use. Governor Leonid Gorbenko's administration began preparing the law after the presidential administration made clear that it supported the measure. Yeltsin also favors allowing new buyers to change the function of the land. (*Russkii Telegraf*, 31 January)

WORKERS BAR NEW MANAGERS FROM PLANT. Workers at the Vyborg Cellulose and Paper Plant barred new managers appointed by the plant's new owner Nimonor Investments Ltd. from entering the plant on 2 February. Nimonor bought a controlling stake in the plant last September for \$31 million. The new owners agreed not to fire any of the 2,100 workers, but the workers are demanding that they be paid the 42 million new rubles (\$7 million) they are owed in wage arrears. Nimonor is planning to invest \$26 million in the plant over the next 1.5 years. (*Russkii Telegraf*, 3 February)

BUSINESS BRIEFS

-- **ASSIDOMAN** opened a \$25 million corrugated cardboard factory in Vsevolozhsk (**LENINGRAD OBLAST**). The plant is in the same city where **FORD** is apparently planning to base a \$150 million factory. The oblast has been more effective than **ST. PETERSBURG** in attracting foreign investment lately because it provides better terms for investors. It offers firms investing a minimum of 6 million rubles (\$1 million) a break from the region's profit, road, and property tax until the initial investment is recovered. This law is based on similar provisions successfully employed by Novgorod Oblast. Foreign investment in the oblast last year was \$66 million, while St. Petersburg attracted \$170 million. St. Petersburg, in tough competition with the oblast, is planning its own investment law that will automatically give all investors fixed five-year tax breaks on all local taxes. Big investors could obtain discounts up to 100%. (*St. Petersburg Times*, <http://www.spb.ru/times/>, 2-8 February)

-- In a case closely watched to determine the effectiveness of Russian law, US businessman Bill Davies has won Russian Supreme Court support for a Stockholm arbitration court's ruling that **MURMANSK OBLAST** must pay more than \$913,000 in damages for shutting down his **KOLA SALMON** fishing company. It remains unclear if the oblast court will enforce the decision however. In another case, pitting the American fast food chain **SUBWAY** against its former landlord, Vadim Bordug, in a store Subway operated on Nevskii Prospect in 1994, the Stockholm court ordered the landlord to pay Subway \$1.2 million plus interest. So far, however, Bordug has argued that the decision is not enforceable in Russia. (*St. Petersburg Times*, <http://www.spb.ru/times/>, 2-8 February)

-- The American pharmaceuticals company **ICN** has reiterated its commitment to moving its European headquarters from Belgrade to Moscow. ICN's five factories in Russia are located in **ST. PETERSBURG, KURSK, CHELYABINSK, IOSHKAR-OLA, and TOMSK**. Last year the company invested \$30 million in these plants and plans to invest \$200 million in the future. (*Russkii Telegraf*, 15 January)

-- The **ST. PETERSBURG** firm **PIROMETER** will produce each month 500 power supplies, valued at \$300 each, for the **XEROX** corporation's copy machines. Pirometer has been assembling 500 Rank Xerox 5317 machines a month since March 1997. (*Russkii Telegraf*, 28 January)

-- **NIZHNI NOVGOROD'S NORSI OIL** has chosen Britain's **BECHTEL**, Ltd. to carry out an audit of the firm and prepare a plan for attracting investment for future renovation projects. The **EBRD** will pay for the work. The firm has also chosen **PRICE WATERHOUSE** to carry out a financial audit. The EBRD has provided 1.2 million ecu for the work, 500,000 of which in the form of a credit. (*Russkii Telegraf*, 28 January)

-- **NIZHNI NOVGOROD'S GORKII AUTOMOBILE FACTORY** announced plans to sell up to 2,000 of its Gazel lights trucks in Argentina this year. The trucks are powered by Austria's **STEYER** engines. (*Segodnya*, 2 February)

-- The investment company **TROIKA DIALOG** has launched its regional campaign by opening its first office outside Moscow in **SAMARA**. The firm hopes to enliven the Samara stock market and increase the liquidity of local stocks, facilitate the issuing of Eurobonds and raising capital on foreign markets, provide consulting services, and establish a mutual fund. The Samara Oblast administration has said that the firm may join **GOLDMAN SACHS** and **ALFA-BANK** as the third lead manager of its Eurobond issue. The new Troika Samara is working with **GAZINVEST** which already serves as a financial consultant to the majority of Samara's fuel and energy concerns. (*Russkii Telegraf*, 29 January)

-- **ALMAZY ROSSII SAKHA** (Alrosa) is preparing to issue \$350 million worth of Eurobonds and has therefore begun releasing more information about its finances. The company

has signed a new deal with the Sakha authorities under which it transfers 32% of its income, with 4.5% delayed until 2000-2001, to the republic as rent for the resources it uses. Until the end of 1997, it paid 39.5%. Russia's first diamond market will open no later than March. Alrosa plans to open offices in Antwerp and Luanda within a month, and later in Israel and India. **COOPERS & LYBRAND** finished an audit of the company's 1996 books in October 1997. (*Kommersant Daily*, 28 January)

-- Alrosa has bought a 0.15% share of **SEVERALMAZ** which owns the rights to develop the Lomonosov deposit in **ARKHANGELSK OBLAST**. While this initial purchase will not allow the company a voice in the management of the deposit, it signals its strong intention to play a role in developing the new northern site. (*Kommersant Daily*, 30 January)

-- **TATARSTAN'S KAZAN HELICOPTER PLANT** is finishing the assembly of the first Ansat helicopter, which can carry 8 passengers or 1 ton of cargo. The new craft uses engines supplied by the Canadian branch of the US's **PRATT AND WHITNEY**. The helicopters are expected to cost about \$1.7 million, about half as much as similar models produced by the French-German consortium **EUROCOPTER**. The plant does not yet have any orders for the craft raising concerns that it will not be able to find a market for them. (*Kommersant-Daily*, 30 January)

-- **IRIDIUM ROAMING ENTITY** will begin selling satellite telephones that will work from any place on the planet in Russia on 23 September. The American **MOTOROLA** created the Iridium consortium in 1990 and the Russian government owns 5% of its stock. Iridium has signed its first contract in Russia with **NORTH-WEST GSM**, so that Iridium clients can use the GSM network when they are in **ST. PETERSBURG, KARELIYA, MURMANSK, and VOLOGDA**. (*Kommersant Daily*, 3 February)

-- Italy's **FATA** Group is planning to open a \$70 million food processing plant in **KARELIYA**, and expects Yeltsin to sign government guarantees for the project during his trip to Italy next week. In 1987, the firm set up a \$149 million plant to produce large commercial refrigeration equipment in Volzhsk, **MARI-EL**. The firm also has ventures making aluminum foil, food packaging materials and automotive pistons in **KHAKASIYA** and **ROSTOV**. In 1991, it lined up a \$202 million loan for an agro-industrial project in **KEMEROVO**, and is now seeking a \$100 million project there and a \$90 million project in **DAGESTAN**. (*Moscow Times*, 31 January)

-- The French **FM LOGISTICS**, controlled by Faure & Machet S.A., will open a modern warehouse near **MOSCOW'S** Sheremetyevo airport at the cost of \$45 million. The **EBRD** invested \$4.8 million and other financing will come from Austrian and French banks. FM Logistic's customers include **NESTLE, MARS, and RUSSIAN BOLSHEVIK**. It also has facilities in **ST. PETERSBURG**. (*Moscow Times*, 3 February)

SPECIAL RESEARCH REPORT

DON'T FORGET CHUKOTKA!

by Patty Gray,

Ph.D. Candidate, Department of Anthropology, University of Wisconsin-Madison

The Chukotka Autonomous Okrug in Russia's Far East does not garner much attention. Distant from the nation's capital, sparsely populated, and struggling with a devastatingly poor infrastructure, Chukotka is usually overlooked by foreign analysts and policy makers. Even those who have heard of it assume there can't be much worth investigating there.

But Chukotka provides a crucial case study in the widely variable strategies being adopted by the Russian regions as they seek to redefine their role in federal politics and the global economy. Its activist governor, Aleksandr Nazarov, has quietly maneuvered a place for himself in Moscow politics, placating the party of power skillfully enough that the federal government generally takes a "hands-off" approach to his region. He has drawn no negative attention to himself on the national level, while tirelessly promoting the development potential that lies untapped in his region.

Nazarov shows a different face at home, however. Although he makes much of his commitment to democracy, he has established a border regime that rather creatively interprets the federal Constitution's provision for a 5-kilometer-wide border zone and prohibits movement anywhere in the region without special administrative permission. These restrictions are selectively enforced to target primarily "foreigners" (including anyone from outside of Chukotka, even Russians). At the same time, Chukotka once had its own branch office in Anchorage, and Nazarov is said to have invested government funds in a proposed tunnel under the Bering Strait.

The governor's policy toward outsiders seems self-contradictory, given his apparent eagerness to establish close ties with Alaska. Even stranger is the fact that the administration-controlled newspaper runs both stories that celebrate foreign ties and articles that express suspicion about the activities of foreigners in the region, accusing them of being cultural imperialists. It may simply be a way for the administration to continue to demand exorbitant "license" fees from foreigners for the privilege of allowing them to work in the region. It may also be tied to Nazarov's Napoleonic character. He clearly wishes to have absolute control of the region, and has systematically persecuted the one independent federal agency in Chukotka that is not woven into his patronage system: the local branch of the Academy of Sciences.

Chukotka's capital city, Anadyr', is actually a small town of about 13,000 plopped improbably down in the middle of the tundra. It was built according to the socialist ideal for a Siberian utopia: a city of five-story concrete apartment blocks with all the cultural amenities required by a modern society. It boasts a House of Culture, museum, movie theatre, public library, and even a restaurant with live entertainment. But maintaining a city in the permafrost is difficult in the best of times, and in the post-Soviet economic collapse much of Anadyr' has been reduced to rubble, giving even its "downtown" district a war-zone feel.

Nevertheless, Chukotka has surprisingly close ties to Moscow, and the cosmopolitan sophistication of Anadyr's residents led me to give it the nickname "Little Moscow." Nazarov himself is undeniably a Moscow insider. Moscow Mayor Yurii Luzhkov paid a personal 3-day

visit to Chukotka in August of 1996, during which he and Nazarov signed an agreement on Moscow's promised assistance to Chukotka. In November 1996, Nazarov pulled off a spectacle called "Chukotka Days in Moscow," for which dozens of native Chukotkan artists, dancers and singers were sent to Moscow to perform in theaters and in Gorky Park, while Chukotkan businessmen put on their own road show aimed at attracting investment.

This cultural frenzy was a good example of the administration's prevailing attitude toward the indigenous population of Chukotka: as long as they dress in colorful costumes and entertain the "incomer" population, they are lavished with attention and even a smattering of funding for cultural programs. But if they begin to demand more social rights and greater participation in the political process they are coldly brushed off. While the administration works feverishly to secure housing for incomers who wish to relocate back to the temperate zones of Russia (which is one of the concerns addressed in Chukotka's agreement with Moscow), native residents in Anadyr' who are without housing altogether are shunted onto a waiting list for local subsidized apartments, a list some have been on for almost ten years.

One might say that the Chukotka Autonomous Okrug of today is a product of the "Farce of Sovereignties" that swept Russia's regions earlier this decade. It was the first region to attempt to promote its status within Russia's hierarchical federal system when it declared itself a republic in 1990. Immediately after this, official documents and newspaper articles began to carry the designation "ChSAR" (Chukotka Soviet Autonomous Republic), although eventually the region dropped the pretensions to republic status. Chukotka, like the Khanty-Mansi and Yamal Nenets autonomous okrugs, is simultaneously one of Russia's 89 units and subordinate to Magadan Oblast on whose territory it is located. During the ensuing struggle with Magadan, which was settled only by a Constitutional Court decision in 1993, proponents of independence invoked Chukotka's history: it was created (in 1930) long before Magadan Oblast was (in 1953); thus, if it could be joined to Magadan Oblast it could also be unjoined.

Although Chukotka's push for independence began before Nazarov became governor, he was the one to benefit from the region's new assertiveness. Nazarov, a construction worker who immigrated to Chukotka in 1981, came to power rather obliquely. Until 1987, he was in the periphery of the periphery, serving as the vice-chairman of the executive committee of Bilibino, one of Chukotka's eight districts. He shifted to okrug-level politics in 1987, and was elected Chairman of the Executive Committee of the okrug only in April 1990.

The Chairman of the okrug Soviet, also elected in 1990, was Vladimir Mikhailovich Etylin -- a highly-educated Chukchi and an activist for indigenous rights in the Russian North. Etylin was born and raised in the tundra of Chukotka, and while Nazarov was working his way up through the district ranks in the 1980s, Etylin held the position of second secretary in the okrug party. In 1989, Etylin entered Moscow politics when he was elected to the USSR Congress of People's Deputies. As chairman of the Okrug Soviet, Etylin signed the declaration in 1990 to "triumphally proclaim the state sovereignty of the Chukotka Soviet Autonomous Republic and testify to the determination to create a democratic legal state within the RSFSR and the USSR." Etylin's vision was much more geared towards protecting the native population of Chukotka, which was by then vastly outnumbered by the incomer population.

With the collapse of the Soviet Union in 1991, Yeltsin began redesigning regional government by appointing governors directly, and he chose Nazarov to lead Chukotka. Etylin

meanwhile remained chairman of the Okrug Soviet, but in the fall of 1993, when Yeltsin issued a decree calling for the dissolution of all regional soviets, Etylin's legislature was snatched from underneath him. He turned his energies to social and political organizing on behalf of indigenous peoples at both the national and international levels.

However, Etylin returned to Chukotka politics in the fall of 1996, when he registered in Chukotka's first gubernatorial elections. As the incumbent with full control of the media, Nazarov was a sure winner, and as a late-comer to the race, Etylin appeared to be tilting at windmills. But Etylin made a surprisingly good showing, garnering 23% of the vote and placing second to Nazarov, far in front of the other candidates. If Nazarov had allowed a second round election to be held, affording Etylin more time to campaign, the ultimate outcome might have been different.

Chukotka is a comparatively quiet region and is certainly far off the beaten path of non-governmental organizations, American economic advisors and international human rights watchdogs. But for political intrigue, Chukotka is second to none in Russia's regions, and analysts would be well-advised to keep a sharp eye on it.

PATTERNS OF REGIONAL DEVELOPMENT

VOLZHskii'S BESIEGED COMMUNIST MAYOR FAILS TO FIX CITY ECONOMY, SCARES FOREIGN INVESTORS.

by Ivan Kurilla,
Volgograd State University

VOLGOGRAD - In December 1996 Communists swept to power following elections in the Volgograd region. Party members were inaugurated as the new governor, heads of several districts and mayor of the second largest city in the region, Volzhskii. While in Volgograd itself non-partisan Mayor Yurii Chekhov counter-balanced Communist Governor Nikolai Maksyuta, the victory of the Communist Party in Volzhskii was complete. Newly elected Mayor Anatolii Shiryaev, a former school teacher and party organizer, lacked experience in governing, but hoped to manage the city of nearly 300,000 people employed at dozens of industrial enterprises with guidance from Governor Maksuta and the regional Communist Party boss, State Duma member Alevtina Aparina.

One year later, however, Volzhskii has become famous throughout Russia as a city that is unable to pay the salaries of its employees and, as a result, one of the most unstable regions in the country (See *Izvestiya*, 28 January, and *Nezavisimaya gazeta*, 30 January, for discussions of the city in the Moscow press).

What happened? Certainly, the new mayor's team's lack of experience was the main reason for the city's economic failure. However, ideology also played a clear role. In trying to implement the official Communist party recommendations of 1995-96, Shiryaev permitted Volzhskii enterprises to cancel their inter-enterprises debts (*vzaimozachet*). The result was that no real money was exchanged, no taxes were collected, and thus there was no money to pay salaries for state employees. The policy solved some of the enterprises' debt problems but the

city lost its only tax base and thus could not pay teachers and others dependent on the city budget.

Eight months after the elections, teachers in Volzhskii went on strike. Then the medical personnel of city hospitals and clinics walked out to support them. By the fall of 1997, the oblast's Communist leadership realized that comrade Shiryaev's activities were tarnishing the party's reputation. Volzhskii residents began to regret that they had voted the Communists into office. The City Council re-elected businessman A. Kuliev as its Chairman, and he launched an anti-Shiryaev campaign. After several warnings from both Governor Maksuta and regional party leader Aparina, Shiryaev was expelled from the Communist Party at the end of November "for not fulfilling his campaign promises." Shiryaev claimed that the punishment was unjust and is now trying to re-establish his membership.

Several groups of Volzhskii residents are gathering signatures in support of a referendum to recall the mayor. However, current federal legislation prohibits referendums to remove public officials (as activists in St. Petersburg discovered when they tried to remove the governor for raising rents and utility charges). In January, President Yeltsin criticized Volgograd Oblast officials in his traditional weekly radio address for their inability to pay off debts to public sector employees. They responded by pointing out that the only part of the region where the situation was critical was Volzhskii and sought a way to legally remove the mayor. Oblast Duma Chairman Leonid Semergei suggested that if the courts ruled that Shiryaev had violated federal or regional law, he could be recalled. Now Mayor Shiryaev could be tried for the city administration's decision to take a credit from the Vozrozhdenie bank that proved to be costly for the city but profitable for the bank which is managed by Shiryaev's brother.

The political crisis in Volzhskii is ironic since the city has strong potential for economic growth. The city's major enterprises include chemical plants that have slowly been increasing their output, food processing concerns including the large, successful Povolzhie beer brewery that was recently refurbished with foreign capital, and such plants as the Volzhskaya Hydro-Electric Station, one of the largest power plants in Russia, and the Volzhskii Pipe Plant which produces pipes for some of Russian oil and gas pipelines.

Moreover, until recently, Volzhskii was the leader in attracting foreign investment in Volgograd Oblast. A decade ago the Italians launched the Italsovmont joint venture in pipe production, while today the British Coca-Cola Inchcape Volgograd is one of the region's most prosperous plants. Dutch investors helped reconstruct the beer plant and several more projects were under way. Now investors are waiting for a resolution of the political crisis. Yeltsin's supporters will surely cite Volzhskii as an example of the dangers of electing Communists and other party ideologists rather than competent managers.

SOCIAL ISSUES

ILLEGAL DRUGS FLOOD KOLYMA. Today, narcotics are 3-4 times more valuable than gold in the Kolyma river basin. As a result, illegal drug trafficking has become a very lucrative business. According to narcotics unit Chief Vladimir Isaev, Magadan is experiencing a narcotics boom, as reflected in a huge increase in the import of illegal drugs. In 1997 there were only 120 narcotics-related criminal cases. By contrast, the first three weeks of 1998

already brought 11 such cases. Authorities claim that among the most active drug traffickers are representatives of ethnic groups from the Caucasus (mostly the Ingush). Drugs are smuggled in containers and postal parcels. The situation is especially grave in the gold-mining regions of the oblast, the traditional sphere of interest of the Ingush "gold mafia," which every year exports over a ton of gold outside the oblast. At a recent meeting of the oblast administration's inter-departmental commission on illegal drugs, it was acknowledged that the regional government was not prepared for such a sharp increase in criminal activity. Magadan Oblast lacks specially trained dogs, necessary equipment, and trained specialists to track down illegal parcels. The commission recommended developing a special state-funded regional program to counter the spread of illegal narcotics. Meanwhile, the rates of drug consumption have risen by 14% in the oblast within the last several months. According to polls, one third of all young people have already tried "weed" or are addicted to it. – Sergey Shilo in Vladivostok

ECONOMIC ISSUES

NEW HYDROELECTRIC PLANT TO BE BUILT NEAR VOLGOGRAD. The Nizhnevolzhskaya Hydro-Electric Station will be built in Kamyshin, a city just north of Volgograd. The station will ultimately produce more electricity than the Volzhskaya Hydro-Electric Station between Volgograd and Volzhskii (the largest hydro-electric station in the European part of Russia). According to *Delovoye Povolzhie*, the total cost of construction will be \$1.25 billion. Prime-Minister Viktor Chernomyrdin last summer said that Federal government will finance no more than 20% of the cost. The first phase of construction should be completed in five years, allowing the plant to partially start its activities. The profits from these initial activities will help finance the completion of the plant. The director of the recently-created joint venture overseeing the project is the former Volzhskii Mayor G. Kononov. (Volzhskii, the second largest city in Volgograd Oblast, was created in the late 1950s for the construction workers of the Volzhskaya Hydro-Electric Station.) Despite his success in attracting foreign investment to Volzhskii and his managerial experience, Kononov lost the 1996 mayoral elections to a Communist candidate (see Volzhskii's Besieged Communist Mayor Fails To Fix City Economy, Scares Foreign Investors in this issue). - Ivan Kurilla in Volgograd

TATARSTAN'S DEFENSE SECTOR FACES TOUGH TIMES. The main concern for Tatarstan's government is the republic's defense industry. Prime-Minister Farid Mukhametshin has said that Russia's military-industrial complex will operate at only half-capacity this year, judging by the limited number of government orders for new military equipment. The government of Tatarstan will do everything in its power to make sure that the republic's 12 large defense enterprises are among those who get the few procurement orders. However, only six of them have been approved so far. The rest, employing tens of thousands of workers, seem to be Tatarstan's own problem. (*Respublika Tatarstan*, 31 January). According to Tatarstan's Economics Minister Dami Bikbov, the republic plans to create its own Bank for Reconstruction and Development to address these issues. Currently, talks are under way to involve Western and Asian banks in this project (*Kazanskie vedomosti*, 31 January). -- Midkhat Faroukshine in Kazan

URALS PIPES TO STAY ON EUROPEAN MARKET. According to the first issue of the new journal *Uralskiy rynek metallov* (Urals Metals Market), Russian manufacturers of industrial pipes from the Urals region have been exporting 24,000 tons of their product a year to the European Union. The enterprises are located in Pervouralsk, Chelyabinsk and Taganrog (which is in the south of Russia). At the same time, this amount reaches the allowed export limit for such products.

The price cannot exceed a level set by the European Association of Pipe Manufacturers. After a round of intensive trade negotiations, an agreement was reached among the above-mentioned Russian manufacturers, the Russian Union of Metals Exporters, and the Russian Mission in Brussels on one side and the anti-dumping unit of the European Commission on the other. The compromise reached with the EU at the talks allows Russian exporters to retain their European market and ends the conflict, as the Commission agreed for the first time to drop its requirement of a government-guaranteed limit on the level of exports. Experts from the European Commission will be charged with supervising the agreement's enforcement. – Dmitry Strovsky in Yekaterinburg

NEW EBRD CREDIT FOR SMALL BUSINESS IN NIZHNI. On 23 January 1998, Nizhni's NBD Bank and the European Bank for Reconstruction and Development (EBRD) signed a credit agreement for \$5 million. The credit will be issued to NBD Bank for 3 years toward two different programs: micro-credit programs and support of small businesses. The former will credit entrepreneurs and private enterprises, including retail outfits, in rubles and foreign currency. The latter will finance small businesses in the service sector. In addition, the agreement signifies a new level in the relationship between the two banks. First, the amount of credit exceeds any previous agreements between the EBRD and NBD Bank. Second, the EBRD set a much lower interest rate on this particular loan. This testifies to NBD's newly-acquired strong reputation in the eyes of international financial circles. – Yury Rodygin in Nizhni Novgorod

NEW BANK TO OPEN IN SAKHALIN. This spring a new bank will open in Sakhalin, co-founded by several large Russian and foreign financial institutions along with the oblast administration. According to the head of the oblast's department on investments and regional programs, Oleg Konyukh, the new bank will be chartered jointly by the regional administration, the European Bank for Reconstruction and Development (EBRD) and UNEXIMbank. The founders plan to form the bank's charter capital at round \$6-10 million and have temporarily named the new institution SakhUNEXIM. The bank's primary function will be to finance promising investment projects on Sakhalin. As Konyukh stated, Sakhalin will control the bank, because the oblast government will own 35% of the bank's shares, while another 10% will belong to the leading enterprises of the region, whose names have not been finalized yet. UNEXIMbank and EBRD will own 35% and 20% of the bank's shares respectively. Konyukh further stated that SakhUNEXIM is being created to facilitate the development of the region's financial market. Additionally, competition from the new bank will force local branches of large

Moscow banks to provide additional services at lower prices, thus ultimately benefiting consumers. – Sergey Shilo in Vladivostok

OLD-TIME NOVOSIBIRSK ELECTRONICS PRODUCER GOES BANKRUPT

by Konstantin Kanterov, *Novaya Sibir*

NOVOSIBIRSK—The arbitrage court of Novosibirsk Oblast has ordered an auction to sell off the assets of the bankrupt Vega company. Its property has been frozen since the summer of 1996 and its total debt (including fines) amounts to 160 million new rubles (\$27 million).

Vega's story is illustrative of the fate that plagues many of the former Soviet industrial giants faced with new market conditions. In the 1970s and 1980s, electronic consumer goods produced by Vega were very popular in the Soviet Union, competing only with the Riga-based company Radiotekhnika. At that time both companies together provided around 60% of the consumer electronics on the Soviet market. After the USSR collapsed in 1991, Vega became a virtual monopolist on the Russian market, producing three fourth of all Russian consumer electronics.

When Vega was being privatized, the holding corporation affiliated with bank Rossiiskii Kredit decided to invest heavily in the company, with the goal of developing the Vega brand. In 1993 a controlling stake in Vega was bought by a group of six Moscow firms and one Novosibirsk firm, all connected to Rossiiskii Kredit. At the same time, Vega's sales began to flounder, as the company faced superior foreign competition.

During the period between 1993 and 1994, Rossiiskii Kredit invested about \$4 million in Vega. Generally, the money invested went toward paying staff wages, and no structural changes were made despite several initiatives including proposals to produce audio tapes with BASF technology or telecommunications equipment in a joint venture with Australia's Exicom Corp.

When a Novosibirsk-based association of companies, KCK, bought Vega from Rossiiskii Kredit in November 1995 for \$4.5 million, its goal was to use the company's facilities for timber-processing purposes. However, that only utilized 1/250 of the total plant capacity. KCK also tried to revitalize the company by installing automated assembly lines for the production of JVC and Samsung radio equipment as well as computers and cash registers. However, these projects were killed when financial institutions which had invested in Vega took the company to court. One pension fund, which had lent Vega 17 billion old rubles (\$2.8 million), sued the company in the arbitrage court, and won. Then, the Federal Bankruptcy Service sued Vega for 60 billion rubles (\$10 million).

The oblast government was heavily involved in Vega's affairs, considering the company key to the life of the town of Berdsk, one of Novosibirsk's satellite cities. On one occasion Governor Vitalii Mukha created a special commission to study the situation, temporarily interrupting the bankruptcy case. The governor also tried to persuade Coca-Cola to locate its production facilities on Vega's territory, but Coca-Cola settled on another site.

The arbitrage court ruling declared Vega officially bankrupt and schedules auctions to sell off its assets. Neither oblast officials, nor KCK management has commented on the ruling so far.

FOREIGN TIES

JAPANESE BANKERS MAKE PROMISING VISIT TO TATARSTAN. Last week, a high level delegation from Japan's Ex-Im Bank, headed by the bank's chief representative in Moscow, Kensaku Kumabe, visited Kazan. The government-sponsored bank is one of the largest in the world. It grants over \$10 billion worth of credit annually, on a par with the World Bank. The visit is significant because it is Kumabe who approves credit applications for projects across the former USSR. His opinion will also carry much weight when decisions are made on Japan's direct investment in Tatarstan's enterprises.

During his visit, Kumabe gave a talk on the "fundamental conditions for foreign investment" to an audience of business people. He also clarified the strict requirements necessary for an increased inflow of Japanese capital. Attempts to develop contacts on the federal level have brought little successes to the Japanese. Therefore, they are now looking into specific regions, especially those with developed industrial zones.

Tatarstan has already taken the first step: last year KamAZ truck manufacturer received a \$150 million credit from the Ex-Im Bank toward modernization and conversion of its motor-building plant. Asked whether or not the Bank is concerned about the company's ability to pay back the loan, Kumabe pointed out that the Russian government had promised to repay the money in cash if KamAZ defaulted. Personally, he is more concerned about Russo-Japanese relations were the project to fail.

He further stated that the Bank is ready to consider proposals from Tatarstan's government. Consequently, the Ministry of the Economy submitted to the delegation several promising projects. Of course, during the visit the Japanese were first and foremost concerned with promoting their goods (*Respublika Tatarstan*, 31 January). – Midkhat Faroukshine in Kazan

CORRECTION: Yefim Shusterman's "Inter" is not the only independent newspaper in the Volgograd as reported in the 29 January edition of the *Russian Regional Report*. The largest independent press concern in the city is "Gorodskie Vesti". Last year "GV" won a grant from the US Agency for International Development (AID), and now publishes on its own American-made equipment. Both of the independent newspapers have moved in the direction of the tabloids, with "Inter" going further in this direction than "Gorodskie Vesti." Both of them are fighting against "Volgogradskaya Pravda," the official newspaper of the oblast administration that receives state subsidies.

REGIONAL PROFILE: RYAZAN OBLAST

Governor: Vyacheslav Lyubimov

Vyacheslav Lyubimov was elected governor in December 1996. With support of opposition National Patriotic Union of Russia (NPSR), he defeated incumbent governor Igor Ivlev in the

run-off by about 20%, receiving 58% of the vote. He is against "shock therapy" and free trade of land and supports the restoration of a state-regulated economy.

Lyubimov was born in a Tambov Oblast village in 1947, to the family of a teacher. He received an education at the Ryazan Agricultural Institute and the Gorky Higher Communist Party School, and worked at the Perm and Ryazan oil refineries. He also helped build the Ryazan hydroelectric power plant and worked as a Komsomol secretary. From 1978 until 1990, he served at various levels of the Ryazan party. In March 1990, he was elected to the Russian Federation parliament, the Congress of People's Deputies and in April that year became a member of the Russian Supreme Soviet.

In 1993, he joined the restored Communist Party of Russia (KPRF) and became one of the leaders of its regional organization. Backed by the KPRF and Agrarian Party, he was elected to the Federation Council, the upper house of the new Russian parliament, in December 1993, where he held a position of deputy chairman of agrarian committee.

Other Local Leaders

Chairman of the Oblast Duma -- Vladimir Fedotkin, elected in April 1997, member of the Communist Party of the Russian Federation

Brief Overview

The first state outpost on the territory of modern Ryazan Oblast was founded in the first half of the 12th century, before the founding of Moscow, and was called Ryazan Principality. In the early 16th century, it became a part of the centralized Moscow state. The oblast is located in the middle of European part of Russia, southeast of Moscow and shares borders with Moscow, Tula, Lipetsk, Tambov, Penza, Vladimir and Nizhnii Novgorod oblasts and the Mordovian Republic.

The oblast is rich in mineral resources, including sands, clays, limestones, and peat; a quarter of its territory is covered with forests. Major regional industries are: energy, radioelectronics, machine building, metallurgy, and oil processing. Over 70% of regional output is produced in the city of Ryazan, which houses over 30 enterprises of different industries. The oblast's main exports are oil products, chemical fibers, textiles, and metals.

Basic Facts

1995 Population (est.): 1,332,600 (0.90% of Russian total)

Industrial production as percentage of all Russian production (Jan.-Aug.1995): 1.06%

Agricultural production as percentage of all Russian production (1994):1.15%

Average personal income index in July 1995: 61(Russia as a whole = 100)

Price basket index in July 1995: 79 (Russia = 100)

Average back wages owed per person (September 1995): 38,700 rubles (Russian average = 37,100)

Urban population: 67.8% (Russia overall: 73.0%)

Student population (1993): 122 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1994): 30.04%
Percent of population with higher education (1989 census): 8.7% (Russia overall: 11.3%)
Percent of population working in (1993): Industry: 33.3% (Russian average: 29.9%);
Agriculture: 17.0% (12.8%); Trade: 7.5% (9.1%); Culture: 11.9% (13.6%); Management:
2.4% (2.3%)
Number of telephones per 100 families (1993): in cities: 35.0 (Russian average: 41.5); in
villages: 11.0 (17.2)
According to a 1995 survey by Bank Austria, the oblast is ranked 15th among Russia's 89
regions in terms of investment climate.

Electoral History

1996 Presidential Election

Zyuganov: 40.07%/51.62% (first round/second round)
Yeltsin: 24.70%/42.57%
Lebed: 19.81%
Yavlinskii: 5.60%
Zhirinovskiy: 5.43%
Turnout: 73.47%/71.30% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Communist Party of the Russian Federation: 30.97%
Liberal Democratic Party of Russia: 10.86%
Congress of Russian Communities: 7.23%
Our Home Is Russia: 6.81%
Agrarian Party of Russia: 5.28%
Communists -- Workers' Russia: 5.15%
Yabloko: 4.16%
Women of Russia: 4.01%
In single-member districts: 1 Communist Party of the Russian Federation, 1 Agrarian Party of
Russia
Turnout: 70.19% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 49.28% "No" -- 50.72%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 30.84%
Communist Party of the Russian Federation: 14.25%
Russia's Choice: 12.01%
Agrarian Party of Russia: 10.33%
Women of Russia: 7.43%
Democratic Party of Russia: 7.35%

Yabloko: 5.68%

Party of Russian Unity and Concord: 4.98%

In single-mandate districts: 1 Civic Union, 1 Agrarian Party of Russia

From electoral associations: 1 Communist Party of the Russian Federation

Turnout: 66.16% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 52.65%

Ryzhkov: 20.68%

Zhirinovskiy: 9.00%

Tuleev: 5.65%

Makashov: 5.61%

Bakatin: 2.70%

Turnout: 81.48% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [*Russian regions on the eve of 1995 elections*], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [*Results of the 17 December 1995 elections, regional breakdown*], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [*State Duma elections 1995*], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [*Governors of Russia*], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995.

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BREAKING NEWS

POLITICS

PROTESTERS BLOCK TRAFFIC IN SAMARA. About 1,500 workers from Samara's Maslennikov factory have blocked traffic on one of the city's main streets since 3 February demanding the payment of the more than 30 million new rubles (\$5 million) owed them in wage arrears. Many have not been paid since last February. The action completely shut down traffic flows in the city's downtown. The workers are demanding that the oblast and Russian governments pay their wages even though neither owes the plant any money. Maslennikov Director Aleksandr Krutykh reportedly left for a vacation in Switzerland on 3 February. After only a few days of protest, the Samara authorities said that the protest had cost the city the lives of three patients because medical aid could not reach them quickly enough and 300,000 new rubles (\$50,000) in transport fees. The loss in man-hours of those who could not get to work on time has not been calculated. (*Kommersant Daily*, 5 and 6 February) No end to the conflict was in sight on 10 February (*Gubernskii novosti*, <http://www.samara.ru/gtrk/gub/gub.html>, 10 February)

SARATOV'S AYATSKOV CRACKS DOWN, CLOSES BORDER WITH KAZAKHSTAN. Saratov Governor Dmitrii Ayatskov has addressed the citizens of his oblast with a text entitled "A Dictatorship of Law - for the Sake of a Worthy Life" through which he hopes to encourage people to obey the law, *Izvestiya* reported 4 February. Many of his concerns come into conflict with federal prerogatives, however. Among the measures he announced was closing the border with Kazakhstan because of the steady stream of arms, drugs, and illegally-made vodka from there. Speaking out against hazing in the military, he demanded that young people from Saratov called to military service serve in units based in Saratov Oblast. Ayatskov wants to change his fiscal relationship with Moscow as well. He proposed not paying back the oblast's old debts since they were the result of specific conditions that favored republics while creating large tax burdens for oblasts and kraia. In an article in *Nezavisimaya gazeta* (11 February), he calls for giving republics, oblasts, and kraia equal rights. He also wants the federal government to replace the numerous taxes it collects on Saratov territory with one unified tax.

MOSCOW v. ST. PETERSBURG. A St. Petersburg professor argues in *Izvestiya's* 4 February issue that the most important battles through the next decades in Russia will not be between financial clans, "patriots" and "cosmopolitans," or the oppressors and the oppressed. Rather the fight will be between two different forms of Russian culture loosely typified by Moscow and St. Petersburg. Moscow is the city of the New Russians - the "antipode of the Russian intelligentsia" of St. Petersburg with different values and spiritual bases. The New Russians define their life by "cars, villas, and ever more beautiful women," while the intelligentsia does not. According to the author, the two cities have developed different kinds of economies: St. Petersburg is thriving on its own resources, while Moscow sucks in money from around the country. The St. Petersburg model, the author argues, is much more attractive to the other regions of the country.

IZVESTIYA SLAMS KALMYKIYA'S ILYUMSHINOV. Kalmykiya suffers from one of the lowest standards of living in the Russian Federation while its economy has suffered

catastrophic declines in industry and agriculture. Nevertheless, when President Kirsan Ilyumzhinov declared that he personally had made \$1 million in 1997, the local press jubilantly crowed that his taxes were enough to pay the salaries of an entire town for a year. According to *Izvestiya* (5 February), he spends millions of rubles from the republican budget on his hobbies of chess and soccer. When the local Uralan Soccer team entered the top league he called a republic-wide holiday and bought each of the players and their coach a foreign car. The money could have been used instead to pay doctors and teachers, and provide aid to children. Additionally, Ilyumzhinov told *Segodnya* (5 February) that he was going to build a Chess City in his republic that would elect its own president and parliament. The city will be populated by people who support the chess movement. Ilyumzhinov has invited the illusive former champion Bobby Fisher to be among the residents.

UNPAID WORKERS FOCUSING ANGER ON LOCAL DIRECTORS RATHER THAN MOSCOW. *Izvestiya* notes on 6 February that unpaid workers in a variety of regions have begun to focus their anger on local directors rather than the federal government in Moscow. In January, the federal government announced that it had provided money to pay off the salary arrears that it owed, but that regional leaders had held up payment. At the state-owned Kovrov Instrument Making Plant (Vladimir Oblast), for example, workers who have not been paid since July demanded the resignation of Director Aleksandr Isaev. Similar events have occurred in Ryazan, Volgograd, Tula, and Samara (see above story.) *Izvestiya* argues that the reason for these protests against local authorities is that people have started to compare their situation with that of their neighbors. Workers who have yet to receive their salary ask why neighboring plants have successfully switched to new lines of production or have been able to attract new flows of investment. They are becoming fed up with bosses who simply blame all their problems on Moscow. In the popular perception, at least, local leaders are being held more responsible for the problems of their regions.

RUSSIAN, JAPAN TO SIGN FISHING RIGHTS TREATY. Japan and Russia will sign a treaty on fishing rights around the Kuril Islands during the 21-23 visit of the Japanese Foreign Minister to Moscow. The treaty will allow Japan to fish inside of Russia's 12-mile territorial limit. The treaty was possible because it does not threaten Russia's possession of the islands, but does not recognize Russian sovereignty over them either, allowing Japan to save face. The treaty sets quotas on the amount of fish Japanese fisherman can catch and the Japanese will compensate Russia for their catch financially. In the past, Russian fisherman often illegally sold their fish to Japan and pocketed the profits. The treaty may open the door for other joint economic ventures on the islands before a full peace agreement is reached. (*Izvestiya*, 6 February)

ST. PETERSBURG SPEAKER BEATS BACK ATTEMPT TO REMOVE HIM. St. Petersburg Legislative Assembly Speaker Aleksandr Kravtsov defeated an attempt to remove him from office on 4 February. Some Communist members of the legislature, with the tacit support of the governor's administration, charged that Kravtsov was involved in an unspecified use of Assembly funds. Yakovlev is unhappy with the new city charter and sought to punish the

deputies who supported it, *The St. Petersburg Times* (9-15 February) suggested. Last month, a federal court ruled that two-year old allegations that Kravtsov used federal funds to renovate his apartment were groundless. New elections to the Assembly will be held in December and the political situation seems set to heat up considerably before then. The resulting tensions could give potential investors pause, especially since Leningrad Oblast has been successful lately bringing in new investment with favorable tax policies.

KALININGRAD REDUCTIONS BY SUMMER. The number of troops stationed in Kaliningrad Oblast will drop 40% by this summer Baltic Fleet Chief of Staff Aleksandr Brazhnikov told visiting Swedish Foreign Minister Lena Elm-Wallen. President Yeltsin had promised the troop reductions during his visit to Sweden last year. (*Segodnya*, 5 February)

CHEREPKOV SETS VLADIVOSTOK ELECTIONS FOR FALL. Vladivostok Mayor Viktor Cherepkov set the "probable" date for the city's mayoral and city council elections on 18 October 1998. The decree is certain to cause more problems than it resolves since Cherepkov's legal term expires in June or July, the anniversaries of his election and assumption of his official duties. The local electoral commission wanted him to hold the elections by then. Cherepkov argues, however, that he is entitled to as much as another two and a half years in office since that was how long he was illegally prevented from carrying out his duties. (*Vladivostok*, <http://vl.vladnews.ru/>, 6 February)

CENTRAL TV BLOCKED IN SAKHA. The Sakha communications workers have stopped transmitting the Russian Public Television and Russian Television networks except for news programs until they pay off their debts to the transmitting station. Sakha local television, NTV, and Moscow's TV-Tsentr are still being broadcast (Radio Rossii, 10 February)

ECONOMICS

VORONEZH DEMANDS BACK TAXES FROM PHILIPS. The Voronezh Temporary Extraordinary Commission has demanded that the VELT factory, Russia's largest producer of color TV tubes in which Philips Display Components has a 89% stake, pay off its 49 million new ruble (\$8.2 million) tax debt within a month. Philips had planned to refurbish the factory to provide picture tubes for the Russian market. However, the collapse of Russian television production deprived VELT of its intended market and Philips never made the planned investments. VELT picture tubes would not be competitive abroad. Philips complained that it did not anticipate the high energy costs and taxes that it faces in Russia. Philips officials claimed that the factory has cost them \$63 million over the last three years. Workers at the plant have not been paid in seven months. Philips is now prepared to sell its stake in the plant, but a potential buyer has yet to be found. (*Izvestiya*, *Kommersant Daily*, both 5 February)

YELTSIN DECREE BENEFITS FIAT-GAZ. President Yeltsin signed a decree on 5 February that allows investors who invest more than \$250 million over five years in the Russian economy to import equipment and parts without paying duties. The new Fiat-GAZ joint venture

is the only project currently under way that can take advantage of the tax benefits. One of the requirements of the law is that the plants must increase the Russian-made content of the products to 50% by the end of the five years. The import tariffs only come into effect once the car is manufactured. If the car is sold abroad, no Russian import duties are imposed on the foreign-made components. - Yurii Rodygin in Nizhnii Novgorod

ENERGY PROBLEMS PLAGUE FAR EAST. For the first time in four years, the Far East's Dalenergo is making it through the winter without turning off electricity to any of its customers. The production of electricity and coal is up 20%, according to Dalenergo Director Vasilii Polishchuk. The main problem for the industry is the failure of regional and federal authorities to pay for their electricity. Local authorities owe 1.3 trillion rubles, including 900 billion from Vladivostok. Workers in the energy industry are owed 300 billion rubles, including 204 billion for miners. Dalenergo must collect 120 billion rubles a month to pay its workers. It is now collecting only 50 billion (*Finansovye izvestiya*, 10 February). Vladivostok Mayor Cherepkov complains that he cannot pay for the energy because he has been unable to collect taxes. (*Segonya*, 9 February)

On 9 February the workers who provide energy to the Pacific fleet went on strike because they have not been paid in a year. Because the law prevents them from cutting off power to the fleet, the strikers are refusing to do all other kinds of work except supply power. The fleet is the main debtor to the plant (*Segodnya*, 10 February) In the rural regions of Primorskiy Krai, 30% of the residents lack back domestic services because they do not have electricity. The main causes are the distances between rural residents, low technological levels, and the disastrous state of the equipment. (*Zolotoi rog*, <http://vladivostok.com/homerus1.html>, 10 February)

MAGADAN GOVERNOR ON ENERGY SITUATION. Magadan Governor Valentin Tsvetkov noted that the federal government has set aside money in the draft 1998 federal budget to build a second hydroelectric plant in Magadan Oblast. Hydroelectric energy costs half as much as coal, helping resolve problems associated with housing reform in which consumers are expected to pay a larger share of their energy consumption. The oblast also wants to build a oil processing factory capable of handling 50,000 tons of oil a year. The governor hopes that the plant would process oil from Sakhalin, Alaska and even the United Arab Emirates. The oblast is also preparing a tender to develop potential oil deposits in the Sea of Okhotsk. (*Rossiiskaya gazeta*, 7 February)

KURGAN DEVELOPING LAND LAW. The Kurgan Oblast Duma has adopted in the second reading a law that allows the buying and selling of land. The bill faces one more vote in the oblast legislature and then must be signed by Governor Oleg Bogomolov to become law. Foreigners will only have the right to rent land under the provisions of the current draft. Bogomolov is on the record as opposing land sales. Saratov passed a similar law last fall and many other regions are preparing similar bills. The State Duma has so far failed to adopt a national law that would allow land sales although the Constitution guarantees this right. (*Segodnya*, 5 February)

MINISTRY GIVES GREATER AUTHORITY TO KEMEROVO OVER COAL. The Ministry of Fuel and Energy signed a power-sharing treaty with Aman Tuleev's Kemerovo Oblast administration that will allow the administration to influence how federal aid is distributed among individual coal mining operations. Until now the regional authorities only had influence over programs of local development. The oblast administration may also gain some funding from the privatization of the 11 regional enterprises to be sold off this year. It remains to be seen how this devolution of power will actually be implemented. The ministry is not likely to sign such treaties with other regions. However, such a tactic may be beneficial since it transfers authority to lower levels so that when miners go on strike demanding their back wages, they may address their claims to regional rather than national offices. (*Russkii Telegraf*, 5 February)

BRYANSK ADMINISTRATION CRACKS DOWN ON ILLEGAL BORDER CROSSINGS. The Bryansk Oblast administration has approved a plan to force trucks crossing into Russia from Belarus to pay border fees. Many trucks are now entering Russia now without paying the required fees because there are no border checkpoints on the Russian-Belarusan border. According to one study, 104 of the 1315 trucks entering Bryansk from Belarus in September-October 1997 had not purchased the \$250 entry licence, costing the state \$26,000 in lost revenue. (*Bryanskii rabochii*, 6 February)

BUSINESS BRIEFS

-- Moscow's **ST GROUP AG**, the US's **ATHENA GROUP LLC**, and the Italian **CODEST ENGINEERING** began construction on the \$60 million, 32,000 sq m office building Balchug Plaza in **MOSCOW**. Mayor Yurii Luzhkov said that the project will be one of the last office complexes to be built in downtown Moscow, following the mammoth \$12-14 billion City project. (*Kommersant Daily*, 5 February)

-- The US's **NCR** sold 700 automatic teller machines (ATMs) across Russia last year. The figures are up markedly from sales of 330 in 1996 and 100 in 1995. During the second half of 1998, NCR will open an ATM assembly plant at **ST. PETERSBURG'S** Iskra plant. (*Kommersant Daily*, 5 February)

-- Sweden's **Ericsson** and **KUBAN GSM** opened a \$7 million GSM cellular telephone network in **KRASNODAR KRAI** on 5 February. It is the largest investment of this sort in the Russian regions so far. Investments outside of Moscow and St. Petersburg have usually been in the \$1-2 million range. The firm hopes to have 10,000 customers by the end of the year, a rate of growth achieved nowhere else in Russia so far. (*Kommersant Daily*, 6 February)

-- The French corporation **BOYGUES** agreed to invest \$1.08 billion in a **NOVOSIBIRSK OBLAST** thermal electric plant. The plant will be able to meet 34% of the oblast's electricity needs and 39% of its heating needs. Construction began in the mid 1980s, but has been delayed

for lack of funds. The French said that the Novosibirsk project was more attractive than undefined offers from Mosenergo. (*Kommersant Daily*, 6 February)

-- **SIEMENS** and the city of **ST. PETERSBURG** have signed an agreement for Siemens to install a \$2.5 million automated traffic management system on Nevskii Prospect. The firm will install equipment at 25 intersections. A central office will control the system of stop lights and computers. (*Russkii Telegraf*, 5 February)

-- **VOLVO BUS INTERNATIONAL** is considering a deal with **NIZHNI NOVGOROD'S PAVLOV BUS FACTORY** to assemble 300-500 buses a year. Despite the failure of a deal last year, Volvo still hopes to set up an assembly plant in **ST. PETERSBURG** as well. (*Russkii Telegraf*, 5 February)

-- The German **PREUSSAG** will compete for a chance to help build the \$3.7 billion new port planned for Primorsk (**LENINGRAD OBLAST**). The oblast has already given this right to Swedish investor **ARNE LARSSON** (see *IEWS Russian Regional Report*, 29 January 1998). Baltport, the firm that will actually construct the port, does not accept the oblast's decision and signed a separate deal with Preussag, one of Germany's largest companies. Research by *The St. Petersburg Times* suggests that Larsson may not have the resources required for the Primorsk project. (*The St. Petersburg Times*, 9-15 February)

-- The monthly export of the **NOVOLIPETSK METALS COMBINE** dropped from 500,000 tons in August 1997 to 260,000-270,000 in December. The quality of the exports has also dropped, from high quality finished products to semi-finished products. Following the deterioration of relations with the **TRANS WORLD GROUP**, the plant has been searching for export agents to sell its product abroad. (*Finansovye izvestiya*, 10 February)

-- Russian tourists entering China from **PRIMORSKII KRAI** spent \$400 million during 1997 according to their customs declarations. (*Zolotoi rog*, <http://vladivostok.com/homerus1.html>, 10 February)

-- The Swiss **GLENCORE**, which owns a 54% share of the Far East's **DALPOLIMETALL**, is considering setting up a joint venture with the Primorskii Krai administration. Glencore would give the administration at least 5% of the stock in exchange for cheap energy. (*Zolotoi rog*, <http://vladivostok.com/homerus1.html>, 10 February)

-- The Federal Aviation Service declared **ST. PETERSBURG'S** Pulkovo airport the best in Russia in the first competition to rank the country's airports. **MOSCOW'S** Vnukovo took second and **TYUMEN'S** Kogalym placed third. (*Kommersant Daily*, 10 February)

-- **BRITISH PETROLEUM** opened its seventh gas station in **MOSCOW** on 9 February. Each station costs between \$3-4 million to build, while typical stations in Moscow cost \$1

million. The company plans to build 50 stations in Moscow city and 50 more in **MOSCOW OBLAST** by 2000. (*Russkii Telegraf*, 10 February)

-- **COCA-COLA** announced that it will invest an additional \$20 million to expand a bottling plant in **VLADIVOSTOK**. The factory opened on 1 October 1997 and has already cost \$20 million to build. It has a capacity of 70 million liters a year. Pepsi has yet to build a facility in the Far East. (*Kommersant Daily*, 10 February)

MARKET SURVEY

STUDY RANKS ST. PETERSBURG RADIO STATIONS

Moscow, St. Peterburg stations battle for FM dominance; Richer, young people tune out politics

by Daniel Tsygankov

ST. PETERSBURG—The St. Petersburg subsidiary of the Moscow-based research firm KOMKON-2 (<http://www.comcon-2.com>) conducted its first survey of St. Petersburg radio listeners for the period November-December 1997, something that it has done regularly in Moscow for the last four years. The quarterly survey in both capitals is made possible by the Computer Assisted Telephone Interviewing System (CATI) and Bellview software developed by British firm Pulse Train.

According to KOMKON's data, the level of telephone ownership in St. Petersburg is very high, reaching 94% among private individuals. The company polled 3,710 random respondents (or 106 daily for 5 weeks), targeting the age group of 12 and older. To insure accuracy of the sample, a random number generator was applied in two tiers to the city-wide database of telephone numbers. In terms of the polling method, the company used the "day-after recall" method, in which interviewees are asked to recall what stations they listened to the previous day. Each respondent answered questions about his or her radio preferences as well as some demographic questions (gender, age, education level, employment, occupation, number of family members, family income and whether or not the family owns radio equipment).

The results are listed below. The following break-down shows radio-stations that scored over 10% in terms of total volume of listeners (the number of listeners who tuned to the station in question at least once a week):

1. Peterburg-5 Channel (54.4%)
2. Radio Baltika (41.8%)
3. Evropa Plus (35.5%)
4. Radio Modern (33%)
5. Mayak (30.2%)
6. Russian Radio (28.1%)
7. Eldorado (26.7%)
8. Radio Maximum (24.9%)

9. Radio of Russia (20.6%)
10. Retro Channel (18.8%)
11. Nostalgie (18.1%)
12. Radio Roks (12.2%)
13. Radio Record (11.3%)

Among the key loyalists of Peterburg-5 were families with incomes below average and respondents over 40 years of age (St. Petersburg is known as a "city of retirees"). In contrast, residents younger than 40, with income average and higher preferred FM stations. Notably, Moscow and St. Petersburg-based radio-stations are locked in a fierce competition in this part of the radio spectrum. One can see that among the top six stations, three are from St. Petersburg—Baltika (<http://www.rbalt.spb.ru>), Radio Modern (<http://www.modern.dux.ru>) and Eldorado—and three are from Moscow—Evropa Plus (<http://www.europaplus.spb.ru>), Russian Radio (<http://russia.net/rusradio>) and Radio Maximum (<http://www.maximum.ru>). Moreover, the Moscow-based Nostalgie is catching up with the St. Petersburg competitor Retro Channel in the market for "oldie" hits. Of course, any station's popularity depends on the quality of advertising and its media-planning strategies.

In discussing the radio markets of both cities, KOMKON's project manager Mikhail Zotov said: "When the two are compared, we find one significant deviation—the overall rating level of St. Petersburg's stations is drastically higher than the same index in Moscow. Of course, St. Petersburg has fewer radio stations, so the listeners' attention is more focused. But if you look at the FM dial, where most market development is taking place right now, the number of stations operating in this range is roughly equal in both cities. What's going on? First, a greater proportion of St. Petersburg residents listens to the radio; and second, St. Petersburgers tend to listen to the radio for shorter periods of time. In other words, they manage to cover more stations in the same period of time than do their Moscow counterparts, therefore statistically increasing each favored station's listener base."

The survey also showed that stations with primarily political programming tend to enjoy less and less popularity in St. Petersburg. Radio Liberty scored a mere 6.2%, while BBC and Voice of America garnered 2.9% each, and the German Wave won only 2.3% of the audience. Of course, some of these station's limited Russian-language broadcasts contribute to low ratings. All in all, however, this shift in listeners' preferences demonstrates the depolitization of the younger generation.

PATTERNS OF REGIONAL DEVELOPMENT

LEGISLATORS CONSIDER PLANS FOR KOMI-PERMYAK AUTONOMOUS OKRUG

by Yuri Shabaev, Institute of Language, Literature and History, Komi Research Center

SYKTYVKAR--The second working session of the Legislative Assembly of the Komi-Permyak Autonomous Okrug (AO) began on 30 January. The new parliament was elected on

14 December 1997 after the old members of the parliament extended their mandates three times—unprecedented for today's Russia. At the first session, the deputies attended to organizational and procedural matters, such as electing a speaker. The new legislature's leader is V. Chetin, who led the last parliament as well, and was the only incumbent deputy to make it to the new body. The other 14 deputies are all new and generally represent the Agrarian party.

This session will consider several challenging issues, including a draft law providing aid to low-income members of the population (*Parma*, 29 January). A heated debate ensued when the topic was introduced, since the majority of Komi-Permyak AO residents, living in one of the most underdeveloped European regions of Russia, need greater government assistance. The okrug is plagued by an under-performing agricultural sector and a dying timber industry. Only 6% of the region's raw wood output is processed locally. Even in the Soviet era the average salary in the okrug was lower than elsewhere in the country, matching the region's dire economic condition. The provision of health care, education and other social services was also below other regions. As a result, life expectancies in Komi-Permyak AO are 10-11 years less than the country's already low average. By the same token, the level of education among rural residents (about 70% of the total population) is 2.5-3 years less than the average for Perm oblast, of which the autonomous okrug is a constituent part. It is not surprising, therefore, that over the last several decades, the okrug's population has steadily declined.

Since market reforms were first introduced, the region has only slid into deeper depression. Timber enterprises, by and large, have ceased operations due to low levels of efficiency and a lack of investment capital. Collective farms have acquired mountains of debt and sharply reduced their production levels. Most agricultural and timber enterprises have not paid their employees for up to 3 years and all are on the brink of bankruptcy. Moreover, official unemployment soared to around 19% by the end of 1997, but the real figures are surely much higher. Furthermore, over 20% of the okrug's population is retired, as a large number of working-age adults have left the region.

Overall, the vast majority of the okrug's population falls into the "low-income" category, while the region's resources are too scarce and thinly spread to meet the incredible demand. No wonder that 82% of the okrug's budget comes from federal subsidies. Nevertheless, the new parliamentarians are calling on regional officials to increase social programs and seek additional sources of internal tax revenue.

TATARSTAN'S SHAIMIEV FACES TOUGH CHOICES. The editor-in-chief of *Vremia i dengi* (Kazan) published a large article on 7 February, contemplating some of the challenges ahead for Tatarstan's President Mintimer Shaimiev, as the republic enters the "third period" of its independence. During the first period of "total liberty" (1991-93), Tatarstan took advantage of the dramatic weakening of the Center and retained all the tax and export revenues collected on its territory. As a result, the region was able to keep prices artificially low, pay wages regularly, and maintain a relatively high standard of living for its residents. During the second period, which followed the power-sharing agreement signed in February 1994, Tatarstan co-existed with the Center by gaining budgetary and financial privileges enjoyed by no other region.

Today, a third period is beginning in which all Russian regions will exist on a more or less equal basis. Moscow has refused to extend the financial agreement in the power-sharing

treaty on its original terms, aiming to rewrite it in its own favor. Obviously, the time has come to revise Tatarstan's developmental goals and tactics, and establish new methods for dealing with Tatarstan's problems. Making the adjustment will not be easy, and the situation is further complicated by the republic's mounting multi-billion ruble internal debt. One can only add that to date President Shaimiev has not shown any kind of coherent strategic program, nor does he have the staff to implement one. – Midkhat Faroukshine in Kazan

VOLGOGRAD MARKS PEACEFUL STALINGRAD ANNIVERSARY. The anniversary of the World War II Stalingrad battle provides a good measure of the political temperature in Russia. Now, with less than two year before the next State Duma elections and two-and-a-half years before the presidential elections, there is no fever.

In contrast to the political rally 5 years ago, no nationally famous politicians visited Volgograd on 2 February 1998 for the 55th anniversary of the Soviet army's victory (See *IEWS Russian Regional Report*, 22 January). The only modest exception was General Lev Rokhlin, who won a seat in the State Duma on the pro-governmental Our Home is Russia's party list in 1995, but has since called for Yeltsin's resignation. As a result, veterans from all across the former Soviet Union, not politicians, were the main participants in the festivities and won a warm welcome from the current residents of Volgograd. During the celebration, local Communist leader Alevtina Aparina once again raised the question of "returning the name" of Stalingrad to the city, however, the idea is not popular with the younger generation and has little chance of being realized. - Ivan Kurilla in Volgograd

LOW TURNOUT AGAIN MARKS ST. PETERSBURG LOCAL ELECTIONS.

by Daniel Tsygankov, Department of Sociology, St. Petersburg University

ST. PETERSBURG—Passions around the adoption of the city's charter and the plot to depose Chairman of city parliament Yury Kravtsov (see story in *Breaking News*) completely overshadowed yet another attempt to elect local government councils in St. Petersburg. Only 16.4% of the city's voters turned out 8 February for repeat elections to the neighborhood councils.

The first set of elections was held on 28 September, when 25% of the voters had to participate for the elections to be valid. Of the 111 neighbor councils to be elected across the city that day, races in only 32 districts mustered the required turnout to be valid. As a result, repeat election had to be held in the remaining 79 districts (See *IEWS Russian Regional Report*, 2 October 1997).

The voting on 8 February was valid in all districts because the 25% barrier was removed. The election procedure was changed as well. In September, each voter had to choose as many candidates from the total list of contenders as there were seats in the particular local council (either 10 or 20). This time around each district was subdivided into 2 or 4 precincts, and no more than 5 candidates could be elected from each. There were 3,467 contenders for 1,230 seats in the 79 councils contested in this election. Turnout varied from 13.5% in Primorskiy district to 21.2% in the suburb of Kolpino, but averaged 16.4% overall.

All the districts that broke the 25% barrier in September were suburbs or compactly-populated areas. On the other hand, residents of the new districts created by dividing up the city of St. Petersburg proper voted with their feet against the newly created micro councils by not showing up at the polls.

All in all, the city spent 30 million new rubles (\$5 million) on the two local government elections. The first reaction to the polls were sour. Former head of the Soviet-era Leningrad Executive Committee and now deputy of the Legislative Assembly Aleksandr Schelkanov told *Smena* that the real turnout was around 13-14%, and the rest were bribed to come to the polls. Another city legislator, Yurii Terentiev, the Communist faction leader, argued that the low turnout made the elections illegitimate (*Smena*, 10 February). The most notable victory was that of the former leader of the St. Petersburg branch of Vladimir Zhirinovski's Liberal Democrat Party of Russia, Vyacheslav Marychev, in Krasnoselsk district, where he garnered over 70% of the vote, leaving some 15 competitors far behind.

This time around the governor's team was more active in encouraging a large turnout. The city was covered with life-size posters of a well-dressed man urging people to elect their local governments on 8 February. A dull variation on this theme was a spree of smaller posters with pictures of St. Petersburg's most prominent symbols (such as St. Isaac's Cathedral and the Bronze Horseman), also advertising the election date. The governor's staff reached its creative apogee with street-wide hanging banners, driving home the same message.

On the eve of elections sociologists polled the public and found the following: About 87% knew about the election, 7.2% saw the well-dressed man on a poster, 2.1% noticed street banners, and 8% --smaller posters (*Vecherniy Peterburg*, 6 February). All the while, 70% did not know any of the candidates, and only 13% had some vague notion about the particular district in which they lived. A mere 20% planned to go out and vote (*St. Peterburgskie vedomosti*, 6 February).

The race for the little-known councils was just as lackluster as the public's enthusiasm. Only Yabloko activists launched an aggressive campaign in the last week before the election, spreading their propaganda at subway stations and other spots with heavy pedestrian traffic. It seems that Yabloko's leadership, which had criticized the division of the city into 111 councils, decided to stage a dress-rehearsal for the Legislative Assembly elections to be held this December. Yabloko tried to portray its candidates as party personalities running against bureaucrats, housing sector officials and "independents" (often portrayed as scoundrels or criminals trying to get into power). Given Yavlinskiy's popularity in the city, his supporters probably won seats in most councils.

Now the newly-elected bodies face several challenges. First, they have to adopt charters for their respective municipal districts. The experience of those 32 councils that managed to get elected in September 1997 shows that bureaucrats from the executive branch do not like to yield their power, and there is no appropriate legal basis in which to operate (League of Women Voters flyer, 1 January 1998). On the other hand, many councils are doomed to live off subsidies. Only 197 million new rubles (\$33 million) has been budgeted for all the councils, while their projected expenses will amount to 218 million rubles (\$36 million), which means few of the councils will choose to speak out against raion executives (*Nevskiy obozrevatel*, 12 January).

CENTER-PERIPHERY RELATIONS

NIZHNII GOVERNOR DEFIES CONSTITUTIONAL COURT ORDER.

by Yury Rodygin

NIZHNII NOVGOROD—When the Constitutional Court ruled that paying taxes was a higher priority for enterprises than paying back wages at the end of last year, the country's top judiciary body apparently forgot to consider the fate of many workers who have not been paid for months (*Birzha*, 26 December 1997). By ordering industrial enterprises to pay their tax debts in full, the court left them with no choice but to transfer all their revenue to the government, leaving their workers in the cold. It is surprising that the ruling has not provoked any mass protests so far.

Nizhnii Novgorod Oblast Governor Ivan Sklyarov, however, took action by issuing a decree on 21 January partially suspending the ruling's force on the oblast's territory (*Birzha*, 23 January, *Nizhegorodskaya gazeta*, 30 January, *Delo*, 12 February). According to Sklyarov's decree, companies must use only half of their income toward paying tax arrears, and the other half can be used toward paying back wages. Sklyarov's decree affects only regional taxes paid into the regional budget. The decree's legitimacy is still unclear and no comment could be obtained from the oblast finance department.

Lawyers, however, have definite opinions on the matter. "Sklyarov's decree is totally illegal," says Chairman of the oblast legislature's Legal Committee Sergey Speranskiy. "Even the President cannot revoke the Constitutional Court rulings, however absurd they are—one has to comply with them." In contrast, Vice Governor Aleksandr Batyrev believes that even though the governor broke the law, the decree must be supported as a civic action promoting a good cause.

What about industry managers for whose enterprises the governor's 50/50 formula is a new lease on life. NIITOP General Director Vitalii Vartsov said: "The Courts' ruling was a death warrant for us, with the potential to paralyze the work of industrial enterprises. We simply could not pay salaries if we obeyed this ruling." Sokol Chief Financial Officer Evgeniy Sergov echoed his concerns: "Sklyarov's actions are rooted in the real state of affairs at the oblast's enterprises. His decision is right and just, while the Court's ruling was illegal." The captains of industry are united in their support for the defiant governor. Yet, it is still not clear whose side the banks will take, forced to choose between the federal court in far-away Moscow and the near by regional authorities. No comments from bankers could be obtained, as most of them happened to be out of town.

Asked to comment on Sklyarov's actions, oblast chief prosecutor Aleksandr Fedotov said the following: "I have not seen the decree yet, but I can say that nobody in Russia has the right to revoke Constitutional Court rulings, so the decree in question is legally invalid. The law is tough, but must be complied with. If one indeed wants to change the situation, he must appeal to the Constitutional Court on behalf of enterprise managers or the governor himself."

Moscow papers have remained silent about this issue so far apparently because Sklyarov's decree only affects regional taxes, but not federal taxes, making the issue of less concern to them.

KOMI PRESIDENT SEEKS BETTER DEAL FROM MOSCOW. On 4 February President Boris Yeltsin met with a group of 11 regional leaders to discuss the issue of center-periphery relations. Among the participants was President of Komi Republic Yuri Spiridonov, who proposed renegotiating power-sharing agreements between the federal center and the regions and making both sides more accountable for their assigned responsibilities. His proposals were aimed in particular at the federal Ministry of Finance, responsible for distributing federal money to the regions. Additionally, the Komi president and Kemerovo Oblast Governor Aman Tuleev suggested that the heads of coal-mining regions meet with the President separately in order to specifically discuss the coal industry's problems. Yeltsin accepted the idea (*Panorama respubliki*, 4 February).

Upon his return to Syktyvkar, Spiridonov said that he and Yeltsin discussed the issues of social protection, federal development programs for the republic, transport development, the "Ruda" [ore] federal program and others. In particular, Spiridonov managed to get an assurance that the "Ruda" program will set aside funds for the development of bauxite deposits in Komi Republic, the largest and richest in Russia. There was no money allocated for that purpose in the original draft of the 1998 federal budget. At the same time, the exploration of bauxite deposits is among the top priorities for the republican leadership, because it holds the key to Komi's sustainable development. The bauxite extracted from Komi will supply raw material for aluminum plants in the Urals, competing with bauxite from Guinea, which currently supplies most of the raw material to the Russian aluminum-makers. During its first stage, the project plans to extract 3 million tons of raw bauxite a year, with the hope of increasing output to 6 million tons. Commercial extraction of bauxite began on 5 February on a temporary basis. President Spiridonov attended the grand opening of the extraction operations saying that the launch should stimulate the Russian government to fulfill its obligations (*Panorama respubliki*, 5 February). - Yuri Shabaev in Syktyvkar

MAGADAN CHALLENGES FEDS WITH NEW GOLD-PROCESSING PLANT. The new Kolyma gold-processing plant is about to begin production, an exceptional development for Magadan Oblast, according to Governor Valentin Tsvetkov, who said that the plant's state of the art equipment is absolutely unique for Russia. Furthermore, the plant is politically important as it questions the rationale behind the existence of Goskhran, the federal agency regulating the extraction of precious metals. Maybe that is why any attempt at reforming the gold-mining sector has met such fierce resistance from the government. According to Governor Tsvetkov, the new gold-processing plant is a thorn in the side of not only Goskhran, but also of the Ministry of Finance. Both federal agencies would rather see all gold-processing operations take place without the oblast government controlling the natural and financial resources involved.

The plant is also bad news for organized crime, as all of its operations will be completely transparent, according to the governor. Capital will not just sit in the bank and all the extractors will come to the plant for processing—anything short of that will be considered

tax evasion. The governor said that the future of the gold-mining industry is a matter of life or death for the oblast. There is still no federal law governing operations with precious metals and gems. The governor hopes that the Federation Council's new precious metals commission will help solve the problem. The commission is composed of several republican presidents, oblast and krai governors and is chaired by Tsvetkov himself. – Sergey Shilo in Vladivostok

ECONOMIC ISSUES

ARMS TRADE MONOPOLY OPENS OFFICE IN KAZAN. Tatarstan's leadership has long been trying to sell the products of the republic's defense enterprises on the world market, thus compensating for the plunge in the government procurement orders at home. However, none of Tatarstan's defense companies is licensed for operations abroad, including the Kazan Helicopter Plant, whose products enjoy steady demand on foreign markets. Today, the state-owned Rosvooruzhenie holds a monopoly for such foreign operations. After prolonged negotiations, the company agreed to open a branch office in Kazan a year ago, but this agreement is only now being implemented. Rosvooruzhenie appointed M. Tikhonov, the former marketing executive of the Kazan Helicopter Plant, as the new office's director. His first priority will be to define a market niche for Kazan's defense enterprises on the competitive world markets. As the newspaper *Respublika Tatarstan* commented on 7 February, the opening of a Rosvooruzhenie office in Kazan offers some hope that Tatarstan will be able to increase its military exports. Competing successfully on the international market could help the republic's military-industrial giants, with their powerful research-and-development potential and their tens of thousands of employees. Rosvooruzhenie has recently opened similar offices in Udmurtiya (See *IEWS Russian Regional Report*, 17 July 1997) and Nizhnii Novgorod (See *IEWS Russian Regional Report*, 15 January 1998). – Midkhat Faroukshine in Kazan

DUTCH ENTER URALS CAR MARKET. According to the economic weekly *Delovoi kvartal*, the oblast government has recently discussed the prospect of forming a joint venture between the Urals Automotive Plant in Novouralsk (Sverdlovsk Oblast) and the Dutch company P. Beckers to produce DAF buses. The first 5-6 buses designed for public transportation as well as long-distance travel will be ready by the end of this year. The project will cost an estimated DM 3.5 million. The partners are supposed to carry equal share in the joint venture, with P. Beckers supplying equipment and parts, and the Urals Automotive Plant providing production facilities. The first buses will be tested in several oblast cities, to be determined in the near future. Each bus will tentatively cost \$100,000-120,000 and the joint venture should produce 500 units annually in the near future. – Dmitry Strovsky in Yekaterinburg

SMALL BUSINESS IN THE MIDDLE URALS. According to the official data, there were 30,600 small businesses registered in Sverdlovsk oblast as of the beginning of 1998, or 11% more than one year ago. Altogether, the small business sector employs 144,000 people. Small firms account for 23.1% of the construction business, while in retail they account for 18.7% of total trade volume. One can imagine that both of these industries will continue to

develop, given the latest tendency by companies to invest their earnings in real estate and social infrastructure. The dynamism of this process is clear in the changing appearance of Yekaterinburg and other cities in the oblast. With the cities' blessings, many retail outlets opened up on the first floors of residential buildings during 1997. Moreover, last year the oblast administration stepped up its program of government assistance to small businesses. Under the program's auspices, the oblast budget spent 9.5 billion rubles (\$1.6 million) on various projects, of which 8.9 billion rubles were in-kind contributions. Local commercial banks granted 5.8 billion rubles (\$1 million) worth of favorable credit to small businesses, with loan guarantees from the oblast Center for Entrepreneurial Development. Additionally, municipal funds for the support of small businesses were established in the cities of Alapaevsk, Pervouralsk and Krasnoturinsk.. – Dmitry Strovsky in Yekaterinburg

REGIONAL LINKS

LIST OF REGIONAL ADMINISTRATIONS. The web site of the Novgorod city administration (<http://www.adm.nov.ru/>) has done an excellent job of providing links to the web sites of regional administrations across the country (see the "ssylki" section). The links range from Bashkortostan to Yaroslavl. The site also has lots of information about the latest developments in Novgorod. Ironically, Novgorod Oblast, despite its reputation for friendliness to foreign investors, does not have its own web page.

CORRECTION: The story on the Bukhta Baterainaya Port in last week's report was based on erroneous information. The price estimate for the port remains \$320 million, not \$1 billion as reported. Construction plans for the port continue on track.

CORRECTION: Due to a translation error, the RRR last week described the Nizhnevolzhskaya Electric Plant (GRES) as a hydro-electric plant (GES) when in fact it is an electric plant that will burn natural gas.

CORRECTION: Last week's edition of the RRR incorrectly asserted that Chukotka Autonomous Okrug was subordinate to Magadan Oblast in the same way that Yamal Nenets and Khanty Manskii autonomous okrugs are subordinate to Tyumen Oblast. This sentence was inserted by RRR Senior Editor Robert Orttung without the knowledge of the article's author. We apologize for the mistake and regret not getting the author's approval of the final text.

Author Patty Gray writes:

In reality, Chukotka is in no way subordinate to Magadan Oblast' and is not on Magadan Oblast' territory. It is a fully independent region, entirely UNlike the Khanty-Mansi or Yamal-Nenets Autonomous Okrugs. It is the only autonomous okrug like this. The issue was battled out for years between the Chukotka okrug Soviet and the Magadan oblast' Soviet, who both made appeals to the Presidium of the Supreme Soviet of the Russian Federation, until the matter was finally resolved in 1993 by the Russian Constitutional Court. Chukotka presented its case skillfully and persistently, and it won. The documents to look to for confirmation are:

Konstitutsionnyi Zakon RF ot 17 iunia 1992 g. "O neposredstvennom vkhozhenii Chukotskogo avtonomnogo okruga v sostav RF."

Po dely o proverke konstitutsionnyi zakon RF ot 17 iunia 1992 g. " o neposredstvennom vkhozhenii Chukotskogo avtonomnogo okruga v sostav RF ot 11 maia 1993 g. (Postanovlenie konstitutsionog suda RF // Vedomosti Verkhovnogo Soveta RF 1993 No.28, pp.1697-1705, st. 1083.)

Chukotka entered directly into the composition of the Russian Federation in 1993 without being in any way connected to Magadan. Whether the 1993 Constitution affects the court's decisions falls into that fascinating and exasperating grey area of post-Soviet Russian law and remains unresolved. The most likely answer is that Chukotka first declared its "sovereignty" in 1990 and continued to pursue it through the collapse of the Soviet Union, the redesigning of regional government (when Yeltsin appointed the "governors"), and the dissolution of the regional soviets. Magadan attempted to fight back, but it seems to have been simply out-paced by Chukotka's stamina in pursuing this cause. The Constitutional Court made a decision on the status of Chukotka, and although legally there may be cause for reconsidering that decision in light of the new constitution, no one has taken it up. Chukotka's new status has stuck by default, and given Governor Aleksandr Nazarov's "insider" status in Moscow, I doubt that it will be challenged any time soon, if ever. This is what makes Chukotka such an interesting case -- it seems to have gotten away with something that other autonomous okrugs attempted but couldn't pull off.

REGIONAL PROFILE: NOVGOROD OBLAST

Governor: Mikhail Prusak

Mikhail Prusak was elected governor of Novgorod Oblast in December 1995, winning 56.2% of the vote. Yeltsin had originally appointed Prusak as governor in 1991.

Prusak was born in 1960 in Ivano-Frankovsk Oblast in Western Ukraine and spent the early part of his career working as a Komsomol official. In December 1988, Prusak was appointed director of a state farm. In 1989, Prusak joined the newly created USSR Congress of People's Deputies as a delegate from the Komsomol organization. Once a member of the new legislature, Prusak joined the Inter-Regional Deputies Group led by the dissident Andrei Sakharov, among others. During the spring and summer of 1991, Prusak worked on Yeltsin's presidential campaign team. Since Yeltsin's first election, Prusak has remained loyal to the president and supported strengthening the president's powers. He also backed the appointment of Yegor Gaidar as Russian prime minister in December 1992.

In January 1996, Governor Prusak automatically became a member of the Federation Council. In that body he serves as chairman of the Committee on International Affairs.

Other Local Leaders

Chairman of the Oblast Duma -- Anatolii Boitsev, elected in April 1994.

Brief Overview

Novgorod Oblast is located in the north-west of Russia and shares borders with Leningrad, Vologda, Tver, and Pskov oblasts. Its center, the city of Novgorod, is famous for its democratic traditions. The city was founded in 859 and almost immediately became an important trade center because of its strategic location on the crossroads of many commercial routes. For a long time, Novgorod was the only city governed by an assembly of its citizens, the veche, rather than by a king, as other cities and lands were at that time. Though the city also had a king, he was invited to rule by the veche and was merely a leader of the city army.

Today, the oblast still enjoys a favorable geographic location, being at the crossroads of many domestic and international trade routes, connecting Moscow, St. Petersburg, and the Baltic States. The region is fairly rich in mineral resources, including oil, diamonds, and peat. Among the major regional industries are: machine and equipment building, metallurgy, electronics, timber working, and cellulose industry. The British firm Cadbury has a chocolate factory in the oblast town of Chudovo.

Basic Facts

1995 Population (est.): 745,500 (0.50% of Russian total)

Industrial production as percentage of all Russian production (Jan.-Aug. 1995): 0.38%

Agricultural production as percentage of all Russian production (1994): 0.48%

Average personal income index in July 1995: 89 (Russia as a whole = 100)

Price basket index in July 1995: 99 (Russia = 100)

Average back wages owed per person (September 1995): 16,900 rubles (Russian average = 37,100)

Urban population: 70.8% (Russia overall: 73.0%)

Student population (1993): 121 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1994): 28.05%

Percent of population with higher education (1989 census): 8.8% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 36.0% (Russian average: 29.9%);

Agriculture: 12.1% (12.8%); Trade: 8.6% (9.1%); Culture: 11.0% (13.6%); Management: 2.9% (2.3%)

Number of telephones per 100 families (1993): in cities: 32.6 (Russian average: 41.5); in villages: 16.0 (17.2)

According to a 1995 survey by Bank Austria, the oblast is ranked 13th among Russia's 89 regions in terms of investment climate.

Electoral History

1996 Presidential Election

Yeltsin: 35.76%/59.14% (first round/second round)

Zyuganov: 23.76%/33.99%
Lebed: 18.52%
Yavlinskii: 11.03%
Zhirinovskiy: 6.22%
Turnout: 71.86%/70.69% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Communist Party of the Russian Federation: 18.02%
Liberal Democratic Party of Russia: 12.13%
Our Home Is Russia: 10.51%
Women of Russia: 8.30%
Yabloko: 7.36%
Communists -- Workers' Russia: 5.14%
Congress of Russian Communities: 3.89%
Party of Workers' Self-Government: 3.60%
In a single-member district: 1 independent
Turnout: 67.23% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 61.37% "No" -- 38.63%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 29.60%
Russia's Choice: 13.21%
Party of Russian Unity and Concord: 10.08%
Women of Russia: 9.52%
Communist Party of the Russian Federation: 9.25%
Yabloko: 7.61%
Agrarian Party of Russia: 6.91%
Democratic Party of Russia: 6.14%
In a single-mandate district: 1 Party of Russian Unity and Concord
From electoral associations: 1 Communist Party of the Russian Federation
Turnout: 58.06% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 46.65%
Ryzhkov: 21.32%
Tuleev: 9.46%
Zhirinovskiy: 9.33%
Makashov: 4.72%
Bakatin: 3.95%
Turnout: 77.61% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [*Russian regions on the eve of 1995 elections*], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [*Results of the 17 December 1995 elections, regional breakdown*], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [*State Duma elections 1995*], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [*Governors of Russia*], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995.

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BREAKING NEWS

POLITICS

ALEKSANDR LEBED JOINS KRASNOYARSK GOVERNOR'S RACE. Former Security Council Secretary Aleksandr Lebed announced he would run in the 26 April Krasnoyarsk gubernatorial election on 11 February. (*Izvestiya*, 12 February) Because the krai reflects many of Russia's problems, the race is being viewed as a bellwether for the State Duma elections set for 1999 and the presidential elections in 2000. (*Izvestiya*, 13 February) Lebed is closely allied with Anatolii Bykov, a vice president of Rossiiskii Kredit bank (see *IEWS Russian Regional Report*, 11 December). Lebed's main opponents will be incumbent Valerii Zubov and

Communist State Duma member Petr Romanov. Vladimir Potanin's UNEXIMbank, which owns the Norilskii Nikel plant in the krai will finance Zubov's candidacy. (*Itogi*, 16 February) The Communist vote will be split between Romanov and another State Duma member, Valerii Sergienko, of the leftist People's Power. How well Lebed will perform in the complicated political and economic situation in Krasnoyarsk is unclear. He was seemingly unaware of the recent power-sharing agreement signed between Moscow, the krai, and the Evenk and Taimyr autonomous okrugs that are located on krai territory. (*Russkii Telegraf*, 18 February) The krai has abundant natural resources, including 2.3 billion tons of oil reserves. (*Russkii Telegraf*, 12 February)

ACTING NIZHNIY MAYOR WANTS TO BUILD CHURCH ON LAND

EARMARKED FOR HOTEL. Acting Nizhnii Novgorod Mayor Vladimir Gorin has broached the idea of rebuilding St. Nicholas Church, which once stood on the site of the recently demolished Moscow Hotel. The site is now designated for the construction of a new five-star hotel and a deal has already been struck with foreign investors. Gorin's proposal comes as part of his electoral campaign to succeed Ivan Sklyarov, the former mayor who was elected governor last year. The authorities have announced their willingness to provide an equivalent plot of land for the hotel. But the local paper *Birzha* questions where the money will come from for the construction of the church. Nizhnii has far fewer resources to call on than Moscow, where Mayor Yurii Luzhkov facilitated the reconstruction of Christ the Savior Church around the time of his own election. The newspaper also questions whether it will be possible to find the architectural plans for the original church. Moreover, the paper asserts that if a church is to be reconstructed it would be more sensible to rebuild the Spaso-Preobrazhenskii Church, which was located on the site now occupied by the mayor's office. Gorin has a comfortable lead in the mayoral race, with 41% support in the most recent polls. His nearest competitor has only 16%. (*Birzha* [Nizhnii Novgorod], 13 February)

VLADIVOSTOK FUND COLLAPSE PROMPTS ANGER AGAINST GOVERNOR. The Primorsk Food Charity Fund collapsed owing 50 billion old rubles (\$8.3 million) to investors. The fund was headed by Governor Yevgenii Nazradenko's wife, Galina. Its founders included the Primorskii Krai and Vladivostok administrations and some of the region's largest enterprises. Created on 14 March 1995, the fund collected money from 56,000 investors, who signed over 200 billion old rubles (\$33.3 million). It offered low interest rates but allowed access to stores that supposedly sold goods at reduced prices. The stores did sell low-priced goods but offered a very narrow selection. Pyramid-scheme style, the fund then began selling vouchers for \$100 each in November 1996, offering attractive interest rates, but stopped paying out dividends last summer. Investors seeking redress from the governor's staff and procurator received little response. Vladivostok Mayor Viktor blamed the affair on the governor and called for him to be brought to justice. His staff has organized protesters to picket the procurator's office, threatening that they would create a "second Albania." (*Kommersant-Daily*, 11 February)

KONDRATOV REQUESTS LESS POWER. Presidential Representative in Primorskii Krai

Viktor Kondratov, who also heads the local Federal Security Service, has asked President Yeltsin to rescind his June 1997 decree giving him the power to control the dispersal of federal funds in the region (see *IEWS Russian Regional Report*, 12 June 1997). Kondratov argued that the krai Duma elected in December 1997, in which a majority of the deputies are Nazdratenko's enemies, could now carry out those functions. The decree also gave Kondratov responsibility for ending the region's energy crisis. Kondratov's request reflects his overall powerlessness over the situation in the krai. (*Kommersant Daily*, 13 February)

SARATOV SEEKS SINGLE LAND TAX. Saratov Oblast wants to replace the six land taxes in the current draft federal tax code with a single tax. Both systems seek to collect about 40,000 new rubles (\$7,000) per hectare of land each year for a total of about 360 million new rubles (\$60 million) under the unified tax system, or 320 million new rubles (\$53 million) under the old system. In 1996, the tax service only collected 150 million new rubles because farmers did not have cash to pay their taxes. Advocates of the new system say its simplicity will make it easier to collect taxes and stimulate more efficient use of land. The Finance Ministry is opposed because it wants a consistent tax code throughout the country. However, Agriculture Minister Viktor Khlystun and Yeltsin both support the introduction of the single tax. (*Kommersant Daily*, 13 February)

SUPREME COURT DECLARES INGUSHETIYA REFERENDUM ON JUDICIAL SYSTEM ILLEGAL. The Supreme Court supported the Russian Procurator's move to rule the proposed referendum set for 1 March in Ingushetiya illegal. In holding the vote, Ingushetiya President Ruslan Aushev hopes to wrest control of the judicial system from Moscow. (*Segodnya*, 18 February) Meanwhile, at the first meeting of the Presidential Council on Improving the Judicial System on 11 February, Presidential Advisor on Legal Issues Mikhail Krasnov said Tatarstan and Bashkortostan do not recognize Moscow's control of the Russian justice system. Tatarstan President Mintimer Shaimiev has proposed that Russia and Tatarstan divide jurisdiction over judges. Additionally, 16 republican presidents have tried unsuccessfully to get the Constitutional Court to reexamine the existing legislation on the judicial system. (*Nezavisimaya gazeta*, 12 February)

MORDOVIA REELECTS MERKUSHKIN. With a turnout of 75.6%, a second term for incumbent President Nikolai Merkushkin was approved by 96.6% of Mordovia's voters. Those results gave Merkushkin the biggest margin of support in recent gubernatorial races, surpassing Orel's Yegor Stroevev (95%) and Kemerovo's Aman Tuleev (94.4%). Merkushkin gained popularity last fall for paying pension and salary arrears last fall. According to Goskomstat, industrial production is up nearly 8%. (*Izvestiya Mordoviya* [Saransk], 28 January) The incumbent faced little competition because potential opponents were prevented from running in the race (see *IEWS Russian Regional Report*, 5 February). His single "opponent," the director of a local pasta factory, announced his support for Merkushkin's policies several times during the campaign. (*Rossiiskaya gazeta*, 17 February) The president is especially close to Moscow Mayor Yurii Luzhkov: Moscow buys more than half of Mordovia's output. (*Russkii Telegraf*

and *Segodnya*, 17 February) Merkushev claims he could revive his depressed region's economy if he could re-outfit 10 to 15 of the republic's major enterprises with Western-level technology. (*Ekonomika i zhizn* [Ryazan], 4 February)

Merkushev prevented his opponents from running in the race by adding a clause to the electoral law disqualifying candidates who turned in signature lists supporting their candidacies with more than 3% invalid signatures. Even though the republican Communist Party leader Evgenii Kosterin turned in 34,000 signatures, well over the required 15,000, he was disqualified by the clause. The weekly journal *Kommersant* (17 February) argued that governors in other regions will now use that method to ensure their victories. The system does not conflict with federal legislation because the federal law on voting rights does not limit the number of invalid signatures. Central Electoral Commission Chairman Aleksandr Veshnyakov said the new regulation on invalid signatures was "too strict" but not "criminal." None of the 1996 presidential candidates would have qualified for the elections with the 3% barrier, said Veshnyakov.

ILYUMSHINOV ABOLISHES KALMYKIYA'S GOVERNMENT. Kalmykiya's President Kirsan Ilyumzhinov issued a decree on 16 February abolishing his government. The move was taken to restructure the executive branch and enable it to address issues of economic reform. He plans to cut staff by 50% within a week (*Segodnya*, 17 February). Russia media and Western publications such as *The Economist* (20 December) have stressed Ilyumzhinov's increasingly erratic behavior.

POZGALEV ON BEING A GOVERNOR. Vologda Governor Vyacheslav Pozgalev described his duties as combining the Soviet-era posts of Communist Party first secretary and chairman of the regional executive committee. Holders of those posts were responsible for political and economic issues, respectively. The governor's main political task is to make the region attractive to investors and avoid scandals, which detract from the time that can be devoted to managerial duties. In economic terms, the governor seeks prosperity. He spends a considerable amount of time expanding the market for the region's goods. He must also select a good staff that can implement his ideas. (*Izvestiya*, 18 February)

ECONOMICS

INTERNET ACCESS PRICES MUCH HIGHER IN NIZHNIY THAN MOSCOW, ST. PETERSBURG. Residents of Nizhniy Novgorod who want to use internet services through a dial-up modem from their home have to pay much more than Americans and Muscovites. Subscribers to America On-Line or AT&T in the US pay about \$20 a month for unlimited use of e-mail and access to the World Wide Web. In Moscow, at least one provider offers that service for \$37 a month. In Nizhniy, sending e-mail inside Russia is relatively cheap but users must pay \$0.05 per kilobyte for letters sent abroad. Web users can pay up to \$5 an hour during business hours and \$3 an hour at night, while some providers charge an additional \$20 a month. Moscow and St. Petersburg are much cheaper because they are on a cable linked to Helsinki. Any provider in the regions that wants access to the Internet must rent a cable to Moscow for

several thousand dollars a month and then buy access to the Net for about the same price. Other costs include a license from the Communications Ministry, hiring programmers and other specialists, and taxes. (*Birzha* [Nizhnii Novgorod], 6 February)

BRYANSK AIRPORT TAKES OFF. The little-known Bryansk International Airport is making a name for itself by handling increasing shipments of lucrative international cargo, taking business from competitors in Moscow and St. Petersburg. Prime Minister Viktor Chernomyrdin authorized the construction of the airport in 1993 and it was completed quickly. In 1996, the facility handled 2,700 tons of cargo and over 13,000 tons last year. Foreign importers like the airport's location on Russia's western border sandwiched between Belarus and Ukraine, the high quality of service, efficient customs agents, and bureaucrats who don't ask for bribes. Initially, Turkish and Bulgarian firms were major users of the airport, but now Germans, Italians, Austrians, Arabs, South Koreans, and Chinese are interested in its services. In October 1997, at Governor Yurii Lodkin's urging, construction of a new 300-meter runway began. The runway will allow the airport to accept jumbo jets from all continents. Bryansk airport's success has gained the attention of Moscow rivals, and federal agents held up the flow of goods at the airport at least twice in 1997 on the suspicion of the import of contraband materials. (*Bryanskii rabochii*, 10 February)

KAZAN CONSUMERS COMPLAIN ABOUT ILLEGAL TAX COLLECTIONS. At the beginning of this year, Tatarstan's capital Kazan tried to impose a new 3% sales tax. After eight days of public outcry made clear just how unpopular the new levy would be, President Mintimer Shaimiev rescinded the new law (see *IEWS Russian Regional Report*, 15 January). Many merchants had already collected the tax from their customers even though the law had never formally gone into effect. Customers are now complaining to the local media that their money is not being returned. The republic procurator has said the local authorities are responsible for the matter but there has been little action taken to expedite payment to the consumers. (*Itoги*, 11 February)

BUSINESSMAN DENOUNCES BAN ON EXPORTING SARATOV GRAIN. A letter to the editor of *Izvestiya* (12 February) from private Saratov businessman V. Zaikov complains that Krasnodar, Lipetsk, Orenburg, and Saratov prevent the export of grain and sunflower seeds outside their territories without special permission. Those regulations clearly violate the Russian constitution, he wrote. To circumvent them, growers in Saratov must pay a 10-ruble bribe for each ton of grain they want to export. The writer questions how it is possible to speak of the right to own private land in Saratov, which has passed the most progressive land law in the country, if landowners cannot freely sell the grain they grow on their land.

NEW MOSCOW OBLAST TAXES BLOCK REAL ESTATE SALES. On 16 January, Moscow Oblast Governor Anatolii Tyazhlov raised the appraised value of real estate in the region up to 12 times for homes and garages. He ordered the hike to cover the oblast's budget deficit. Until now, the oblast's valuations were one fourth to one third of market prices, but now

they are inflated two to three times over the going rate. In the past, deals were registered at the official values regardless of the actual selling price in order to reduce the amount paid in taxes. Now, official prices are too high and prevent any exchanges from being carried out.

(*Kommersant-Daily*, 11 February)

PLANS FOR SMALL BUSINESSES REMAIN UNREALIZED. In assessing the results of 1997, Irina Khakamada, the chairperson of the Committee to Support Small Business, charged that most of Russia's declarations of support for small businesses had not been implemented. The state program only received 53% of the funds that had been budgeted for its activity. First Deputy Prime Minister Boris Nemtsov stressed the need for regional governments to develop plans to employ greater numbers of people in small businesses. Now 13 million people work in the small business sector, producing 12% of Russia's GDP. Nemtsov wants the figure to rise to 30 million people who produce 25% of GDP. (*Russkii Telegraf*, 17 February)

FEDERATION COUNCIL LETS YELTSIN'S LAND VETO STAND. The Federation Council failed to override Yeltsin's veto of the land code on 18 February. The decision *de facto* allows the purchase and sale of land in Russia. Although there is no federal legislation on the issue, the Constitution expressly permits it. The State Duma remains opposed to land sales, overriding the veto last October, while Yeltsin strongly supports them. In the Federation Council, 67 members voted to override, while 70 opposed the motion. In the debate, Saratov Governor Dmitry Ayatskov strongly supported land sales as the only way to help the peasants, while Krasnodar Governor Nikolai Kondratenko complained that "Jews and Armenians" were buying land in his krai rather than "Russians." (*Russkii Telegraf*, 19 February) Samara and Tatarstan are quickly moving toward adopting their own regional land codes to fill the federal vacuum.

SOCIAL ISSUES

PRIMORE SEEKS JAPANESE HELP WITH NUCLEAR WASTE. Primorskii Krai Governor Yevgenii Nazdratenko and Duma Chairman Sergei Dudnik have asked the Japanese government to extend a line of credit for salvaging nuclear waste from Pacific Fleet submarines. Russia currently lacks the finances to handle the radioactive waste of the U-boats, presenting a real danger to Russia, Japan, and other countries in the region. Japan has already financed facilities for dealing with the fleet's liquid radioactive waste. Additionally, the US has provided equipment for dismantling the subs. To address the fleet's problems, the krai will need \$50 million a year for the next several years. (*Segodnya*, 12 February)

BUSINESS BRIEFS

-- **GAZPROM** signed a \$500 million plus deal with Italian chemicals producer **TECHNIMONT** to build a polymer plastics plant in **TOBOLSK** (Tyumen Oblast). When completed in approximately three years, the plant will be the largest of its kind in Russia.

Foreign firms will hold a 30% stake in the project, which is supported by EBRD financing. (Bank of Finland's Russian and Baltic Economies, 13 February, <http://www.bof.fi/bofit/>)

-- On 10 February, **SIDANKO** named a majority of the seats in the **RUSIA PETROLEUM** company. Sidanko is owned by Vladimir Potanin's **UNEXIMbank**. Sidanko increased its share to 60.5% by buying 20% from South Korea's **EAST ASIA GAS CORP.** On the eve of the deal, **IRKUTSK** Governor Boris Govorov obtained Potanin's agreement that Sidanko would adhere to the agreement for exploiting the Kovyktinskii gas deposit, which includes supplying Irkutsk Oblast with gas. Govorov had earlier accused Rusia of planning to sell the gas to the Far East. The output from the deposit is expected to reach 30 billion to 35 billion cubic meters yearly, while Irkutsk will only need 9.2 billion cubic meters a year. The rest will be sold to China, Mongolia, South Korea, and Japan. To realize those sales, the companies plan to complete a 2,000 km pipeline by 2004 at a cost of \$10 billion. (*Russkii Telegraf*, 11 February)

-- Negotiations between the **NIZHNII NOVGOROD OBLAST** administration and the American firm **AFREX/ABC** on building an international hotel and business complex are continuing. Last year, the two sides signed a memorandum of understanding for an investment of \$55 million. The oblast administration is expecting a boom in business following the excitement created by recent deals between the Gorkii Automotive Works (**GAZ**) and Fiat (see *IEWS Russian Regional Report*, 15 January) and Mitsui's plan to build Russia's largest pharmaceutical plant in the region (see *IEWS Russian Regional Report*, 15 January 1998). (*Birzha* [Nizhnii Novgorod], 13 February)

-- The **MAGNITOGORSK METALLURGICAL PLANT** signed a contract on 9 February to build a cold rolling mill with the Turkish firm **GAMA**. The contract is worth \$264 million. However, the plant is experiencing severe financial difficulties. A \$100 million deal with the **EBRD** is on hold and Chairman of the Magnitogorsk Board of Directors Rashit Sharipov has been dismissed following accusations that he is refusing to transfer 30% of the firm's stock as collateral. The EBRD has given the plant until 1 April to resolve the dispute. If it can find the money, construction on the mill will be completed in three and a half years. The mill is a key component of the plant's overall makeover. In 1997, the plant increased production to 7.5 million tons from 6.7 million tons in 1996. (*Kommersant-Daily*, 11 February and *Moscow Times*, 18 February)

-- The Finnish firm **LEMMINKYAININ** will refurbish the **CHELYABINSK** train station at a cost of 100 million new rubles (\$17 million) in a project expected to take three years. The new station will include a hotel and restaurant. The Finnish firm has already reconstructed 200 buildings in Russia, including the **RADISSON SLAVYANSKAYA** in **MOSCOW** and two train stations in **ST. PETERSBURG**. (*Kommersant Daily*, 11 February)

-- **AEROFLOT** will make **NIZHNII NOVGOROD** its second hub after Moscow's Sheremtevo airport. The airline will begin flights to the city in March. **NIZHEGORODSKAYA**

AVIALINIYA currently flies between Nizhnii and Moscow's Bykovo airport. However, Governor Ivan Sklyarov has called on the local carrier to enter bankruptcy proceedings and hopes to establish a new airline. (*Kommersant Daily*, 12 February)

-- **NOVOSIBIRSK'S VINAP**, the soft drink producer, will begin building a new DM 4 million production facility in March to allow it to compete more effectively with **COCA-COLA** and **PEPSI**. Its 1.5 liter bottles will sell for 4.6 new rubles (\$0.75) compared to 8 rubles (\$1.30) for a 2-liter Coke. (*Kommersant Daily*, 13 February)

-- **ST. PETERSBURG'S KRUPSKAYA CONFECTIONERY FACTORY** has offered the Argentine **ARCOR** company a stake in its **NOVGOROD** subsidiary, the **KASKAD** factory, in exchange for funds to modernize the plant. (*Kommersant Daily*, 13 February)

-- The Cyprus-based **FRACTOR INVESTMENTS LTD.** won a tender to buy 22.04% of **KARELIYA'S ELEKTROSVYAZ** for 32.4 billion old rubles (\$5.4 million). (*Kommersant Daily*, 13 February)

-- Sweden's **ASSIDOMAN** will sell its 57% stake in **SEGEZHABUMPROM**, in a deal to be brokered by **MORGAN GRENFELL** (*Moscow Times*, 14 February). The Swedes complained that resolving the plant's tax and legal problems would take too long to justify further participation. (*Russkii Telegraf*, 13 February)

-- **MCDONALD'S** plans to open an additional 25 restaurants in Russia in 1998 at a cost of \$50 million, and to increase its total number of outlets to 100 by 2000. The chain already has 29 restaurants in the country. By the end of 1997, McDonald's had invested \$180 million in Russia. (*Finansovye izvestiya*, 12 February)

-- The electricity monopoly **UNIFIED ENERGY SYSTEMS** has included three regional leaders among its board of directors: **CHUVASHIYA** President Nikolai Fedorov, **ST. PETERSBURG** Governor Vladimir Yakovlev, and **ROSTOV** Governor Vladimir Chub. All three are known for their reformist views. (*Rossiiskaya gazeta*, 13 February)

-- The **NIZHNI NOVGOROD OBLAST** administration and **NORSI-OIL** signed an agreement on partnership and cooperation with **AGIP PETROLI**, a part of the Italian oil giant **ENI**. The companies agreed to create a joint venture in March to build modern gas stations in Nizhnii Novgorod. The initial agreement calls for the construction of two gas stations at a cost of \$2 million each. The oblast will donate the land, Agip will contribute equipment, and NORSI will supply the stations with gasoline. The companies also agreed to search for oil in the oblast and organize joint production of lubricating oil, coolants, and brake fluid for use by the GAZ-Fiat joint venture. (*Russkii Telegraf*, 13 February)

-- The Swedish firm **DERK** and the **ST. PETERSBURG** authorities signed an agreement to

build a three-star hotel in the city by restoring two partially destroyed buildings at a cost of \$17 million. DERK had tried to build on the same site four years ago, but the city then did not offer attractive investment conditions. As part of the deal, the Swedes must refurbish an adjacent building to house a clinic and neurosurgery center. The city will provide tax holidays to partially offset the cost of the work. The Swedish **HANDELSBANKEN** will finance 91% of the project. (*Russkii Telegraf*, 13 February)

-- **TATARSTAN** and the Swedish firm **ERICSSON** have signed a \$50 million contract under which the firm will build Russia's largest GSM-900 cellular network. The project hopes to serve 100,000 subscribers within four years, 3% of Tatarstan's 3.7 million inhabitants. In 1995, **HUGHES NETWORK SYSTEMS** installed a TDMA system that now has 6,500 subscribers. (*Russkii Telegraf*, 14 February)

-- **BRITISH PETROLEUM** announced that it has signed a deal with **SAKHALINMORNEFTEGAZ** to develop a Sakhalin-5 project to prospect for resources on the Okhotsk Sea shelf. (*Russkii Telegraf*, 19 February)

POLITICAL PARTIES IN THE REGIONS

ROKHLIN PARTY FLOUNDERING AFTER AN APPARENTLY PROMISING START IN THE REGIONS

by Yurii Korguniuk, *Partinform*

MOSCOW - Gen. Lev Rokhlin, whose units won Russian accolades for their fighting in Chechnya, gained prominence when he became the third candidate on the party list of the pro-government party Our Home is Russia (NDR) in the 1995 State Duma elections. In selecting him to join Prime Minister Viktor Chernomyrdin, Yeltsin's team fashioned him into a model military officer of sorts. He was elected chairman of the Duma Defense Committee with Yeltsin's support. The president's backing, however, did not win Rokhlin's loyalty.

On 24 June 1997, the general severed ties with the administration by sending a letter to President Yeltsin calling for "extreme measures to improve the situation in the armed forces." Rokhlin focused much of his anger about the military's sorry state at Yeltsin and subsequently called for the president's resignation. Following his attack on the president, NDR expelled Rokhlin from its ranks and began strategizing on how to remove him from his Duma committee chairmanship. Initially, the Communists backed Rokhlin in his anti-Yeltsin stance and supported his creation of a new political alliance, the Movement in Support of the Army, Defense Industry, and Military Science (DPA). Eventually, however, the Communists decided their interests would be better served by a less confrontational approach toward Yeltsin. In January, the Duma's Communist leadership seemingly agreed to allow NDR to replace Rokhlin as chairman of the Defense Committee, but Rokhlin continues to hang on.

In addition to his attacks on Yeltsin, Rokhlin gained attention because he seemed able to create strong regional organizations. With the waning support of the Communists, however,

the likelihood of him doing so has dimmed.

The decision to develop regional branch offices was adopted at the founding meeting of the DPA on 2 July 1997. Officially, to create a regional branch a group of at least three people must convene and petition the movement's steering committee with a special form and a membership list. In practice, however, most branches were created after Rokhlin visited 43 regions from July to September 1997 and met with the leadership of various local opposition parties as well as organizations of retired military officers. (Active military personnel are banned from political activity, preventing Rokhlin from visiting any military garrisons.) In most cases, a DPA regional branch was created soon after Rokhlin's departure.

During his travels, several active military members of the opposition escorted Rokhlin, including State Duma Deputy Valentin Varennikov (Communist Party), Chairman of the All-Russian Congress of Officers Viktor Achalov, and leader of the Union of Officers Stanislav Terekhov. Rokhlin targeted regions led by governors elected with opposition backing, including: Yevgenii Mikhailov of Pskov (supported by Vladimir Zhirinovskiy's Liberal Democrats), Aleksandr Rutskoii of Kursk (Derzhava and the National Patriotic Union of Russia), V.Lyubimov of Ryazan (Communist Party), Yurii Lodkin of Bryansk (Communist Party), President V. Kislitsyn of the Republic of Marii-El (Communist Party), Nikolai Kondratenko of Krasnodar (national patriotic opposition), Aleksandr Chernogorov of Stavropol (Communist Party), A. Starodubtsev of Tula (Agrarian Party), and Nikolai Maksyuta of Volgograd (Communist Party). After meeting with the governors, they apparently assisted Rokhlin in recruiting supporters.

When Rokhlin visited the regions led by governors loyal to the federal center, he usually met with the chairmen of the regional legislatures and, at times, with the second in command in the regional administration. For example, Rokhlin met with the Chairman of the State Council of the Republic of Adygeya, E. Salov. In the Republic of Udmurtiya, he met with Deputy Chairman of the State Council V. Agashin and with the republican Prime Minister P. Vershinin. In Perm Oblast, he met with the Chairman of the Legislative Assembly, E. Sapiro. Visits to regions where the opposition was comparatively weaker than the "party of power" (such as the city of St. Petersburg and Rostov and Samara oblasts) were saved for the last leg of the trip.

The general met primarily with representatives of veterans' organizations and gatherings of reserve officers who had been instrumental in forming regional branches of DPA. For instance, among the main founders of the DPA branch in Marii-El were members of the republic's Association of Reserve Officers; Council of Veterans of War, Labor, Military Forces and Law-Enforcement Organs; and Union of Afghanistan Veterans. In some regions (such as Bryansk and Moscow oblasts and Krasnodar and Stavropol kraia), active military officers ignored their ban on political participation and helped found regional DPA branches. Retired officers assumed leadership roles in most regional branches: the Udmurt branch is headed by former fighter pilot Col. (Ret.) V. Khodyrev; the Bryansk branch is headed by Air Force Lt. Gen. (Ret.) V. Kozlov; and the Penza branch is headed by Maj. Gen. (Ret.) M. Simonov.

In addition to individuals with military ties, many groups opposed to the current government helped create Rokhlin's regional branches. The Bryansk DPA branch was founded by 17 organizations, including: the Communists, the Liberal Democrats, the Agrarians, the Working Russia Movement, the Russian Communist Youth League, and the Union of Officers.

In Penza, the local DPA branch leadership is composed of Communists, members of the Union of Officers, representatives of the Derzhava patriotic movement, and members of the Russian Party. Both the Communists and members of the All-Russian People's Union helped create the Ivanovo oblast DPA branch. And in Saratov, Communists and their allies from the Popular Patriotic Union of Russia were joined by members of the Russian Communist Workers' Party and the Russian National Union in forming the regional DPA office. It was hardly coincidental, then, that at an 18 August 1997 press conference Rokhlin personally thanked Communist leader Gennadii Zyuganov, Vladimir Zhirinovskiy, and Honor and Motherland leader Aleksandr Lebed for their regional organizations' support in creating DPA's branch offices.

The number of DPA's regional branches grew steadily late last summer, jumping from 41 in August to 64 by the end of September. At the movement's founding congress, 69 regional branches were represented, with six regions (Stavropol, Voronezh, Rostov, Ryazan, Omsk and Ulyanovsk) already boasting two branches each.

Notably, the Russian Justice Ministry refused to register Rokhlin's movement in November, citing a discrepancy between the movement's charter and its official platform. In its charter, DPA was defined as a social, not a political, organization, although its program called for the resignation of the president and the government. The Justice Ministry suggested that the movement add the word "political" to its title. To make that change, DPA had to convene regional conferences and, on 25 December, another national congress. Regional conferences were used to review the movement's performance. During its meeting, the Moscow oblast branch, for example, reported that after four months of activities membership had climbed from several hundred people to 5,000, and that nine out of ten Moscow districts had their own branches. By early January, the DPA re-applied for registration; its application has not yet been approved.

It is difficult to say what the future holds for Rokhlin's movement. DPA was apparently created in the hope that Russia would face parliamentary elections in the near future. However, if elections are held as scheduled in December 1999, DPA might not survive until then, especially given Rokhlin's disagreements with the leadership of the Duma opposition parties, most notably the Communists. If the Communists remove Rokhlin as the chair of Duma Defense Committee, regional Communist Party branches will certainly be instructed to withdraw their support from DPA's branch organizations. That would significantly weaken DPA because the movement would be forced to rely on officers'unions for support, in effect becoming an organization of retired military officers. It's not surprising, then, that Rokhlin has recently been distancing his movement from the Communists and repeatedly boasting of the influx of Zhirinovskiy supporters to regional DPA branches. Liberal Democrats do often prey on easy conquests, but they will hardly consider DPA a valued prize, especially if it ceases to function as a consolidating force for regional opposition groups.

PERSONAL PERSPECTIVE

WAHHABISM: THE REAL ENEMY OR JUST A CONVENIENT TARGET FOR DAGESTAN'S LEADERSHIP?

by Nabi Abdullaev, *Novoe Delo*

MAKHACHKALA—Among some of the fallacies perpetuated by Dagestan's political leadership and the top clerics of the traditional Caucasian branch of Islam is the association of Wahhabism with political extremism. Public opinion shaped by that prejudice is then used to justify certain political actions. To fully appreciate the roots of the conflict, one must understand what differentiates the two branches of Islam practiced in Dagestan.

The so-called traditional Dagestani Islam is a blend of Muslim teachings and local practices. Overseen by a well-developed clerical bureaucracy, traditional Islam is headed by Mufti Saiyd-Mohammed Abubakarov who is in charge of the Spiritual Administration of the Dagestani Muslims (DUMD). Those clerics consider all ethnic Dagestanis are their congregation and feel entitled to meddle in the republic's political affairs. For example, as a show of force DUMD prevented the government from erecting a monument to Imam Shamil to mark the 200th anniversary of his birth. Another victory for the clerics was the December 1997 Law on the Freedom of Religious Confession in Dagestan (see below).

The Wahabis appeared in Dagestan 5,000 to 6,000 years ago. The group now claims between 3,000 and 10,000 members. Their form of Islam is very close to the literal Koran and they consider themselves spiritual heirs to the Medina community of the first Muslims under the leadership of Mohammed. They reject subsequent interpretations of the Koran and follow its prescriptions to the letter: they do not shave their beards, smoke, drink alcohol, and they favor ankle-length pants. They do not refer to themselves as Wahhabis, but simply as Muslims.

The Wahhabis reject state authority, especially restrictions on the possession of arms. The Koran prescribes that every Muslim be strong and allows for the ownership of weapons. The Wahhabis actually challenge state authority, much to the dismay of Dagestani leaders. The Wahhabis also resent the institution of the mullahs, the Muslim clerics who serve as middlemen between ordinary Muslims and Allah. The mullahs execute certain rituals in exchange for goods or fees. Wahhabism thus threatens the material well-being of the traditional clerical establishment.

Yet political authorities are largely at fault for the recent conflict between the Republic of Dagestan and the Wahhabis. The first major clash with the Wahhabis took place in the village of Karamakhi in June 1997. Thanks to the activities of local DUMD activists, a small fist fight between two relatives was inflated into an armed conflict involving hundreds of people. One person was killed and several wounded, but nobody was arrested afterwards. What started as a personal fight was later portrayed as religiously based animosity. Ever since then, any kind of disagreement involving the Wahhabis in the republic has been accompanied by commentary on the religious affiliation of those involved. Coverage of other incidents is usually not accompanied by such commentaries. While other groups also possess arms they do not come under the government criticism as do the Wahhabis.

Under public pressure, Deputy Prime-Minister Saiyd Amirov initiated a peacemaking meeting between Wahhabis representatives and members of the traditional Muslim community. The former expressed their readiness for dialogue but the clerics rejected the very notion of cooperation, mocking and insulting the "heretics" with the support of the chairman of the Parliamentary Committee on Religious Affairs. Members of both sides left the meeting

infuriated, and Wahhabi leaders canceled planned press conferences.

Ever since then, official government pronouncement portray the Wahhabis not as a religious group but as an extremist political organization. That is far from the truth: several far from extremist Arabic states practice Wahhabism as their state religion (including Saudi Arabia). One accusation often deployed against the Wahhabis is that they receive covert aid from Saudi Arabia and Jordan. The local chief of the Federal Security Service counterintelligence department confirmed such support, but the Wahhabis deny it. Foreign gifts for traditional Muslim projects, such as a \$5 million Turkish donation for building the cathedral mosque in Makhachkala, are accepted and encouraged. Another serious accusation against the Wahhabis is that they were trained in special camps in Chechnya under the supervision of foreign Wahhabi military instructors. But that training is open to anybody, not only the Wahhabis. Russian military detachment in Buynaksk is also often linked to the Wahhabis. While regional and federal officials have failed to determine who masterminded the attack, all claim that the Wahhabis were somehow involved (see *IEWS Russian Regional Report*, 8 January).

The perceived Wahhabi threat to the security of Dagestan has been widely discussed in the local and national press. The Popular Assembly of Dagestan was moved to adopt the Law on the Freedom of Religious Confession. Introduced in April 1997 at the initiative of the DUMD and the head of the Islamic Party of Dagestan, the law was returned to the committee for revision several times. The Muslim lobby finally managed to pass it on 30 December. In an effort to curtail the activities of "non-traditional" religious organizations, the law copies the registration provision of its federal counterpart, requiring any religion that has existed for 15 years on the territory of Dagestan to be registered. Moreover, the law forbids more than one organization of each religious denomination. Thus, after the DUMD registers, the Wahhabis can not register their congregations, preventing them from building mosques, publishing papers, etc. The law places religious education abroad under state supervision, but *de-facto* under the aegis of DUMD. Additionally, an expert council composed mainly of DUMD members will oversee the import of religious texts and video and audio materials and determine whether they should be distributed.

That law is the clearest example of the inconsistency of government policies toward the Wahhabis. Accusing them of political extremism, the government persecutes the group as a religious community. Real extremists do not need to register and no expert council can curtail their actions. The only people who will suffer from that law are peaceful religious groups forced to endure discrimination. Contrary to the official propaganda, the adoption of the law was not an anti-extremist measure but rather an anti-liberal step. The law contradicts both the federal and the republican constitutions by placing responsibility not on a person or his behavior but on group identification.

As a result of the law's passage, many Wahhabi media were shut down and their printing facilities confiscated by the government in the first half of January. Several people were arrested, including some nonagenarians, and accused of possessing fire-arms. The leader of the Islamic Center "Kavkaz," Mohammed-Shapi Djankishiev, one of the chief Wahhabis in the republic, was also arrested. The Wahhabis claim the victims were set up by the police.

At a recent organizational meeting for an upcoming conference on the unity and integrity of Dagestan, chairman of the Parliamentary Committee on Religious Affairs Surakat Asiyatilov

made sweeping accusations about a certain inflammatory book that had been distributed near mosques. The book allegedly called for the violent overthrow of governments in the North Caucasus and for a war against Russia. When numerous journalists attending the meeting requested to examine a copy of the book, no books were available and their absence was explained by various pretexts. That propaganda trick designed to incite more anti-Wahhabi feelings worked, as many newspapers picked up the story and ran it the next day despite the dubious source of information.

Similarly, rumors are common about the publication and wide distribution of inflammatory Wahhabi flyers. Even though the group denies the existence of such flyers and no evidence has been presented to prove their existence in court, the rumors persist and the existence of the flyers is taken for granted.

As to the traditionalists' credentials as upholders of the constitution, the recent conference of the regional branch of the Union of Muslims of Russia demonstrated that many of their leaders call for the establishment of an Islamic state in Dagestan ruled by the *sharia* code of laws. Moreover, those calls were received enthusiastically by high-level Muslim authorities attending the conference.

The fabrication of the Wahhabi "enemy image" is good politics for the republic's top leadership. In general, those leaders prefer that Dagestanis live with a siege mentality, fearing a potential 'fifth column' that can tear the republic apart from within. Such a perception makes it easier to petition for federal subsidies, which comprise 90% of the republic's budget. For example, a day after the Buynaksk attack, the head of Dagestan's legislature, Magomedali Magomedov, spoke at the Federation Council, soliciting financial and moral support. Immediately, 210 billion old rubles (\$35 million) were granted. Moreover, the authorities are doing everything in their power to provoke the Wahhabis to violence. No attempts at constructive dialog are even attempted. The traditionalist Muslim clergy led by the DUMD also likes to perpetuate the enemy image of the Wahhabi. Allied with the republican government, the clerics persecute the Wahhabis and score political points, gaining increasing access to the political process. In that way they resist any threats to the material well-being that accompanies their status.

Popular attitudes toward the Wahhabis, meanwhile, have shifted from outright resentment to greater tolerance. The public has become annoyed by the repeated falsified and exaggerated accusations. The image of persecuted religious fanatics only makes the Wahhabis more appealing. When the public, especially young people, compare the opulent and corrupt materialistic elites ready to sacrifice popular interests in order to stay in power with the Wahhabis who live justly and ascetically, as some believe, they naturally sympathize with the latter. All Wahhabis consider each other brothers and seek vengeance if any of their people are wronged. Living in a close-knit community they are quite supportive of each other and help each member cope with the extremely difficult economic situation in Dagestan. Every new convert receives a machine gun, a sense of camaraderie, and a feeling of being part of a greater cause even if he gives up some 'unnecessary' freedom.

TAX ISSUES

REGIONS BATTLE EACH OTHER FOR TAX REVENUES

by Yury Rodygin, AVE-Info

NIZHNII NOVGOROD—Trade wars between countries are common, but in Russia various regions are waging trade wars against each other, a battle fostered by the federal government's peculiar taxation policy. Individuals and corporations are taxed according to their income levels, which in turn links each region's potential tax revenues to the state of the local economy. Yet regardless of local economic conditions, the federal government requires regions to pay set taxes, no matter how much they have been able to collect in local tax revenues. Concomitantly, regional authorities depend heavily on federal financing. Nizhnii Novgorod Oblast, for example, assessed a 1.5% road tax that was used to finance the region's highway infrastructure, a key component of the local economy. Last year, the federal government ordered oblast authorities to increase the tax to 2.5% and send half of the revenue to Moscow. Although Moscow had promised to return some of the funds by the end of the year, the oblast received nothing. As a result, highway construction in the region was curtailed and has virtually ceased this year while pressure to submit federal tax revenues has increased.

Those demands push local authorities to pump as much tax revenue out of the oblast as they can, using means fair and foul. For instance, Nizhnii Novgorod Oblast has a strong vodka industry, accounting for 30% of its tax revenue. In a protectionist--if unconstitutional—move, the oblast introduced a certification procedure for competitors from outside the region. In truth, that procedure amounted to an additional tax on imported vodka. When the oblast prosecutor contested the decision, his pleas were ignored. (The city of Moscow and several other regions have introduced similar procedures.)

The regulation of the vodka industry does not stop there. According to one vodka wholesaler who wished to remain anonymous, importing vodka from other regions is still profitable even after all taxes are paid. The larger problem is traffic police posted on oblast borders who search all passing trucks and use the flimsiest pretenses to fine or block the import of goods from outside the region. A search by a traffic police officer is soon followed by a visit from a tax inspector, a public health service inspector, or a fire inspector. Most retailers refuse to sell imported vodka because doing so simply creates too many problems with the regional government. The oblast vodka market is thus protected more closely than the country's nuclear secrets.

For Tatarstan's budget, oil is as important as vodka is for Nizhnii Novgorod. Oil cannot generally be easily bought for processing, and to further check transactions the state monitors all sales. Tatneft will not sell a drop of oil without making tax payments to Tatarstan. Similarly, Moscow-based oil companies are interested in channeling taxes to Moscow.

Even if Nizhnii Novgorod-based NORSI-Oil does not turn a profit (which is very likely), it may pay taxes. The example of Nizhnii Novgorod's Kaprolaktam factory shows how that is done. The controlling shares in the plant had belonged to the state, but were transferred in trust to the RusKhim financial-industrial group, formerly part of the Chemical Industry Ministry. RusKhim managed all sales of the factory's products. It created a network of firms in Moscow and then forced Kaprolaktam to sell its products to them below cost. Profits were realized in

Moscow, and Moscow collected all the taxes while the plant itself was dying. Only after an 18-month tug-of-war and the intervention of former Nizhnii Novgorod Governor Boris Nemtsov did the situation change. Given those past conflicts, the cool relations between Nemtsov and Moscow Mayor Yurii Luzhkov are not surprising.

Certain people want to see NORSI-Oil follow the same route. Small portions of the company's shares are impossible to sell, although its debts are astronomical. Yet Moscow, Nizhnii Novgorod, and Tatarstan have been wrestling for three years to control the company. Consider Nizhnii Novgorod media coverage about the recent agreement signed between the oblast and Tatarstan (see *IEWIS Russian Regional Report*, 29 January). Newspapers close to the oblast government insist the agreement is mutually beneficial and will give NORSI-Oil a second lease on life. Newspapers close to Tatneft and LUKoil hardly discuss the agreement. When they do mention it, they point to the role of now First Deputy Prime Minister Nemtsov, without whose pressure NORSI would never have obtained Tatarstan's raw oil and Tatarstan would have developed its own petrochemical processing industry—something its leaders still seek.

In this tug-of-war for tax revenues between the federal government and regional authorities, the regions also try to pressure the federal government. Large local enterprises that receive federal credit use it to their advantage, saying: "Either you cut us a favorable deal on taxation or we will never pay back your loans." It is no secret that the recently signed presidential decree granting favorable customs duties to enterprises with large direct foreign investment is designed to help Nizhnii Novgorod's GAZ develop its joint venture with Italian car-maker Fiat. Thus, the market economy has unleashed fierce competition throughout Russia, but the methods firms use to compete in that competition are command economy dinosaurs.

ECONOMIC ISSUES

LUKOIL, SARATOV SEEK OIL IN VOLGOGRAD. Volgograd Oblast officials and LUKoil representatives last week discussed searching for oil in the north-eastern region of Volgograd Oblast. Prospectors believe there is a good chance they will find oil on the eastern bank of the Volga River. Currently there are no wells in the area. Regional officials say LUKoil is ready to invest 13.5 billion old rubles (\$2.25 million) this year. LUKoil has already concluded similar agreements with 16 Russian regions, including Astrakhan and Samara.

Saratov officials have already demonstrated a strong interest in the potential oil fields: Saratovneftegaz is looking for oil in northern Volgograd Oblast, and, according to the weekly *Delovoe Povolzhie*, Governor Dmitrii Ayatskov has even suggested changing the administrative border between Saratov and Volgograd oblasts to incorporate the field into Saratov. He argues that the proposed land grab would re-establish a region set aside for Volga Germans inside Saratov. Part of the land formerly devoted to the Volga Germans is now part of Volgograd Oblast. - Ivan Kurilla in Volgograd

MORE COAL MINES CLOSE IN PRIMORE. On his recent trip to Primore, First Deputy Fuel and Energy Minister Aleksandr Yevtushenko praised local power utility employees for not allowing power shut downs this winter. The purpose of Yevtushenko's visit was to coordinate

reconstruction of the region's coal industry. As part of that effort, five more uncompetitive coal mines will be closed, leaving 2,500 people unemployed. Yevtushenko promised funding to help the redundant workers find new jobs, a luxury offered only to employees of Russia's coal industry. Defense industry workers, for example, are laid off without compensation. According to Primorskugol Coal Company General Director Anatolii Vasyanovich, despite the closure of the mines extraction levels will rise because new fields are being developed where coal will be extracted from open pits. – Sergey Shilo in Vladivostok

JOINT VENTURES BLOSSOM IN MOSCOW OBLAST. Moscow Oblast is rapidly developing its foreign economic relations. In 1996, the oblast enjoyed \$400 million in foreign investment and by 1997 that figure rose to nearly \$1 billion. The number of joint ventures (2,000) and their impact on the local economy are increasingly noticeable, too. For example, a Mars candy plant in Stupino pays \$40 million in oblast taxes, or 38% of the total budget revenue. The steady increase in foreign capital will likely foster even more joint ventures. For instance, a trash-processing plant worth \$40 million will be built in the city of Odintsovo and a pharmaceutical plant worth \$30 million is in the works for the Vidnovsky district. A plant for producing beer and soda cans will be built in Naro-Fominsk district, with the capacity to produce 5.5 million cans yearly. The cost of construction is estimated at \$60 million, with financing from Swedish firms. Italy's Merloni just signed a \$100 million contract to set up a washing machine manufacturing plant in Fryazino. Some agricultural projects are also underway, such as a joint venture with Dutch companies to grow potatoes and cabbage using the latest Western technologies. Experts claim that rapid growth in all aspects of Moscow Oblast's economy as well as increased foreign and domestic investment will continue in 1998. If that proves true, Moscow Oblast will remain among the few profitable regions of Russia. - Dmitry Makarov and Svetlana Zotova in Moscow

TVER OBLAST PRODUCES NEW SEISMIC SURVEY MACHINES. The city of Kimry in Tver Oblast is becoming one of Russia's key centers of seismic survey technology, which is used by developers of oil and gas deposits. The Geoswip -Savma company, which traces its roots to the 20-year old Belarusian company Seismotekhnika, will produce survey equipment there. The top management and staff of Seismotekhnika relocated to Moscow after the Soviet Union collapsed in 1991. Russia is an interesting area for oil and gas exploration because it boasts many untapped deposits. Seismotekhnika's staff was taken under the wing of Geoswip, a company spun off from the Ministry of Fuel and Energy.

As the number of orders for survey equipment grew, Geoswip decided to locate its main production facilities in Kimry. General Director V. Malkov was born and raised in the city and began his professional career there. In conjunction with the local company Savma, Geoswip founded Geoswip-Savma, located on 5,000 sq. meters of land belonging to the Ministry of Fuel and Energy. The firm expects all of its facilities to be running at full capacity in two years. Five pieces of equipment are almost ready for the first client, Bashspetsgeofisika, which plans to use them in the Far North. The machines include some French, German, and American components and cost \$300,000 each. - Boris Goubman in Tver

REGIONAL PROFILE: OREL OBLAST

Governor Yegor Stroev

Yegor Stroev was reelected governor in October 1997 with 95% of the vote. Observers charged that Stroev had essentially staged sham elections because only one other candidate, a little-known local collective farm director, was registered for the race. The regional electoral commission denied registration to two other would-be candidates.

Stroev was born in 1937 in an Orel Oblast village, the son of a collective farmer. He began working as a Communist Party functionary in 1963, rising to become the first secretary of the Orel Oblast Communist Party Committee (1985-1989), a member of the CPSU Central Committee (1986), secretary of the Central Committee in Charge of Agriculture (1989), and, finally, a Politburo member (1990). After the 1991 coup, he avoided joining any of the new Communist parties and went to work in a research institute.

In April 1993, Stroev was elected governor of the oblast with Communist backing. In December of that year, he was also elected to the Federation Council, the upper house of the new Russian parliament. There, he served as a member of the committee on budget, finance, and taxation. In May 1995, Stroev joined the pro-government Our Home Is Russia (NDR) movement, led by Prime Minister Viktor Chernomyrdin, and became a member of its Political Council; however, he does not actively participate in the movement. In January 1996, he was elected chairman of the Federation Council by a vote of 147 to 19. Later that year, he was also elected chairman of the Parliamentary Assembly of the CIS countries. Despite his Communist background, Stroev has largely been loyal to both President Yeltsin and Prime Minister Chernomyrdin, although he personally supports strong state regulation of economy.

Other Local Leaders

Chairman of the Oblast Duma -- Nikoali Volodin, elected in April 1994

Brief Overview

Orel Oblast is located in the center of European Russia. It borders Bryansk, Tula, Kaluga, Lipetsk, and Kursk oblasts. The region is rich in water resources: it has over 2,000 rivers, although none are suitable for navigation. The oblast is fairly poor in mineral resources. According to a 1995 Bank Austria survey, the oblast is ranked 18th among Russia's 89 regions in terms of investment climate.

Major industries include machine building (employing over 50% of the industrial labor force), ferrous and non-ferrous metallurgy, light industry, and food processing. The oblast has a well-developed agricultural sector and is among the top ten regions in per capita production of grains, milk, and meat. Orel Oblast exports a mere 5% of its industrial output and imports two-thirds its energy as well as automobiles, food, and textiles. Coca-Cola has a major bottling facility in the region. Last November, a presidential decree permitted the oblast and several other federation subjects to issue Eurobonds.

Basic Facts

Population (1995-est.): 915,900 (0.62% of Russian total)
Industrial production as percentage of all Russian production (Jan.-Aug. 1995): 0.32%
Agricultural production as percentage of all Russian production (1994): 1.06
Average personal income index (July 1995): 71 (Russia as a whole = 100)
Price basket index (July 1995): 77 (Russia = 100)
Average back wages owed per person (September 1995): 36,500 rubles (Russian average = 37,100)
Urban population: 62.7% (Russia overall: 73.0%)
Student population (1993): 180 per 10,000 (Russia overall: 171/10,000)
Pensioner population (1994): 28.65%
Percentage of population with higher education (1989 census): 8.8 (Russia overall: 11.3)
Percentage of population employed in: (1993) Industry: 30.5 (Russian average: 29.9);
Agriculture: 21.3 (12.8); Trade: 7.9 (9.1); Culture: 10.2 (13.6); Management: 2.4 (2.3)
Number of telephones per 100 families (1993): in cities: 36.5 (Russian average: 41.5); in villages: 13.2 (17.2)

Electoral History

1996 Presidential Election

(all figures as percentages of total voter turnout)

Turnout: 73.96%/72.74% (first round/second round); Russia overall: 69.67%/68.79%

Zyuganov: 54.25/63.28

Yeltsin: 21.46/32.05

Lebed: 11.8

Zhirinovskiy: 4.41

Yavlinskii: 3.89

1995 Parliamentary Election

(all figures as percentages of total voter turnout)

Turnout: 70.47% (Russia overall: 64.37%)

Communist Party of the Russian Federation: 44.85

Liberal Democratic Party of Russia: 9.48

Our Home Is Russia: 5.08

Communists -- Workers' Russia: 3.88

Agrarian Party of Russia: 3.62

Women of Russia: 3.35

Congress of Russian Communities: 3.23

Derzhava: 2.82

Yabloko: 2.78

Party of Workers' Self-Government: 2.77

Russia's Democratic Choice: 2.13

In a single-member district: 1 Communist Party of the Russian Federation

1993 Constitutional Referendum

"Yes" -- 39.85% "No"-- 60.15%

1993 Parliamentary Elections

(all figures as percentages of total voter turnout)

Turnout: 65.67% (Russia overall: 54.34%)

Liberal Democratic Party of Russia: 31.80

Communist Party of the Russian Federation: 25.69

Russia's Choice: 9.58

Agrarian Party of Russia: 7.03

Women of Russia: 6.04

Democratic Party of Russia: 5.48

Party of Russian Unity and Concord: 4.69

Yabloko: 4.13

In a single-mandate district: 1 independent

From electoral associations: 1 Communist Party of the Russian Federation, 1 Liberal

Democratic Party of Russia

1991 Presidential Elections

(all figures as percentages of total voter turnout)

Turnout: 82.43% (Russia overall: 76.66%)

Yeltsin: 52.96

Ryzhkov: 19.55

Zhirinovskiy: 9.30

Makashov: 5.92

Tuleev: 5.60

Bakatin: 2.68

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of the 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995.

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BREAKING NEWS

POLITICS

SARATOV GOVERNOR QUIZES BUREAUCRATS. Saratov Governor Dmitrii Ayatskov has been testing how well his assistants and other state employees know the Russian constitution and oblast charter. More than 1,500 officials have been tested and many have done poorly. The governor personally administered the test to high ranking officials. Three ministers in the oblast government and three heads of local administrations flunked. Ayatskov fired four of the officials and gave the other two time to brush up on their knowledge. The governor said he passed his own exam when President Boris Yeltsin came to the region last year and asked hundreds of questions. (*Izvestiya*, 20 February)

KRASNOYARSK RACE SHAPES UP. Krasnoyarsk Governor Valerii Zubov will campaign as a governor who can bring investment to his region while portraying his main opponent, former Security Council Secretary Aleksandr Lebed, as devoting most of his energy to raising money for a presidential bid in 2000. As Lebed announced his candidacy for the governor's seat, Zubov headed to Japan, following up on the 1 November Russo-Japanese summit held in the region. (*Kommersant-Daily*, 18 February)

AUSHEV DENOUNCES SUPREME COURT DECISION. Ingushetiya President Ruslan Aushev denounced the Supreme Court's decision overturning his decision to hold a referendum 1 March in his republic to transfer greater control over the judiciary from the federal to regional level. He charged that the federal government sought to keep the regions "on a short leash" and that while Russia spoke of federalism, it was in fact building "a unitary state that deprived the regions of the most vital powers." He claimed his referendum sought to strengthen the fight against corruption and did not reflect "separatist" tendencies. A congress of the Ingush people will make a final decision on holding the referendum on 26 February. (*Kommersant Daily*, 19 and 20 February)

While the charismatic Aushev remains popular in the republic, the region's economic difficulties open the door for his opponents in the 1 March presidential election. The republic lost its status as a free economic zone in 1997, losing the easy money brought by that status and falling victim to skyrocketing unemployment which has pushed unemployment among youth as high as 80%. (*Izvestiya*, 25 February) The poor economic situation exacerbates the conditions of the numerous refugees who have fled from North Osetiya. The main candidates in the race strongly support Ingushetiya's continued status within the Russian Federation. Aushev is not conducting an active campaign and, in fact, spends most of his time in Moscow. His eight

opponents, meanwhile, criss-cross the republic, holding dozens of meetings with voters.

DZASOKHOV FACES DIFFICULTY FINDING HELP IN NORTH OSETIYA.

Recently elected President of North Osetiya Aleksandr Dzasokhov is directing his energy toward revamping the image of his republic away from that of a producer of illegal vodka and hopes to generate investment. However, he has had great difficulty enticing people to join his effort by serving in the republic's government. Many of those offered posts now live in Moscow and are unwilling to return to the North Caucasus to try to revive the North Osetiyan economy. (*Kommersant Daily*, 19 February)

YELTSIN MEETS WITH DZASOKHOV AND AUSHEV. President Yeltsin met with North Osetiya President Aleksandr Dzasokhov and Ingushetiya President Ruslan Aushev on 24 February. Any discussion among the three of how to return Ingush refugees to the Prigorodnii region of North Osetiya was not disclosed. Many Ingush fled after the outbreak of violence in 1992. The meeting supported a trip by all North Caucasus presidents to Chechnya, scheduled to occur before Yeltsin makes his previously announced trip there. *Nezavisimaya gazeta* (25 February) suggested that this move may be an attempt to indefinitely postpone Yeltsin's trip because the federal government now realizes it does not have the financial resources to help the war-torn republic. Chechnya hopes that involving the republican presidents will shift the resolution of its conflict with the federal government away from a debate between the federal government and a region that views itself as an independent country to a discussion among equal-ranking leaders of several Russian regions, a situation it rejects out of hand.

SKLAROV CHARGED WITH FEDERAL POLICY IN UPPER HOUSE. The Federation Council elected Nizhnii Novgorod Governor Ivan Sklyarov chairman of the Committee on Regional Policy and Federal Relations, after Anatolii Sychev, the chairman of the Novosibirsk legislature, failed to win reelection. Tatarstan President Mintimer Shaimiev strongly backed Sklyarov's candidacy. (*Kommersant-Daily*, 19 February)

ROKHLIN, COMMUNISTS TO COORDINATE OPPOSITION TO YELTSIN.

Gennadii Zyuganov's Communist National Patriotic Union of Russia (NPSR) and General Lev Rokhlin's organization promoting the ouster of Yeltsin and stepped up military reform agreed on 19 February to coordinate their future activities. The Communists had initially supported Rokhlin's anti-Yeltsin efforts but then became more cautious and began backing away from him (see *IEWS Russian Regional Report*, 19 February). The Communists were afraid Rokhlin would try to steal their prized network of regional party branches, seeking to combine them with his potential base of disgruntled military personnel. Rokhlin's group has not joined the NPSR, making the alliance between the general and the Communists more tactical than strategic. (*Russkii Telegraf*, 20 February)

LANDSBERGIS ON KALININGRAD. Lithuanian Prime Minister Vitautas Landsbergis said he believed his country would approve the Russo-Lithuanian border agreement without any difficulty. After meeting with Federation Council Chairman Yegor Stroeve, he claimed that the

upper house of the Russian parliament would support it as well. He saw more trouble in the State Duma, however, because of attempts by members such as Deputy Speaker Sergei Baburin to tie the adoption of the treaty to other issues. He stressed that except for a few radical nationalists, everyone in his country recognized the current status of Kaliningrad Oblast. Kaliningrad is the only Russian region that is not contiguous with the rest of the country. (*Segodnya*, 19 February)

PETERSBURG PROPERTY OFFICIAL ATTACKED. Two men savagely attacked the chairwoman of the Vasileostrov Raion Property Committee, Tatyana Kovaleva, on 19 February. She was taken to the hospital in serious condition after the thugs beat her and slashed her face with a knife. Last year Mikhail Manevich, the chairman of the city property committee, was assassinated in a crime that remains unsolved (see *IEWS Russian Regional Report* 21 August 1997 and 18 December 1997). (*Segodnya*, 20 February)

TATARSTAN'S POWER-SHARING AGREEMENT WITH RUSSIA EXPIRES. Tatarstan's power-sharing agreement with Russia expired 15 February after being in effect for four years following its signing in 1994. Now the republic and the federal government are discussing the provisions of a new treaty. The federal government's main concern is to ensure that the new treaty is in line with the 1993 Constitution and other federal legislation. The federal government is also concerned that Tatarstan's constitution, like the constitutions and charters of many regions, contradicts federal law. The republican legislature's decision to consider a law on citizenship that would give residents of the republic the right to hold dual Tatarstani and Russian citizenship is also troubling the Kremlin. One draft of the bill even allowed Tatarstani citizens to give up Russian citizenship. Many in Tatarstan have protested the introduction of new internal Russian passports that do not identify the bearer's nationality. (*Rossiiskaya gazeta*, 21 February)

NOVGOROD BATTLES TUBERCULOSIS. Novgorod Oblast Governor Mikhail Prussak announced a program to fight tuberculosis in his north-western region. The number of cases there has risen 85% recently. The region hosts one of the country's largest maximum-security prisons, which specializes in holding inmates with the disease. Sick prisoners from 18 regions, including Moscow and St. Petersburg, are sent there. Many of the prisoners remain in the region even after they are released. Of the inmates in the region's five other prisons, 10% are infected. Now the prisoners in the maximum security prison are baking bread and potato pies that are sold in city stores, even though tuberculosis is a highly contagious disease and can be transmitted from infected bakers to consumers. (*Segodnya*, 23 February)

KEMEROVO REDUCES COMMUNIST MAJORITY IN CITY COUNCIL. Kemerovo voters elected 12 Communists and nine non-Communists to their city council during 22 February elections. The non-Communists made large gains that could reflect the region's growing disenchantment with Communist promises to improve the local economy. Although the leftist Aman Tuleev replaced the despised Yeltsin-appointed Governor Mikhail Kislyuk last year, the region remains mired in poverty (see *IEWS Russian Regional Report*, 3 July 1997).

The Communist majority in the council does not criticize Tuleev. (*Russkii Telegraf*, 24 February)

NAZDRATENKO BLAMES MEDIA FOR CREATING "TWO PRIMORES." In an interview with *Izvestiya* (25 February), Primorskii Krai Governor Yevgenii Nazdratenko blamed the media for creating two Primores, perpetrating a false image of the area. In the real Primore, Nazdratenko claimed, the tax service collected 96% of all taxes in 1997 while Russia in general only collected 62%. Pensions are paid on time and the region is one of the most attractive for foreign investment, attracting \$600 million in mining, forestry, and fish processing investments in 1997. He blamed the krai's energy problems on oil and coal prices that were set too high by others whose actions were beyond his control. He also blamed the federal government for not paying for the energy it uses in the region; because the government now owes 800 billion rubles (\$133 million) to Dalenergo in back payments, there is no money to pay coal miners. He complained that as governor he wields little power because most functions are divided between Moscow and local governments. While theoretically responsible for everything, he claimed the ability to do nothing. He called for a strong role for the state in the economy and the nationalization of the entire energy complex.

KARACHAEVO-CHERKESIYA UPDATE. Activists in Karachaevo-Cherkesiya have collected more than 60,000 signatures from the 250,000 voting-age residents of the North Caucasus republic demanding that republican presidential elections be held. The organizers have passed the signatures to President Yeltsin. Karachaevo-Cherkesiya is the only Russian region that currently does not have an elected leader. (*Nezavisimaya gazeta*, 24 February)

ECONOMICS

ST. PETERSBURG ANNOUNCES INCENTIVES FOR INVESTORS. St. Petersburg Governor Vladimir Yakovlev on 20 February announced a series of tax breaks designed to lure investment. The benefits include reductions in city profit taxes if the profits are reinvested or used to pay bank credits for the initial investments. Additionally, investors who plowed more than \$50 million into their projects between 1 January 1992 and 31 December 1999 are free from property tax through the year 2000. Those investing between \$25 million and \$50 million will pay only half of their property tax. The measures are expected to cost the city 500 million new rubles (\$83 million) in lost revenue. The adoption of earlier tax holidays in 1996 did not increase investment. City officials, however, believe their incentives are better than those currently offered in Novgorod Oblast, considered the leader among Russian regions in providing investor tax breaks. Novgorod's benefits relieve investors of all regional taxes until they recoup a profit. (*Kommersant Daily*, 21 February)

ENERGY SHORTAGE IN KARELIYA MAY BE POLITICAL. In the middle of February, 17,000 people in Petrozavodsk, the capital of Kareliya, had their gas supplies reduced. In temperatures that dropped to minus 30 Celsius, apartment heating was cut because Karelenergo owed 37.8 billion old rubles (\$6.3 million) for gas. The regional Karelgaz claimed

the shutoff was simply because customers had unpaid bills. However, *Nezavisimaya gazeta* (20 February) suggests that politics may be behind the heating shut offs. At the end of January, the pro-government Our Home is Russia voted to back Petrozavodsk Mayor Sergei Katanandova over incumbent Viktor Stepanov in the 26 April governor's election. The gas supply reductions in the republic began shortly after that decision. (*Nezavisimaya gazeta*, 20 February)

AUTOPRODUCTION INCREASES IN 1997. During 1997, Russia produced 985,000 cars, 13.5% more than in the previous year. In addition, Russian factory workers assembled 15,200 automobiles from imported kits, nearly four times as many as in 1996. Light truck production rose to 146,000, 8% over last year. (*Finansovye izvestiya*, 19 February)

AUTHORITIES INVESTIGATE BANKRUPT CHELYABINSK TRACTOR FACTORY. The Chelyabinsk procurator is investigating whether the management of the Chelyabinsk Tractor Factory falsely declared the plant bankrupt. Management supporters charge that the investigation was launched because the plant managers did not want to subordinate themselves to Governor Petr Sumin's oblast administration. (*Kommersant Daily*, 20 February) Former Deputy Director of the firm's Board of Directors Valerii Synchin described the move as a property grab and "an attack on private property." (*Izvestiya*, 21 February) The plant's overall debts, including those to the government, are 2.3 trillion old rubles (\$383 million) and the workers have long gone unpaid. Recently, at an extraordinary stockholders' meeting, the factory owners decided to reorganize the firm as ChTZ-holding, thus legally avoiding the need to pay off the plant's debts. The Arbitration Court has blocked the reorganization because, according to Russian law, all of a plant's creditors must agree to the reorganization. Chelyabinsk Tractor has more than 3,000 creditors. The oblast administration is trying to win a large share of the plant's stock.

PRIMORE SEEKS TO REVIVE TRANS-SIBERIAN RAILROAD. During its Soviet heyday, the Trans-Siberian Railroad earned \$2 billion in profit while shipping 140,000 to 180,000 containers a year. Traffic has now dropped to about a ninth of the former total, to just over 20,000 containers annually. Primorskii Krai Governor Yevgenii Nazdratenko is trying to revive business on the railroad, which terminates in Vladivostok. The lack of cargo on the railroad means that Vladivostok's ports are underused and many workers are unemployed. Chinese ports have been able to attract much of the traffic and Chinese rail links connecting through Mongolia and Kazakhstan bypass the eastern portion of the Trans-Siberian. Train transport is more expensive than sea transport, but it can be quicker. Shipping a container from Taiwan to Hamburg, for example costs about \$800 by boat and \$1,000 by train. However, the boat takes 26 days while the train requires only 14. The administration is trying to lower the tariffs for using the railroad and hasten service. (*Nezavisimaya gazeta*, 20 February)

FOREIGN TIES

LUKASHENKO IN VLADIVOSTOK. Belarussian President Aleksandr Lukashenko

arrived in Vladivostok for an unofficial visit on 21 February. Lukashenko stressed that he made the visit to strengthen economic and cultural ties between his country and the Far Eastern region. He announced strong support for Primorskii Krai Governor Yevgenii Nazdratenko, whom Yeltsin has tried to fire, saying he backed the governor on a number of political and economic issues. Nazdratenko replied that it would be easier for Lukashenko to come to agreement with him than with the "Urinsons and Shteinbergs" in the government. (*Russkii Telegraf*, 24 February) Among the projects discussed was trading Far Eastern fish for heavy trucks from Belarus. (*Nezavisimaya gazeta*, 24 February) Leaving Vladivostok, Lukashenko headed to Novosibirsk to visit Governor Vitalii Mukha. After meeting with Kremlin opposition toward reuniting Russia and Belarus, Lukashenko is now developing ties with Russian regional leaders who do not support the Kremlin's policies. Nazdratenko and Mukha are prominent members of that camp. Although the visit to Vladivostok was officially "unofficial," it had all the trappings of a state visit. (*Vladivostok*, <http://vl.vladnews.ru/>, 24 February)

BUSINESS BRIEFS

-- The French cigarette maker **SEITA** has dropped **BRITISH-AMERICAN TOBACCO** (BAT) as its distributor in Russia and awarded the job to the Russian firm **SAVVA UNIVERSAL**. The Russian firm has a much stronger regional network than BAT. (*Kommersant Daily*, 19 February)

-- **GAZPROM** will cut its investments in new wells by a third and focus its resources on producing gas from existing wells in the **YAMAL-NENETS AUTONOMOUS OKRUG**, the company decided on 19 February. Gas production fell 5% last year. Eventually, Gazprom hopes to win investment for the Yamal-Western Europe pipeline, which will run 4,000 km and cost \$24 billion. New investment will also be required for bringing new wells on line with projected reserves of 10 trillion cubic meters. Gazprom will be hard pressed to raise that money on its own because its Russian customers owe \$13 billion from 1997. (*Russkii Telegraf*, 20 February)

-- The Turkish construction firm **ALARKO** has won a contract to build a \$60 million Ice Sport Palace in **ST. PETERSBURG**. The facility will host the world hockey championships in May 2000. (*Russkii Telegraf*, 20 February)

-- The **ST. PETERSBURG** heavy machinery **IZHORSKII FACTORY** sold 15% of its stock for \$16.7 million. The buyer's identity was not revealed. The plant owes \$71.93 million in back taxes to the federal and regional governments, but the money raised from the sale cannot be used to pay those debts. (*Moscow Times*, 20 February)

-- **UNITED TECHNOLOGIES** of the US donated \$100,000 to **MOSCOW'S** Tretyakov **Galery** on 19 February. The gallery does not have adequate funds to protect its collections against fire. (*Moscow Times*, 20 February)

-- **ST. PETERSBURG'S GOSTINII DVOR** finally reopened its second floor high-fashion showplace after nine-and-a-half years of renovations that cost about \$5 million. Sixteen firms, including **SONIA RYKIEL**, **GUY LAROCHE**, and **YVES SAINT LAURENT**, will have space there. (*Moscow Times*, 24 February)

-- **TATARSTAN'S NIZHNEKAMSKSHIN**, one of Russia's largest tire producers, has signed a contract with France's **SOCIETE GENERALE FINANCE DEVELOPMENT** to find a foreign strategic investor. The Russian company plans to sell the investor 20% of its stock for about \$160 million. (*Russkii Telegraf*, 21 February)

-- **ASSIDOMAN** valued its 57% stake in **KARELIYA'S SEGEZHABUMPROM** at \$52 million. The Swedish firm is now selling its shares, complaining that the legal situation makes it impossible to make a profit at the plant. (*Russkii Telegraf*, 21 February)

-- **VOLVO** representatives met with directors at the **TUTAEV MOTOR WORKS (YAROSLAVL OBLAST)**, **PAVLOVO BUS WORKS (NIZHNI NOVOGOROD OBLAST)**, **GAZ (NIZHNI NOVOGOROD)**, and **LIAZ (MOSCOW OBLAST)** to discuss the possibility of assembling Volvo buses. Agreements should be signed in May-June. Volvo has a \$16 million deal to assemble buses in **OMSK**. (*Russkii Telegraf*, 24 February)

-- Fiat's Turkish subsidiary **TOFAS** has agreed to supply 3,000 engines to **UDMURTIYA'S IZMASH** at a cost of 5.04 million old rubles each. (*Russkii Telegraf*, 24 February)

PATTERNS OF REGIONAL DEVELOPMENT

ARKHANGELSK PICKS HUMAN RIGHTS COMMISSIONER AMID CONTROVERSY. The long-running scandal surrounding the selection of the Arkhangelsk Oblast commissioner on human rights is finally winding down. The scandal began on 2 October 1997, when the oblast legislature appointed the governor's deputy and chief of staff, Oleg Petrov, as human rights commissioner. The public responded with outrage and protest, and some civil rights groups appealed to the procuracy, claiming the rules of procedure were violated during the selection process: The legislative session ended earlier than planned, and Petrov's opponents were never given a chance to address the body.

Additionally, a very important provision was omitted from the text of the oblast law on the human rights commissioner that had been widely published in the media. The omitted provision stipulates that the legislature's committees, with public consultation could nominate candidates. In the published version of the law, only the governor could nominate candidates. Few believed that was a simple typo, but the oblast procuracy decided there had been no conspiracy. However, the procurator officially protested and the full text of the law was finally published, after which the legislators reconvened for their winter session and revoked Petrov's appointment.

A new round of appointment hearings are scheduled for late February. Nine candidates have already been nominated, including Petrov and the vocal critics of his autumn appointment,

G. Dundin and R. Gabidulin. The upcoming selection is again a subject of public discussion and media attention. (*Arkhangelsk*, 21 February; *Pravda Severa*, 18 February; Pomorye TV, 19 February) - Gleb Tiurin in Arkhangelsk

ORTHODOX CONSPIRACY SUSPECTED IN NOVOSIBIRSK ASSASSINATION.

A suspect has been arrested in connection with the assassination attempt on Yakov London, president of NTSC TV and head of the local TV company NTN-4 (see *IEWS Russian Regional Report*, 22 January). The alleged assailant is a Russian Orthodox activist, Konstantin Saburov, who is a guard at the temple of the Shroud of the Most Holy Mother of God, where he authorities arrested him. During his temporary detention, police searched his apartment, confiscating photographs, notebooks, and draft articles. He was released after three days.

The police explained Saburov's arrest by citing his involvement in the Union for Moral Rebirth of the Fatherland, headed by Father Aleksandr Novopashin, the prior of the Cathedral of Aleksandr Nevskiy. The union was vehemently and vocally opposed to the broadcast of Martin Scorsese's film "The Last Temptation of Christ" on NTN-4. After the 2 January assassination attempt, the police began paying especially close attention to those opposed to the broadcast. Locals are skeptical about the "Orthodox" conspiracy theory, the only theory investigators have offered. Their skepticism may never be proved or disproved: two weeks ago, barely recovered from his wounds, Yakov London and his family emigrated to Israel. - Konstantin Kanterov in Novosibirsk

FAR EASTERN MILITARY DISTRICT TRAINS OWN OFFICERS. The critical shortage of junior officers in the Far Eastern Military District is forcing the district's command to take radical measures. At a recent ceremony, the district launched new training courses to prepare junior lieutenants. The 10-month courses will train privates, sergeants, and ensigns with post-secondary technical degrees as platoon commanders. This experiment resulted from the district's inability to attract more qualified candidates and its results remain unclear. - Sergey Shilo in Vladivostok

KOMI REPUBLIC LEGISLATURE CONFIRMS PRESIDENT'S APPOINTEES...

On 11 February, Komi Republic's legislature, the State Council, commenced its new session. The legislators discussed issues pertaining to the composition of the republican government, as submitted by President Yury Spiridonov. Running as an incumbent, Spiridonov won a convincing victory in the 30 November 1997 elections and was inaugurated on 30 December. The new cabinet list Spiridonov submitted to the legislature is identical to his old team. Moreover, the parliament changed the law on state service, removing the mandatory retirement age of 60, which accommodates some members of Spiridonov's team who are approaching or have passed that age limit.

A constitutional amendment rescinding the prohibition of the president or his deputies to hold posts in commercial or civic organizations was also adopted. Now, the legal separation between the state, the private sector, and civil society has been lifted. The only stipulation is that the president and his deputies cannot be reimbursed for holding other posts. Officials can still reap other benefits from executive positions in commercial companies, opening a legal door

for corruption. Even when the ban was in force, however, many high officials sat on the boards of various companies. (*Molodezh severa*, 8 February) Although no large-scale corruption scandals have come to light in Komi Republic, there is plenty of room for concern. As investment pours into the republic, it will be more tempting for companies to use well-placed board members. The only argument in support of the constitutional amendment was that the president and his deputies often have to serve in executive positions with various commissions and philanthropic foundations. (*Molodezh severa*, 12 February) - Yury Shabaev in Syktyvkar

...DISCUSSES LOCAL ELECTIONS AND COMPLYING WITH

CONSTITUTIONAL COURT RULING. Another question discussed by the Komi Republic legislators was local government elections. Shortly before the session commenced, President Spiridonov sharply criticized the Constitutional Court ruling declaring that several provisions of the Komi constitution pertaining to the formation of local government violates federal law (see *IEWS Russian Regional Report*, 5 February). Spiridonov had appointed mayors directly although federal law stipulates that they should be popularly elected. According to Spiridonov, the high court neglected to consider the provisions of the Federation Treaty. He interprets the latter to say that the center can only dictate how federal agencies are formed and the regions retain the right to form all lower-standing bodies. (*Molodezh severa*, 5 February) In practice, the treaty stipulates that the basic principles of local government formation come under the shared jurisdiction of the center and the republics. The center can issue laws defining the basics of local government formation, which the republics in turn use as a basis for their own legislative activity in that area.

Consequently, the State Council decided to schedule local government elections for 7 February 1999, together with republican parliamentary elections. (*Respublika*, 13 February) Thus, the heads of the republic's administrative subdivisions appointed by the president will remain in place for another year. While that is good for the republican government, the appointed local chiefs will find themselves at a disadvantage when they have to win a popular mandate next year to retain their jobs. - Yury Shabaev in Syktyvkar

SOCIAL ISSUES

ECONOMIC REFORMS CAUSE UNEMPLOYMENT IN KOMI

by Yuri Shabaev; Institute of Language, Literature, and History; Komi Research Center

SYKTYVKAR--The labor market in the Komi Republic closely mirrors that of Russia as a whole. Unemployment has climbed from 5% last year to 6.2% this year. In real numbers, the actual unemployment figure at the beginning of 1998 was much lower than earlier predictions of 40,000 persons. Yet that bit of news does not signal a great improvement in the labor market. In the 12 farming districts of the republic, unemployment is above 15% and in Ust-Kulomsk district *Molodezh severa* (12 February) reported it at 22.3%. Real rates of unemployment in farming districts are much higher than official statistics reflect because many timber-processing enterprises have ceased operations without laying off their staff in the hope of procuring government aid. Another reason the figures are skewed is that many of the unemployed do not

register with the agencies, dubious about their chances for receiving government support.

Whole villages of unemployed farmers have emerged in the Komi Republic. Life in such settlements usually comes to a near halt because local governments lack the resources to provide even the most basic services such as day-care centers, bakeries, power stations, or medical clinics. Those factors all feed social instability and the rapid "lumpenization" of the populace. The republican government has resorted to using sleight of hand to erase the problem, raising the standards one must meet to be declared "unemployed."

Federal authorities, meanwhile, are considering measures that will only worsen the fate of the jobless. For instance, the State Duma has given preliminary approval to a bill linking unemployment benefits to the official poverty level and not to the median wage. That measure will sharply reduce the level of unemployment benefits received by the residents in the North.

Komi's labor market directly depends on the health of key economic sectors, such as the coal, oil and gas, and timber industries. In all three industries, market reforms have prompted major restructuring. The labor market was most heavily hit by restructuring at the Pechora coal basin. Of 12 Vorkuta coal mines, four were named bankrupt and slated for closure. The same fate was in store for two of six Inta coal mines. In addition to the mines, some supporting enterprises would also be forced to shut down. Many people laid-off by those closures would be resettled in southern Russia, where there are more employment opportunities. Two of the Varkuta mines have been completely shut down and 5,000 people have been resettled, but the total population of the Vorkuta district has remained steady. That is because some people have moved into Vorkuta with the hope that they would become eligible for the federally-funded resettlement programs. Talks are under way in the State Duma on limiting migration into regions affected by federal industrial restructuring programs.

In contrast, the impact of restructuring on the oil and gas industry has been much milder, partially because the industry has managed to rid itself of the temporary workers who used to come from former Soviet republics for two or three weeks of employment. The situation could worsen as the conflict between the Komi Republic and the neighboring Nenets Autonomous Okrug exacerbates. Both regions contain parts of the Timano-Pechora oil and gas fields, which were developed by Komi-registered companies. Those companies now only pay Komi taxes, providing no revenue to the Nenets budget while exploiting the okrug's natural resources. The Nenets Autonomous Okrug, therefore, has been trying to push out the Komi companies.

Komi timber-processing enterprises were hit the hardest by market reforms. Their production costs are much higher than those of their competitors in the Republic of Karelia and Vologda Oblast, mostly due to expensive transportation. Many of them will be shut down, raising the real unemployment levels and creating additional settlements populated by people with no future.

TAX ISSUES

TAXES OR SALARIES? On 23 December, the Constitutional Court ordered enterprises to pay taxes before paying salaries. Angered by that decision, Nizhnii Novgorod Governor Ivan Sklyarov issued a decree partially contradicting it (see *IEWS Russian Regional Report*, 12 February). On 23 January, the State Duma asked the Court to revoke its decision. On 5

February, the Court ruled that it did not have the authority to do so (*Rossiiskaya gazeta*, 23 February). Instead, the Court called on the Duma and the government to adopt a new tax law that would allow tax and wage debts to be paid simultaneously by dividing available resources rather than requiring that tax debts be paid before wages. The Court also criticized the Duma's representatives to the Court for ignoring invitations to participate in the hearing. Below we publish an update on the situation in Nizhnii Novgorod.

WORKERS PROTEST COURT'S RULING ON SALARIES. According to Aleksandr Chichkanov, head of the oblast trade union association, the 23 December 1997 Constitutional Court ruling that mandated companies to pay taxes before paying back wages caused the region's salary arrears to increase by 108 million new rubles (\$18 million). (*Birzha*, 20 February) Nizhnii Novgorod Governor Ivan Sklyarov, with the backing of the regional legislature speaker, defied the high court when he issued his decree mandating local companies to use 50% of their earnings toward salary and benefits payments. The Constitutional Court's ruling takes precedence over regional laws, and local banks are often ignoring the governor's decree, scared to take his side in the standoff. Even letters from the tax police relieving banks of the obligation to transfer funds from companies' accounts to the government to pay back taxes have not helped. (*Perekryostok Rossii*, 20 February) The law mandates that banks transfer companies' tax penalties to the government within 24 hours of receiving the funds. Meanwhile, trade unions are planning to stage protests against the high court's decision. Workers of the Unified Energy Systems of Russia (UES), for example, have begun collecting signatures against making back tax payments before making back salary payments. - Yury Rodygin in Nizhnii Novgorod

IRKUTSK, BURYATIYA TO COOPERATE ON TAXES. Representatives of the Irkutsk Oblast government and the Republic of Buryatiya met last week to discuss the situation created by 26 Irkutsk companies operating in Buryatiya. Among those companies are Vostsibugol and the East-Siberian Railroad company. Although operating in Buryatiya, those companies only pay Irkutsk taxes. When the two regions signed an economic and social cooperation agreement last December, they charged financial agencies with drafting separate agreements governing tax collection from companies operating in both regions.

On 6 February, Buryatiya's government proposed a draft agreement. According to the head of Irkutsk's department of inter-regional relations, Semen Krut, the agreement would cost the oblast 10 million new rubles (\$1.7 million) in lost taxes just from the East-Siberian Railroads. He also noted that Buryatiya's host-municipalities have assumed the burden of providing social services for the East-Siberian Railroad's branches and that it is unfair for the railway operator to avoid paying the republic's taxes.

The 1998 oblast budget has already been adopted and there no mechanism to amend it exists. Special working groups from both sides have been charged with finalizing the draft agreement. The final draft will be appended with detailed tax accountings of each company involved and should be ready for consideration by both sides on 1 March. - Natalia Michurina (Teleinform) in Irkutsk

ECONOMIC ISSUES

PERM ROCKET ENGINES ENJOY MARKET DEMAND. Perm Motors has produced liquid-fuel rocket engines since 1958. The company currently produces the heavy rocket "Proton," which is a staple of the Russian space program. Of nine "Proton" launches last year, seven were commercial, delivering mainly American satellites and each launch generating about \$100 million in revenue. More commercial launches are planned for 1998. Proton's Director Vladimir Satyukov is assured of his company's future until at least 2010, given the high demand for the Perm-produced rocket engines. Although the company plans to double its output in 1998, most market demand will remain unmet. Soon, a more advanced rocket will replace the "Proton." (*Zvezda*, 20 February). - Andrey Suslov in Perm

NENETS OKRUG BETS ON ITS OIL RESERVES. At a recent press conference in Naryan-Mar, the Governor of Nenets Autonomous Okrug, Vladimir Butov, and the State Duma deputy representing the region, A. N. Chilingarov, spoke about economic development. The governor said the okrug is unlikely to make a profit on the exploitation of its oil reserves before the year 2000. The long delay is a result of the okrug's inability to reach agreement with the French oil giant Total and Norway's Norsk Hydro, which had contracts to work in the region. The okrug leadership revoked its agreement with the companies after stating that although the leaders had made many concessions throughout the negotiations, the firms still did not uphold their end of the bargain. Talks continue with other Russian and foreign companies, including the Russian SeverTEK. The okrug insists that its share in profits should be at least 25% of the total, a position that Conoco rejects as too rigid. Additionally, the okrug government is still working on plans to create the Nenets Oil Company, promising to consider the interests of the local population in developing the region's resources. The company might be publicly held, with 25% of its stake distributed among the region's inhabitants. An upcoming referendum will determine the company's future. (*Naryana Vynder*, 13 February) - Gleb Tiurin in Arkhangelsk

HIGH-SPEED RAILROAD PLANS CONTINUE. Recent celebrations by environmental activists in Tver Oblast, who were pleased by what had seemed to be the final decision by the governor to suspend indefinitely the construction of a high-speed train between Moscow and St. Petersburg which would traverse their region, may have been premature. In an interview this week with *Tverskie gubernskie vedomosti* (no. 6), State Duma deputy Yurii Sevenard, a member of the Committee on Construction, Industry, Transport, and Energy and an avid supporter of the bullet train, said the government had not rejected the project. The problem, according to Sevenard, is how to persuade outside investors to finance the initial stages when the budget allocates no money for the project. The joint-stock company VSM (High Speed Railroad), which runs the project, is busy looking for investors as well as for ways to spend 200 billion rubles (\$33 million) previously allocated by the government. - Boris Goubman in Tver

REGIONAL AIRLINES MERGE, LEASE AIRBUSES. The Baikal and Chitaavia airlines will be the first Russian regional carriers to merge. The new alliance will use joint capital to

lease three Airbus A 310-300 planes, according to Deputy Governor of Chita Oblast for Industry, Transport, and Communications Vladimir Okunev. The first leased plane will be operational in April or May. - Konstantin Kanterov in Novosibirsk

KRASNOYARSK TRAILER PLANT TO PRODUCE MERCEDES BUSES. A new Mercedes production line is being created in the Sosnovoborsk Trailer Plant (SZAP) facilities (see *IEWS Russian Regional Report*, 18 September 1997). According to SZAP's General Director Nikolay Zubenko, a closed joint-stock company, Sibirskiy Avtobus, will be created, with 51% of its stock held by Mercedes-Benz-Turk A.S., the German car-maker's Turkish subsidiary. The plant will initially produce 500 buses annually, with that output eventually doubling. Most parts will be produced domestically, but the Turks will supply the chassis. SZAP will handle the production of truck bodies. Altogether, 19 Krasnoyarsk Oblast enterprises will be involved in the project.

Zubenko estimates that unit prices for the Krasnoyarsk-produced Mercedes buses at 1 million new rubles (\$167,000), 200,000 rubles lower than their Turkish-produced counterparts, or three times the price of the equivalent LiAZ buses (made by Likinskiy Auto Plant in Moscow Oblast). Despite that drastic discrepancy between the prices of domestic buses and Mercedes' products, Russia bought 1,600 Mercedes-Benz buses in 1997 because they run for 1.5 million kilometers and come with a 12-year body warranty. Also competing on the market are Rossiyanin buses made entirely of domestic parts by Golitsyn Auto Plant (Moscow Oblast). The Omsk-based Polet attempted to set up its own Mercedes assembly line but the deal never worked out and Polet elected to make Volvos instead. SZAP will obtain the right to market Mercedes buses in the Urals and Far Eastern markets.

SZAP is capable of producing 100,000 trailers a year but is now producing only 42,000 units, although current demand is 1,500 to 2,000 units annually. The plant, which had employed 10,000 workers before privatization, today employs merely 2,800 people. According to Nikolay Zubenko, orders for 600 additional buses a year will enable SZAP to create 600 jobs immediately, and a production run of 1,000 buses will create an additional 200 jobs. About the same number of jobs will be created indirectly. - Konstantin Kanterov in Novosibirsk

IRKUTSK GAINS FIBER-OPTIC CONNECTION. According to press-releases, on 17 February the Irkutskenergo utility company signed a leasing agreement with Rostelekom, one of Russia's largest telecom operators, allowing the latter to lease and use fiber-optic cable owned by Irkutskenergo. That deal allowed Irkutsk Oblast to acquire a new advanced mode of communication that makes the old phone lines appear primitive.

Fast, reliable communications are keys to conducting successful business, and in Irkutsk people decided to profit from that idea. About 18 months ago, Rostelekom began talks with Irkutskenergo on building a fiber-optic line stretching from Copenhagen to St. Petersburg, Moscow and Novosibirsk, Khabarovsk, Korea, and Japan. Laying fiber-optic cable in the ground is difficult and costly, and the task is complicated by the region's uneven landscape. Rostelekom decided to lay its cable by using power supply lines owned by Irkutskenergo. In exchange, Irkutskenergo will lease four of 16 fibers in the cable.

All necessary hardware has now been set up and a 25-year agreement was signed. Benefits to Irkutsk Oblast include enabling its residents to telephone anywhere in the world quickly and with superior reception. Many potential customers have contacted the utility company and requested rights to use the new service. Among the first clients will be many commercial banks, aluminum companies, and other wealthy institutions. Private persons will have access to the fiber optics multi-media, telephone, and TV connection, which can handle 2.5 gigabytes of information. Prices are still being negotiated with the ministry but Rostelekom is confident they will be reasonable. Rostelekom plans to build a satellite communication station in the oblast in the near future. - Sergey Safronov (Teleinform) in Irkutsk

FOREIGN TIES

FOREIGN INVESTMENT PLUMMETS IN THE URALS

by Dmitry Strovsky, Urals State University

YEKATERINBURG--The latest statistics published in *Delovoy kvartal* business weekly chart the decline in the levels of foreign investment in Sverdlovsk Oblast. Out of 232 enterprises with 287 billion rubles (\$48 million) worth of investment, 65 were joint ventures with China, 64 with the U.S., 46 with Germany, and many others with Great Britain, Poland, the CIS countries and others. But while 683 joint stock companies were registered in the oblast on 1 January, their total volume of production comprised merely 0.5% of the oblast's total output, which means most joint venture companies exist only on paper.

In practice, only companies with a lot of capital to risk can afford to invest in Sverdlovsk Oblast. Firms like Pepsi International Bottlers and Coca-Cola Inchcape that have invested millions of dollars in the oblast are the exception rather than the rule. Foreign creditors are also slow to pour into the region, depriving the aluminum industry and the Koltsovo international airport of much-needed cash. When the oblast manages to get loans, they are usually financed by the leasing of foreign industrial equipment.

Things are much more encouraging in the small and medium business sector. The oblast has successfully implemented micro-credit programs from the European Bank for Reconstruction and Development (EBRD) as well as subsidies from other sources. Often, however, small and medium businesses cannot afford the high interest rates that accompany loans disbursed by those funds.

The oblast government has been trying diligently to improve the foreign investment climate, adopting a special program to that end last year. Funds are being solicited for small projects that produce rapid returns. Local banks are being recruited to finance both regional and federal programs. The region has provided for collateral funds for loans, and the new Gubernskiy Bank was established with 300 million new rubles in charter capital (\$5 million) to give Western investors a trusted transaction agent.

The oblast especially prides itself on receiving a high international credit ranking and on its plans to issue Eurobonds. The issue has been postponed due to uncertainty about Russia's credit rating and the Central Bank's decision to hike interest rates from 28% to 42% following

the South-East Asian economic meltdown. Greater French and German investments might follow the planned March summit between President Boris Yeltsin, French President Jacques Chirac, and German Chancellor Helmut Kohl, to be held in the Urals. Russian and German participants will discuss opening a German consulate in Yekaterinburg. The oblast is also interested in forming a joint venture with the French company Aeroport de Paris to produce modern airfield equipment.

CHINESE RUSH TO HELP RUSSIAN PEASANTS. About 450 Chinese peasants will work on the fields of the Jewish Autonomous Oblast this year. According to the oblast's agricultural department, Chinese peasants from across the border will rent almost 3,000 hectares of land. Most of the land will be used to grow soy-beans, and only 400 hectares will be planted with vegetables and melons. The agreement between the Russian and Chinese farm enterprises stipulates that half of all the proceeds will be used to pay rent. The Chinese still benefit from the deal, because soy-beans bear a very high yield--at least 1.2 metric tons per hectare--and a ton of soy beans sells for \$260 to \$280 on the world markets. Along with importing workers, the Chinese will import equipment, seeds, and even fertilizer. Russians, though, aren't being squeezed out of the farming business by the Chinese: Local farmers have no resources or equipment to cultivate the 40,000 hectares of arable land that lie dormant in the oblast. -Sergey Shilo in Vladivostok

FINLAND SEEKS MORE BUSINESS FOR ITS PORTS. Finland is actively promoting the idea of developing a northern transport route linking the Finnish region of Oulu with Karelia, Arkhangelsk, and Komi. The link would reroute North-West Russian cargo traffic to Finnish ports. The Arkhangelsk Oblast administration fully supports the project and has suggested publicizing the rally through a motor race held from 20 to 25 March in the southern part of the oblast. The competition would be designed to strengthen mutually beneficial cooperation between Russia's North-West and Finland, focusing on ties between Arkhangelsk Oblast and Oulu. Additionally, the race will draw public attention to the northern transport corridor and to the issue of road infrastructure development. A convoy of Swedish light cars and Russian trucks loaded with humanitarian aid cargo will convene in Oulu and head toward the border, where the drivers will switch to Volgas, which are better equipped to handle Russia's poor road conditions. The governors of Arkhangelsk Oblast and Oulu region will likely participate in the race. (*Pravda Severa*, 14 February) - Gleb Tiurin in Arkhangelsk

JAPANESE TO BUILD PHARMACEUTICAL PLANT IN NIZHNII. Representatives of the Japanese construction firm Toyo Engineering Corporation visited the city of Kstovo, Nizhnii Novgorod Oblast, which is the site of a new pharmaceutical plant to be constructed by the Japanese firm. The plant will produce a variety of drugs, including insulin, cardio-vascular medicine, and vitamins. Construction will begin in eight months, after the contract is signed, environmental studies are conducted, forms are filed, and contractors are hired. Both Russian and foreign firms will participate in the construction, even though Toyo clearly prefers the latter. The company's chief designer, Mitsuo Yasude, noted that Kstovo will be Toyo's 56th project in Russia, which gives the company a good understanding of the country's conditions. - Yury

Rodygin in Nizhnii Novgorod

SPECIAL ENERGY REPORT

OIL, GAS OUTPUT SET TO INCREASE IN VOLGA REGION. If investment and exploration continue according to current plans, the volume of oil and gas condensate extracted from the oil- and natural gas-rich Volga region may reach 66 million tons (about 20% of Russia's overall oil production) by 2005 and 100 million tons by 2010 (one third of the Russian total).

In 1997, the total volume of oil and gas condensate extracted in the Volga regions was 41 million tons (13.2% of Russia's overall production). Tatarstan, Samara, and Volgograd were the largest producers. Tatarstan, Astrakhan, and Volgograd are likely to be the top three regional producers in the future, with Astrakhan likely to lead the way due to its large natural gas fields.

However, there no authoritative information exists on the actual amount of oil and gas reserves and on the efforts required to extract those resources. Last week, *Delovoe Povolzhie* (# 7, 1998 February) published a lengthy analysis by Anatolii Milyukov of the oil and natural gas industries in the Volga regions. His sources included the regional media and corporate reports.

Tatarstan

More than 50 years of drilling have exhausted Romashkinskoe, the largest oil field in the republic. About 360 million tons of oil remain, but to extract that the republic requires a \$5 billion investment.

Astrakhan Oblast

Astrakhan boasts the largest European natural gas field, which could provide an annual output of 50 billion cubic meters of gas over a 100-year period. The gas is rich in sulfur, making exploitation of Astrakhan gas environmentally risky. Another gas field was discovered in Astrakhan Oblast in 1997 is estimated to hold 25 billion cubic meters of gas that is less rich in sulfur.

To date, geologists have found 211.7 million tons of oil in just one of Astrakhan's oil fields. Its location, under a salt stratum, makes recovery of that oil difficult. An additional 150 million tons may be extracted from the Caspian shelf off the Astrakhan coast. Currently, two small and aging fields situated over the salt stratum produce all of Astrakhan's oil. Experts believe Astrakhan has huge oil deposits, with estimates ranging from 1.7 billion to 2 billion tons (including 0.8 billion to 1.25 billion on the Caspian shelf field). Overall, conditions for oil extraction in the region are more favorable than in Russia's European North or in Siberia. Regional experts estimate that \$3 billion will be needed for oil and natural gas exploration and extraction.

Volgograd Oblast

Volgograd has been producing oil and natural gas for the last 50 years, with deposits totaling 59

million tons already identified. Estimates put the area's total oil reserves at 240 million tons. To begin exploring the fields, the region's oil industry needs \$500 million.

Saratov Oblast

50 million tons of oil and 56 billion cubic meters of natural gas have already been found in Saratov Oblast. Experts believe Saratov may hold as much as 1.977 million tons of oil and gas condensate. The region's oil is ready to invest \$3 billion for geological surveys necessary to extract an additional 110 million tons of oil.

Samara Oblast

This area has long been an oil-exploring region and many small oil fields have been exploited for years. Only one of 343 prospected oil fields contains more than 10 million tons of oil, with the rest holding not more than 1 million tons. Experts estimate that 435 million tons of oil remain untapped.

Kalmykiya

Oil and natural gas prospecting recently began here. Small oil deposits have already been prospected and the prognosis for the future is bright, with the potential for the existence of 400 million tons to 800 million tons of oil (including 250 million tons to 400 million tons in the Caspian Sea).

Ulyanovsk Oblast

Although observers have long believed the region holds no oil, several small oil fields were recently discovered and investigations continue.

The Companies Involved

Ownership of all of the oil fields is divided between powerful Russian oil companies. (GAZPROM is exploiting most of the natural gas fields.)

TATNEFT controls oil production in Tatarstan oil. YUKOS has monopolized the extraction, refining, and trade of oil in Samara. However, LUKoil is now attempting to challenge YUKOS's domination in Samara's oil industry.

SIDANKO is the dominant company in Saratov Oblast, although both LUKoil and YUKOS have licenses to explore there. One of LUKoil's companies is working in Ulyanovsk. Volgograd is almost exclusively a LUKoil domain, although SIDANKO is exploring some wells in the northern part of the region.

In Astrakhan, GAZPROM is searching for gas while LUKoil handles oil. GAZPROM is trying to dominate the entire fuel industry in Astrakhan and has begun its own oil exploration.

A small organization that is part of the state-owned ROSNEFT is seeking oil in Kalmykiya. ROSNEFT will shortly be privatized and the Kalmykiya company will soon become part of LUKoil or YUKOS. - Ivan Kurilla in Volgograd

Table 1. Oil and natural gas exploration in the Volga regions: Past performance

I - oil and condensed natural gas, in thousands of tons
 II - Natural gas, in millions of cubic meters.

Regions

Oil companies	1995		1996		1997	
	I	II	I	II	I	II
Astrakhan (total)	81.5	4076.0	1514.4	3750.0	1582.0	5000.0
Astrakhanneft						
(LUKoil)	81.5		104.4		82.0	
Morneft (LUKoil)	--		--		--	
GAZPROM	no data	4076.0	1410.0	3750.0	1500.0	5000.0
Volgograd (total)	2585.5	n. d.	3185.0	n. d.	3708.0	n. d.
LUKoil	2585.5	n. d.	3105.0	n. d.	3287.3	n. d.
others	--		80.0		420.7	
Kalmykiya (total)	337.0		n. d.		251.0	
ROSNEFT'	337.0		n. d.		250.0	
others	--				1.0	
Saratov (total)	1152.4	n. d.	1301.0	n. d.	1304.4	n. d.
SIDANKO	1152.4	n. d.	1252.0	n. d.	1254.4	300.0
others	--		49.0		50.0	
Samara (total)	9126.8	n. d.	8940.0	n. d.	8643.0	n. d.
YUKOS	9092.8	n. d.	8900.0	n. d.	8600.0	n. d.
other	34.0		n. d.		43.0	
Ulyanovsk (total)	--	--	n. d.	n. d.	250.0	n. d.
LUKoil	--	--	n. d.	n. d.	176.0	n. d.
others			n. d.		74.0	
Tatarstan (total)	25022.1	832	25427.6	805.9	25529.4	764.0
Tatneft'	25022.1	832	n. d.	n. d.	23200.0	764.0
others	n. d.	n. d.	n. d.	n. d.	2329.4	--
TOTAL:	38305.3	4908	40368.0	4555.9	41267.4	5764.0

Source: *Delovoe Povolzhie* (# 7, 1998 February)

Table 2. Oil and natural gas exploration in the Volga regions: Future Expectations

I - oil and condensed natural gas, in thousands of tons
 II - Natural gas, in millions of cubic meters.

Regions

Oil companies	2000		2005	
	I	II	I	II
Astrakhan (total)	4000.0	7000.0	11500.0	25000.0

Astrakhanneft (LUKoil)	1000.0		2500.0	
Morneft (LUKoil)	1000.0		2000.0	
GAZPROM	2000.0	7000.0	7000.0	25000.0
Volgograd (total)	5235.0		11000.0	
LUKoil	3700.0		4000.0	
others	1535.0		7000.0	
Kalmykiya (total)	310.0		700.0	
ROSNEFT	300.0		600.0	
others	10.0		100.0	
Saratov (total)	2200.0		3200.0	
SIDANKO	1800.0		2600.0	
others	400.0		600.0	
Samara (total)	9100.0		10250.0	
YUKOS	9000.0		10000.0	
other	100.0		250.0	
Ulyanovsk (total)	300.0		450.0	
LUKoil	200.0		300.0	
others	100.0		150.0	
Tatarstan (total)	27000.0	900.0	29000.0	1000.0
Tatneft'	24000.0	900.0	25000.0	1000.0
others	3000.0		4000.0	
TOTAL:	48145.0	7900.0	66100.0	26000.0

Source: *Delovoe Povolzhie* (# 7, 1998 February)

REGIONAL PROFILE: REPUBLIC OF KARELIYA

Chairman of the Government: Viktor Stepanov

Viktor Stepanov was elected republican prime minister in April 1994. A Karel by nationality, he was born in 1947 in a Kareliyan village. He rose through the Komsomol leadership and by 1976 was a second secretary of the republican Komsomol Committee. He then worked his way up the Communist party ladder, serving as an instructor and then department head at the Kareliyan Communist Party Committee. A year later, he was moved to the staff of the CPSU Central Committee in Moscow, where he was an instructor in the subdivision dealing with nationality issues. While in that post, he personally supervised the Far North territories, such as Chukotka and Evenkiya.

In December 1989, Stepanov was elected Chairman of the Kareliyan Supreme Soviet's Presidium. In 1990, he won a seat in the Russian Federation's parliament, where he joined the Communists of Russia parliamentary faction.

In 1990, Stepanov was elected to the Politburo of a newly established Communist Party of the Russian Federation, led by hard-liner Ivan Polozkov. Three years later, he helped

revive the Communist Party (KPRF). Now he is also a member of the Communist Union of Kareliya, a constituent part of the KPRF.

Other Local Leaders

Chairman of the Legislative Assembly's Chamber of the Republic -- Ivan Aleksandrov
Chairwoman of the Legislative Assembly's Chamber of Representatives -- Valentina Pivnenko

Brief Overview

The republic of Kareliya is located in European Russia's northwest and borders Finland (and the European Union) and the Arkhangelsk, Vologda, Leningrad, and Murmansk oblasts. In the 9th century, the territory of modern Kareliya was part of Kievan Rus. During the 11th and 12th centuries, the area was part of the Novgorod Republic.

The region is rich in mineral resources, including iron ores, granite, marble, and various metals. The republican economy specializes in processing local mineral and forestry resources. The republic produces about 10% of the country's iron ore; 25% of its paper; 10% of its cellulose; and 42% of tractors for the forestry industry.

Over 400 regional enterprises are involved in foreign trade, generally exporting raw materials such as forestry products; cellulose; metals; and sea food (fish and shrimp). The republic's main foreign partners are Great Britain, Finland, and Germany. The republican government is actively seeking investment in the forestry and transportation industries.

Basic Facts

1995 Population (est.): 789,300 (0.53% of Russian total)

Industrial production as percentage of all Russian production (Jan.-Aug. 1995): 0.66%

Agricultural production as percentage of all Russian production (1994): 0.47%

Average personal income index in July 1995: 130 (Russia as a whole = 100)

Price basket index in July 1995: 115 (Russia = 100)

Average back wages owed per person (September 1995): 45,500 rubles (Russian average = 37,100)

Urban population: 74.3% (Russia overall: 73.0%)

Student population (1993): 121 per 10,000 (Russia overall: 171/10,000)

Pensioner population (1994): 23.19%

Percent of population with higher education (1989 census): 9.6% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 32.7% (Russian average: 29.9%);

Agriculture: 5.8% (12.8%); Trade: 9.5% (9.1%); Culture: 12.7% (13.6%); Management: 2.7% (2.3%)

Number of telephones per 100 families (1993): in cities : 42.7 (Russian average: 41.5); in villages: 23.5 (17.2)

According to a 1995 Bank Austria survey, the oblast is ranked 58th among Russia's 89 regions

in terms of investment climate.

Electoral History

1996 Presidential Election

(in percentage of total voter turnout)

Yeltsin: 42.36%/66.21% (first round/second round)

Zyuganov: 16.99%/26.39%

Yavlinskii: 14.27%

Lebed: 12.04%

Zhirinovskiy: 8.48%

Turnout: 67.74%/65.31% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

(in percentage of total voter turnout)

Communist Party of the Russian Federation: 15.43%

Liberal Democratic Party of Russia: 13.62%

Our Home Is Russia: 10.93%

Women of Russia: 7.65%

Yabloko: 7.47%

Russia's Democratic Choice: 5.93%

Party of Workers' Self-Government: 5.15%

In single-member districts: 1 independent

Turnout: 63.43% (Russia overall: 64.37%)

1993 Constitutional Referendum

(in percentage of total voter turnout)

"Yes" -- 69.88% "No" -- 30.12%

1993 Parliamentary Elections

(in percentage of total voter turnout)

Russia's Choice: 21.80%

Liberal Democratic Party of Russia: 21.09%

Women of Russia: 12.69%

Yabloko: 11.21%

Party of Russian Unity and Concord: 9.05%

Communist Party of the Russian Federation: 7.32%

Democratic Party of Russia: 5.43%

Agrarian Party of Russia: 2.60%

In single-mandate districts: 1 Russia's Choice

Turnout: 54.74% (Russia overall: 54.34%)

1991 Presidential Elections

(in percentage of total voter turnout)

Yeltsin: 53.31%

Ryzhkov: 18.07%

Tuleev: 9.22%

Zhirinovskiy: 8.08%

Bakatin: 3.84%

Makashov: 2.87%

Turnout: 73.43% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995.

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BREAKING NEWS

POLITICS

CHINESE TO WORK PLOTS IN CHELYABINSK. Twenty-two agricultural

enterprises in Chelyabinsk Oblast have agreed to hire 604 Chinese peasants to work on their land this year, according to the Ovoshchi (Vegetables) Association Chairman A. N. Neobutov. Five new enterprises have joined the guest worker program this year. The Chinese will work 1,500 hectares of land, harvesting cabbage, beets, carrots, and potatoes. Neobutov noted that in comparing the harvests of the past eight years, the Chinese workers produced a yield that was three to four times higher than that of their Russian counterparts working under identical conditions. Neobutov said putting unemployed residents of Russian cities to work would not produce such good results. The Chinese workers will receive 17.25% of the overall harvest or about \$600 to \$700 per season. (*Chelyabinskii rabochii*, 26 February)

FORMER GOVERNOR ON TRIAL IN VOLOGDA; INDICTED IN

KEMEROVO. Former Vologda Governor Nikolai Podgoronov is now on trial for spending 19 billion old rubles (\$3.2 million) of state money on his family and friends. The money was part of a 21.7 billion ruble Russian government grant to buy grain. His associates received the money from the Traditsiya commercial bank, where he had illegally deposited budgetary funds. Podgoronov used the money to purchase a fancy jeep and build a dacha with a swimming pool and sauna. Yeltsin fired him as governor on 23 March 1996 and he was arrested in November of that year. (*Izvestiya*, 25 February) The Kemerovo Oblast Procurator filed a case in January 1997 against former Governor Mikhail Kislyuk for abusing World Bank credits intended to support miners. Yeltsin removed him from office last summer. (*Kommersant Daily*, 3 March)

CHECHNYA TRIES TO REDUCE GUNS. On 25 February, Chechnya put into effect a new weapons law requiring all individuals to have a license to carry automatic weapons. The law does not cover pistols and knives. It is the first serious attempt by the republic's leadership to disarm the population and reduce the level of violence. Field commanders like Salman Raduev are unlikely to comply with the legislation. President Aslan Maskhadov has asked the Chechen procurator to step down because he has failed to arrest Raduev. In an interview with *Izvestiya*, Raduev claimed support throughout the North Caucasus. (*Izvestiya*, 26 February)

CHUKOTKA GOVERNOR'S OFFICE DESTROYED. The building housing the Chukotka Autonomous Okrug's administration offices became uninhabitable and had to be evacuated when the permafrost beneath it began to melt and the shifting ground caused the structure to fracture in many places. The administration is now working from a neighboring building. Heat is apparently rising through cracks in the earth's crust below the okrug capital of Anadyr. (*Izvestiya*, 26 February)

BANKERS BACK LEBED IN KRASNOYARSK RACE. Krasnoyarsk gubernatorial candidate Aleksandr Lebed said a group of seven banks would support him in the 26 April race, but he refused to name them. He claimed that his brother Alexei, the governor of neighboring Khakasiya, would support him in all ways but financially. The retired general also said that Viktoriya Mitina, who heads the presidential administration's department on relations with the regions (see *IEWS Russian Regional Report*, 11 December 1997), is working against his election.

(Kommersant Daily, 26 February)

TAIMYR AUTONOMOUS OKRUG TO PARTICIPATE IN KRASNOYARSK ELECTIONS. After sitting out the Krasnoyarsk Krai legislative elections in December 1997, the voters of Taimyr Autonomous Okrug will vote for Krasnoyarsk governor on 26 April. The okrug is part of the krai, although it has its own budget and governor and is one of Russia's 89 regions. The voters will also elect their members of the krai legislature. The okrug is home to the metals giant Norilsk Nickel.
(Kommersant Daily, 26 February)

INGUSHETIYA REELECTS AUSHEV... Ingushetiya President Ruslan Aushev won reelection on 1 March, taking 66.5% of the vote. His closest opponent, Issa Kostoev, who works for the Russian General Procurator, won only 13%. The neighboring regions greeted his victory as a guarantee of stability in the North Caucasus. According to *Kommersant Daily*, Aushev's election will play a great role in bridging the gap between the pro-Russian North Osetiya and separatist Chechnya. With the recent election of Aleksandr Dzasokhov as the president of North Osetiya, there is also some hope of relieving tensions over the Prigorodnii region. Aushev's priorities will be to help the refugees from North Osetiya and Chechnya, finish construction of the regional airport, and complete other infrastructure projects. Aushev's opponents complained that he usurped all media access and prevented them from obtaining air time. (*Russkii Telegraf*, 28 February and 3 March, *Kommersant Daily*, 3 March)

... POSTPONES REFERENDUM. The extraordinary session of the Congress of the Ingush People voted to postpone indefinitely the referendum on the republic's legal system. The measure would have asked Ingushetiya's voters to transfer considerable power over the republic's courts from Moscow to Nazran even though the Russian Supreme Court had ruled such a vote illegal. The congress effectively avoided further confrontation with the Kremlin for the time being. The congress's decision came after the creation of a consultative committee to delimit powers between Moscow and the republic. The Kremlin particularly opposed the move because it did not want to create a precedent. Bashkortostan President Murtaza Rakhimov is now claiming the right to appoint republican Supreme Court judges, a power reserved for Yeltsin. (*Kommersant Daily*, 27 February, *Russkii Telegraf*, 28 February)

VLADIVOSTOK MAYOR'S ACCOUNTS FROZEN. The Primorskii Krai Justice Department froze the bank accounts of Vladivostok Mayor Viktor Cherepkov on 25 February. Numerous citizens and corporations have sued the mayor's office, demanding the payment of debts totaling more than 100 million new rubles. All money now collected by the mayor's office is used to pay those debts, paralyzing other activities by the mayor. Cherepkov called the move another provocation by Governor Yevgenii Nazdratenko. He claimed that all the debts were accumulated while he was illegally removed from office and Nazdratenko-ally Konstantin Tolstoshein performed the mayor's duties. The mayor also warned that his lack of access to funds could halt all municipal services. (*Nezavisimaya gazeta*, 27 February)

RYAZAN'S COMMUNIST GOVERNOR FACES TROUBLE. In December 1996, Ryazan's voters elected Communist Vyacheslav Lyubimov as their governor. Most of the other elected officials in the region are also Communists. Lyubimov carried out his first promise and restored a Lenin statue to the center of the city. However, he has not been able to improve the economy and many of his erstwhile supporters have formed the Narodnoe delo movement to remove him from office following various scandals. Last summer, the governor allegedly built an apartment in Ryazan that cost tax payers 2 billion rubles (\$330,000). Then Lyubimov tried to have the region's top judge and many other Moscow-appointed officials fired. He subsequently made questionable deals, trading vodka for medicine at prices that cost the oblast dearly and purchasing coal from Tula Oblast at above-market prices. By late 1997, economic indicators were spiraling downward, spurring more anger toward the governor. Those seeking to remove him are willing to let him keep the apartment and his salary if he will step aside. (*Novaya gazeta*, 23 February)

ECONOMICS

MOODY'S WARNS OF RISKS IN RUSSIAN REGIONS. After conducting the first comprehensive analysis of the creditworthiness of the Russian regions, the Moody's rating agency warned that investments in Russian regions are risky by international standards. The agency points to problems with "regional tax arrears, the spillover of economic woes or negative credit events from one region into another, and concerns about the balance of power in the federation." The agency has given all the regions it has rated except Moscow Oblast a Ba2 rating, pointing out that they are constrained by Russia's currency ceiling. It has ranked Moscow, Sverdlovsk Oblast, Nizhnii Novgorod Oblast, Krasnoyarsk Krai, Komi Republic, Samara Oblast, and Tatarstan. Moscow Oblast won a Ba3 ranking. Those are among the strongest regions in the country and most of the other 89 regions will likely be ranked lower. (<http://www.moodys.com/research/russianregions.htm>)

REGIONAL GOVERNMENTS HELP SMALL BUSINESSES. With the federal government doing little to help small businesses, regional governments have stepped into the vacuum. The Vladimir Oblast legislature adopted legislation to use regional and local funds to support small businesses on 25 February. The program offers credits and tax breaks to entrepreneurs who create jobs. Perm Oblast is creating a system enabling firms that owe the oblast money to offer unused equipment in lieu of payment. The oblast will then lease that equipment to entrepreneurs. (*Russkii Telegraf*, 27 February)

CHELYABINSK PREPARES EUROBOND ISSUE. Chelyabinsk Oblast expects to raise \$300 million in a July-August Eurobond issue. Chairman of the oblast government Vladimir Utkin met with Morgan Stanley in London last week to discuss the arrangements. The oblast now needs a credit rating from an international agency. The promotional activities that will proceed the issue are expected to cost \$1.5 million. Despite some officials' optimism about the issue, Vladislav Yegorov, the

chairman of the oblast administration's Economics Committee, believes the time is wrong for issuing the bonds because the oblast will have to offer high interest rates. While Russia recently offered 9% annual return on its bonds and Nizhnii Novgorod offered more than 10%, Sverdlovsk, just north of Chelyabinsk, is likely to pay 14%. The various scandals surrounding ownership rights in large Chelyabinsk enterprises, such as the Magnitogorsk Metal Works and the Chelyabinsk Tractor Factory, may adversely affect the region's future rating. Yegorov does not want to drop the idea of issuing the bonds, but suggests waiting for better conditions.

Governor Petr Sumin has declared that income earned from the bonds will be used for investment projects. However, other priorities might intervene. The residents of Nizhnii Novgorod, for example, have used \$20 million of their \$100 million bond issue to cover wage arrears. The federal government does not cover the debts of the regions and there is a chance that the funds will not be returned. (*Chelyabinskii rabochii*, 26 February)

In 1997, the oblast attracted \$26.2 million and 81.6 billion old rubles in foreign investment, four and nine times more, respectively, than in 1996. The main targets were trade, catering, and the food industry. Major investors are based in Cyprus, Great Britain, and Switzerland (*Finansovii izvestiya*, 26 February)

KEMEROVO METAL PLANTS MERGED. Kemerovo Oblast Governor Aman Tuleev announced his intention to merge the Kuznets and West-Siberian metallurgical plants, ostensibly to increase their efficiency. However, some observers believe the move will allow the oblast administration to better monitor the plants' activities. Both plants are heavily indebted to the oblast administration and are likely to soon be declared bankrupt. The plants' creditors, who are suppliers of raw materials and energy, will gain control of the plants' assets and found the new plant, which they are likely to supply with resources. The enterprise will be the third largest metal works in Russia after Severstal and the Novolipetsk Metal Works. The oblast administration will seek to ensure that the plant obtains its energy and materials at relatively low prices. (*Kommersant Daily*, 25 February)

TOURISTS INVADE MOSCOW. In 1997, two million tourists visited Moscow, up by 500,000 from 1996. Moscow authorities hope that more than 40 million visitors annually will tour the city by the year 2010. Celebrations marking the 850th anniversary of the city's founding helped increase tourism last year. St. Petersburg had 2.5 million tourists in 1997, including 1.9 million foreigners, and European capital cities regularly exceed that number of visitors. Moscow only has 11 hotels with foreign financing. (*Kommersant Daily*, 26 February)

SAKHA GOLD MINING REMAINS STEADY. Sakha (Yakutia) is planning to mine 20 tons of gold in 1998, about the same amount it extracted in 1997. By the year 2000, the republic plans to extract 30 tons to 35 tons of the metal. The republic extracts 23% of Russia's gold from 700 deposits, 450 of which are owned by Sakhazoloto. (*Finansovii izvestiya*, 26 February)

BUSINESS BRIEFS

-- The **EBRD** has offered the **ST. PETERSBURG** administration a \$100 million credit to restructure its domestic debt. It is the first such credit to a Russian region and the first for restructuring domestic debt. (*Finansovye izvestiya*, 26 February)

-- The Czech carmaker **SKODA**, which is owned by Germany's **VOLKSWAGEN**, is still negotiating with **UDMURTIYA'S IZHMASH** for the assembly of Skodas. Skoda's plans to work in **SMOLENSK OBLAST** fell through earlier this year. The Iz mash plant is already assembling **HYUNDAI** cars but has not signed an agreement to form a strategic alliance with that South Korean firm, although the republican government supports such a deal. (*Finansovye izvestiya*, 26 February)

-- The oil companies **LUKoil** and **TATNEFT**, based in **TATARSTAN**, are on the verge of signing a strategic partnership. Since the Republic of Tatarstan wholly owns Tatneft, the expected agreement demonstrates that the leaders of Russia's largest companies are interested in working directly with the regions without the participation of Moscow. At the same time, the Kazan government signed a cooperation agreement with **GAZPROM**. The regional authorities will help refurbish Gazprom facilities in the republic and the company will bring gas to rural villages and towns. Tatarstan owes the gas giant 3.5 billion new rubles (\$580 million) and paid only 83% of its debt in January. Those arrears did not stop the deal, however. (*Izvestiya*, 26 February) Tatarstan President Mintimer Shaimiev cautioned that the two companies are a long way from merging. (*Segodnya*, 27 February)

-- The **COCA COLA** plant in Rostov has bought \$8 million worth of equipment from the German firm **KRONES** to produce Bon Aqua brand mineral water. The plant will produce 5.5 million liters of water this year. The water will cost 4 or 5 rubles (\$0.75) for a one-third liter bottle. (*Kommersant Daily*, 26 February)

-- **SHELL** is hoping to convince the State Duma to add the Salymensk oil deposit to the list of sites that can be developed on the basis of production sharing agreements. If the decision is taken, developing the site will become profitable. The **KHANTY MANSII** legislature is looking into granting regional tax credits to firms investing in new deposits. Under such conditions, local authorities suggest that Shell's investment would not be necessary, although it is not clear where the needed capital would come from. (*Kommersant Daily*, 27 February)

-- A 25% drop in the price of nickel has drastically reduced foreign investment interest in the **RUSSIAN NORTH**. The discovery of deposits in Latin America, Canada, and Australia makes working in Russian conditions less attractive. (*Russkii Telegraf*, 26 February)

-- **MOSCOW OBLAST** is planning to issue \$400 million in Eurobonds in 1998. The local legislation adopted on 25 February sets the interest rate between 9% and 15%. (*Segodnya*, 26 February)

NOVGOROD GOVERNOR MIKHAIL PRUSAK

PRESENTATION FOR INVESTORS IN NEW YORK. On 3 March, the Institute for EastWest Studies and the Kennan Institute for Advanced Russian Studies hosted Novgorod Governor Mikhail Prusak at a New York City roundtable for investors. Prusak has distinguished himself as one of the most successful governors in attracting foreign investment. In the future, he is likely to seek federal office and play a large role in shaping Russia's investment policies. Below we present a slightly edited transcript of the governor's presentation in New York, his answers to audience questions, and responses to several questions posed by the RRR staff.

Governor Mikhail Prusak: Novgorod is located 180 km from St. Petersburg and 500 km from Moscow. When reforms began in late 1991 and early 1992, Novgorod had a very low potential for succeeding in the new market economy. It ranked only 63rd out of Russia's 89 regions. Given such a weak resource and economic base, the solution was to attract investment. The first problem was lack of tax legislation in Russia as a whole, and a great deal of such legislation remains absent to this day. Secondly, we realized that domestic investors were not eager to risk their money in our region. That situation explains our actions. We understood that it was hopeless to wait for ideal laws to be enacted in Russia in the near future. So within the framework of the Constitution and the laws that existed in 1992, we began to create our own tax code. Our first goal was to attract foreign investment. Because the Russian tax system is too complicated for most investors to understand and despite our own poverty, we decided to free foreign investment projects from all regional and local taxes until they turn a profit. Regional and local taxes account for 50% of all taxes payable by individuals and corporations in Russia. Those tax breaks attracted a considerable amount of attention from foreign investors.

Foreign investors were then interested in the possibility of buying land in Russia. Russia has yet to adopt a land code granting foreigners that right, and in 1992 we knew we could not sell land directly to foreigners. But we circumvented that problem by allowing foreign investors to set up a joint venture with a Russian partner who could then purchase the land for a nominal sum. The Russian partner only needs to hold 2% of the joint venture stock for the firm to be registered. In that way, the joint venture could own land. If the foreign investor wanted to own 100% of the venture, then we leased the land for 49 years at reasonable rates. We hope that when that period ends, a land code will be in place allowing foreigners to purchase land. If a foreign investor found idle production facilities and believed he could use them, we were often able to offer that land and the buildings and facilities on it for free. To attract banks to our region, we relieve them of profit taxes on the money they invest in productive projects in Novgorod. Those are just a few examples of what we can do for ourselves at the regional level.

Several foreign firms like Cadbury Schweppes and Stimorol are already operating in our region. We also have two German firms, Pfleiderer and Sommer, as well as partners from Finland and Austria. We are working on a project to produce television sets with Samsung. Pampers has been producing diapers in the region for more than a year. There are also several projects with the World Bank and the EBRD.

Dresdener Bank and Bank Austria are active in the region. Several Russian banks are also working in the region, including Uneximbank and Promstroibank. Currently we are negotiating with only one American company, Kodak. Most of the companies working in the region use local workers. Gazprom has built an underground gas storage tank in the oblast. Thanks to foreign investment, we are second in Russia in terms of foreign investment per capita and in third place in terms of the rate of economic development. That is an impressive jump from our ranking of 63rd place just a few years ago.

Forty-nine percent of industrial output in Novgorod is the result of foreign investments. In Russia, the average is 2% to 3%. Now 80% of overall investment in the oblast is from foreigners and only 20% from domestic sources. Of course, it would be more natural to have it the other way around. But we would not mind if it were 100% foreign investment. I am very grateful to IEWS and the Kennan Institute for their help and to the Gore-Chernomyrdin Commission for including us in its work. I am also grateful to the US for sponsoring the "Partnership for Freedom" program in Novgorod the Great.

Question: How different is what is going on in Novgorod from other Russian cities?

Prusak: In current conditions it doesn't make sense to look at just what is going on in Moscow alone, although we have good relations with the government. I believe that Russia's movement forward today comes from what is happening in the regions. It is not the center making demands on the regions, but regions demanding decisions from the federal government.

Question: How do you see political developments in the regions five years from now?

Prusak: If we do not adopt tax legislation and alter policies that hurt productive industries this year, we will see not just the Communist threat but maybe something even worse. I have talked to President Yeltsin recently, and I think he has the political will to accomplish those tasks this year. I think that all political groups now agree that this constant political fighting is not productive. Thus, I think the federal government will adopt a balanced budget and a tax code in 1998. I and my colleagues in the Federation Council will do everything we can to make this happen.

Question: How have you managed to develop such a good working relationship with the regional legislature?

Prusak: I have been governor for seven years and not once has the legislature blocked one of my decisions or have I vetoed a legislative decision. There are 27 members of the oblast legislature. None of them belongs to a political party. I consider them all members of the "party of business." I think the successful regions are those that work on concrete matters and don't divide their citizens between "reds" and "whites." I had the support of a wide range of parties when I was elected to office in 1995. I think the main reason for stability in my region is that people have been able to see the practical results of our work.

Question: What is happening to the poorest segment of the population?

Prusak: I said that we have freed all foreign investors from paying taxes. However, people are earning salaries, and from that money they pay into pension and medical insurance funds. So the people provide for themselves instead of having the budget provide for them. Unfortunately, the salaries of our people are not very high. In Novgorod there have never been pension arrears.

Question: The evidence from other transition economies in the regions is that it is not foreign investment but domestically based economic resurgence that has provided most of the GDP growth, most of the employment. You mentioned an 80/20 disparity in favor of foreign investment. What are you doing to address the environment for domestic investment, particularly the small- and medium-sized business sector? Are you having any success in that area comparable to the success you are having attracting foreign investment?

Prusak: Unfortunately, we have only had success in attracting foreign investment. However, we adopted a lot of legislation in 1997 that will create conditions to attract domestic capital. Gazprom is already working in the oblast as are many domestic banks. The Moscow-based Cherkisov Meat Processing Plant has built two plants in Novgorod Oblast. The largest refrigerated storage facility for meat (26,000 tons), mostly imported, is located in Novgorod as well. We pride ourselves on our ability to win over the meat industry and expect positive results from that. We are building a power station as well. We have been receiving gas from Moscow and St. Petersburg. Now we will also get electricity. That will be strategically important for our economy. If we had waited only for domestic investment, we would have waited in vain. Quite honestly foreign investment saved the Novgorod economy from collapse.

Question: How much power do you have to conclude agreements with foreign investors?

Prusak: We have an oblast law that prevents bureaucrats from intervening in the economy. The government is supposed to create the conditions that facilitate investment, not involve itself in business. In Novgorod Oblast, only 14% of property remains in state hands, and those are buildings that belong to government bodies. All other property has been privatized.

Question: How do your constituents feel about foreigners investing in the region? Do they believe they are being exploited by rapacious capital?

Prusak: I don't have any real opposition in Novgorod. In the 1995 elections, people from all parties voted for me: Communists, Zhirinovskiyites, and members of Yabloko and Our Home is Russia. Many elderly people were opposed, but once the factories were built and they saw that workers could support their families, they supported it. Many people were greatly surprised by the high quality of the factories the foreigners built.

Question: How much contact do you have with other governors?

Prusak: I mostly have personal contacts, generally with younger governors. Some governors I have known since 1991. I don't have business dealings with other governors because there is no reason for that. Entrepreneurs should have business

contacts, not the authorities. Novgorod is a member of two regional associations. We are members of Federation Council member and Orel Oblast Governor Yegor Stroeve's Black Earth regional association because the Novgorod-based fertilizer maker Acorn (see *IEWS Russian Regional Report*, 22 January 1998) controls 28% of the fertilizer market and its largest consumers are in the Black Earth region. Geographically we belong to the North West regional association, but we are more active in the Black Earth association because we sell fertilizer to places like Orel, Voronezh, Tambov, and Belgorod. We have less interest in the North West and more in the Black Earth region.

Question: *Segodnya* published an article about prisoners in your region who have tuberculosis and work in bakeries that sell bread to the general public (see *IEWS Russian Regional Report*, 26 February). Is that true?

Prusak: Every prison and labor camp in the oblast has its own bakery. Since the beginning of reforms, we decided that each prison should have its own production facilities so that inmates could work and earn money. We essentially set up small- and medium-sized businesses in the prisons. They do things like make furniture for schools. We ensure that people with tuberculosis do not work in bakeries. That is simply untrue. *Segodnya* twisted the facts. Regarding the recent amnesty, we have 111 inmates infected with tuberculosis who are about to be released (on the amnesty, see *IEWS Russian Regional Report*, 15 January 1998). Each will receive a separate place to live and will be cared for. The *Segodnya* article did not say in which bakery the infected people worked. It was a bakery for those already infected. You cannot get a healthy person to make bread for the infected. The infected people must bake their own bread. If I allowed the situation described by the newspaper, there would be a social outburst. The main thing is that that problem does not exist in Novgorod.

Question: What are the main issues you deal with as chairman of the Committee on Foreign Relations in the Federation Council? What kind of relations do you have with the Baltic countries?

Prusak: We have good relations with American Ambassador to Russia James Collins. We have good relations with Thomas Lynch, the general consul in St. Petersburg. We have good relations with the Baltic countries because we are close to them. Our main transport route traverses the Baltic countries. The Baltics receive forty percent of the income from those cargo shipments.

The psychology in those states changed recently, particularly in regard to ethnic Russians. That situation is now very good in Lithuania and Estonia and a bit worse in Latvia, but the government is taking measures there to improve the situation with Russians.

A big problem is NATO expansion. US Secretary of State Madeline Albright has done a lot to consolidate our national patriots. Every time she says it is necessary to expand NATO, they react, pointing their fingers at the reformers and saying this is our fault since we are connected with the US. Part of the problem is that there is not enough contact between our presidents. The most important thing, however, is mutual investments and mutually beneficial projects.

A PERSONAL ACCOUNT OF CHECHEN TERROR

THE MOST RECENT PRISONER OF THE CAUCASUS

by Nabi Abdullaev, *Novoe Delo*

MAKHACHKALA—At 9:00 AM on 9 December, Rashid Aliev, 32, a cousin of my wife and a citizen of Dagestan, was kidnapped in front of his own home in Chechnya's capital Grozny. He was returned to his parents, wife, and daughter 80 days later, by which time neither his nor his parents' home was located in Grozny.

The story began some time ago when Rashid's father, Ali Aliev, 66, a well-known dentist and teacher in a Grozny dentistry college, joined a new partnership. During the war, Ali's was the only family in the clan that did not flee to Dagestan, their ancestral land. (The Alievs are ethnically Laks.) Because Ali's house had suffered minor damage during the Russian shelling of the Chechen capital, he repaired it and continued to live there with his wife and daughter when the war ended. His son's family lived near-by. At some point, Ali joined a new dentistry practice started by his former classmate Ruslan X, an ethnic Chechen. He contributed his own equipment to the venture. After several months, however, the two clashed over profit sharing and Ali decided to leave, despite Ruslan's threats and refusal to turn over to Ali his share of the equipment. Appealing to the police would have been senseless because they consistently side with ethnic Chechens during inter-ethnic confrontations like this one.

A week after the two partners fell out, in mid-November 1997), masked gunmen raided Ali's house in the middle of the night and tried to kidnap him. A struggle ensued, and women's cries attracted the neighbors' attention. The attackers fled, but not before they fired a round of bullets into Ali's chest. He was seriously wounded and underwent emergency surgery the next day. Friends who visited Ali in the hospital told him Ruslan X. had been heard saying: "I have warned him. Just wait, it will be even worse next time."

On 9 December, Ali's daughter and his son Rashid were about to enter Ali's home upon returning from the hospital when two cars pulled up and masked men in military camouflage jumped out and forced Rashid into one of the vehicles. The thugs fired warning rounds from machine guns to keep Rashid's sister out of the brawl.

Rashid's relatives in Makhachkala, myself included, learned about the kidnapping on the same day. Using my extensive contacts in the republican administration, acquired in my job as the political editor of Dagestan's largest newspaper, I was able to personally petition Dagestan Security Council Secretary Magomed Tolboev and the Ministry of the Interior (the police) about the kidnapping of a Dagestani citizen. During the entire saga of Rashid's rescue, the Dagestani police did nothing to help. They even failed to include Rashid's name in the official list of Dagestanis held hostage in Chechnya. The official list contains about 30 names, even though the real figure is ten times higher.

Ali was immediately transported to Makhachkala, where his family kept him ignorant of what had happened to his son, fearing the knowledge would cause him to suffer a third heart attack--he had had two before these events began.) Additionally,

he had another operation, which left his arm in a cast.

Meanwhile, Rashid's family appealed to the Chechen government's anti-terrorist unit run by Umar Magomadov, which specializes in finding kidnapped people. The agent assigned to the case immediately hinted that the group would like to be reimbursed for its troubles, on the order of 300 million old rubles (\$50,000). After the family rejected the offer, it never heard from the unit again.

One telling example deftly illustrates the situation. At about the same time Rashid was kidnapped, one of his neighbors, a young Chechen man, also disappeared. The kidnappers demanded \$100,000 in ransom. The family replied with a letter, signed by the father and all the males in the clan, stating that the family "has buried" their son and the kidnappers could do whatever they pleased with him. However, the clan vowed to use all its resources to hunt down and destroy the perpetrators. Three days later the young man was back at home.

Several days after Rashid's kidnapping, my father-in-law and I approached Magomed Khachilaev, the leader of the Lak national movement, for help. Well-connected with the Chechen field commanders, he often helps in finding kidnapping victims. He promised to send his agents to Chechnya to find the kidnappers and agreed to act as a mediator. However, he said he would have to be paid for his services.

The family also contacted Ali Aliev, an Abkhazian Fleet admiral and chairman of the Confederacy of the Peoples of the Caucasus, who is close to key Chechen leaders. Rashid's wife is Aliev's wife's second cousin. Ali Aliev readily agreed to help, and the next day went to Chechnya to meet with Shamil Basaev (who once fought by his side against the Georgians) and Zelimkhan Yandarbiev, former Chechen president. Both said they would help but only by using unofficial, and even illegal, channels, because an official investigation would produce nothing. Indeed, no one ever admits to kidnapping, a capital crime in Chechnya. Ali Aliev returned to Chechnya twice and finally learned that the kidnappers' gang obeyed no known field commander and was composed entirely of "breakaway" (in Russian, *otmorozki* or *bespredelshchiki*) thugs who recognize no authority.

Only a month later did Rashid's family hear from the kidnappers' agents. They asked for \$100,000, but the family demanded evidence that Rashid was still alive. Two days later, the family received a video recording of Rashid repeating over and over again: "Father, give the guys what they ask for. Do not do anything funny, the guys don't like jokes. Take me away from here soon, it's very bad here." His face was visibly beaten and unshaven, and he looked like his spirit had been broken.

The middlemen were immediately told that \$100,000 was an unrealistic demand. After a month they returned with another offer: 200 million rubles (\$33,000). Accepting the terms, the family put both of its Grozny houses on the market. Immediately after advertisements for the sale of the homes were distributed, windows and doors in Rashid's house were shattered in a drive-by shooting. Fortunately, nobody was hurt.

Three days before Rashid's release, his mother and sister were visited by a thug who claimed to be the one who shot Ali and demanded the ransom to be paid in three days. In addition to the two houses, the family sold all its furniture and kitchenware for nominal prices, making a mere 130 million old rubles (\$22,000), or

about 1/4 or 1/5 of the market value. However, knowing the family's predicament, nobody made higher offers. Relatives in Makhachkala donated the remainder of the ransom. The ransom payment was transferred on the morning of 17 February, and Rashid was returned that evening.

Rashid spent his 80-day imprisonment in a small shepherd's hut, high in the mountains near Benoy. He was guarded by four fighters, and from their conversations he gathered that their gang was holding around 30 hostages. He was poorly fed, usually receiving two pieces of bread a day. Only once during his imprisonment did he eat meat. He was forced to chop wood in freezing weather, wearing only the thin coat and light shoes he had on when he was kidnapped. Right before Rashid's release, his shoes completely fell apart and he had to walk in the snow in his socks.

Today, his entire family is in Makhachkala, living in Ali's sister's one-bedroom apartment. Neither Ali nor Rashid, both legally handicapped, have prospects for finding a job. They have no savings, nor do they have their own shelter. Neighbors have been supporting the family, but it is difficult to predict how far their generosity can go. Everybody has his own problems. We will see.

WHAT DOES CHECHEN CRIME MEAN FOR DAGESTAN? Kidnapping is rapidly becoming a mass industry in Chechnya, involving more and more people. With weak state authorities, the kidnapping of civilians has become a virtually unpunishable offense unless the victim's clan can afford to go on a vendetta. An analysis of the hostage situation in Chechnya reveals that neither the Chechen nor Dagestani authorities have effectively addressed the problem. Hostages are freed without ransom only when local ethnic chiefs intervene. Even though the latter often hold government positions, their authority derives from representing ethnic groups, not state structures. They tend to free only kidnapped military personnel or police officers. Civilians must rely on their families for ransom money.

Politicians' claims that crime in general and kidnapping in particular will abate if Russia infuses more money into Chechnya (see recent speeches by former Security Council Secretary Ivan Rybkin and Deputy Prime Minister in charge of ethnic affairs Ramazan Abdulatipov) seem to be no more than demagoguery. Hundreds of thousands of dollars transferred as ransom can hardly be deemed basic humanitarian aid.

The Dagestanis suffer from the same poor living conditions in the highlands as the people of Chechnya. Like the Chechens, the Dagestanis have not been paid their salaries or pensions, suffer from a harsh climate, and do not own land. However, the Dagestanis endure that life without resorting to criminal violence. Crime is not rooted in how empty or full one's stomach is, but rather in the presence or absence of law, including the moral law within all of us. Long gone is the Dagestanis' feeling of compassion for their suffering Chechen neighbors.

During the war, Dagestan accepted 130,000 refugees from the war-torn Chechen Republic. But today, virtually no family in Dagestan has been untouched by the rampant tempest of Chechen crime. The former feeling of solidarity with the Chechens has turned into a prejudice against them, and it is only a short step away from outright animosity.

Many Dagestanis are starting to take action. On 26 February, residents of the Khasavyurt and Babayurt districts blocked the Kavkaz federal highway and two republican highways, demanding that the Dagestani government actively participate in freeing hostages held in Chechnya. The rally ended only after members of the Popular Assembly, Gadzhi Makhachev and Magomed Khachilaev, arrived and persuaded the demonstrators to let traffic pass. - Nabi Abdullaev in Makhachkala

CENTER-PERIPHERY RELATIONS

NIZHNII GOVERNOR BREACHES LAW AGAIN. Banks in Nizhnii Novgorod were forced to face a tough choice: comply with the governor's decree and defy federal legislation (and possibly risk their banking licenses) or acquiesce to the Constitutional Court ruling to pay back taxes before paying back wages (and irritate regional authorities). In January, Governor Ivan Sklyarov contradicted a court ruling to pay back taxes first and ordered the enterprises in his region to use 50% of their income to pay back wages and the other half to pay back taxes to the government (see *IEWS Russian Regional Report*, 12 and 26 February). Because the banks did not know whether to obey the court or the governor, the governor's decree was never implemented, which caused him to reinforce it by publishing his instructions. Unlike his original decree, the instruction was discussed with local financial institutions and tax authorities, increasing its chances for effectiveness. - Yury Rodygin in Nizhnii Novgorod

MILITARY ISSUES

NATO SEEKS TO CALM FEARS IN RUSSIAN REGIONS. Alexis Chahtahtinsky, the new NATO information officer in Russia, started his term with a visit to Volgograd on 27-28 February. He met with university professors and students and with local journalists. His visit was designed to convince people in the region that NATO's eastward expansion is not a threat to Russia. Despite the 27 May 1997 agreement signed between NATO and Russia in Paris, the NATO threat is still alive in popular opinion and undoubtedly will be used in the next federal elections.

Chahtahtinsky chose to visit Volgograd partly because several local non-governmental organizations have already organized two seminars on NATO-Russia relations (in August 1996 and June 1997). The city also has strong symbolic importance. The WWII Battle for Stalingrad is used by Russian "patriotic forces" as a rallying cry in resisting economic reforms and foreign policy "concessions".

Seeking to win the support of Volgograd residents, Mr. Chahtahtinsky described the "new NATO" as an alliance whose primary functions would be "rescue" and peacekeeping missions. Questions about its other activities remained unanswered.

The prevalent opinion among Russian participants was: "Although the expansion of NATO was the Alliance's mistake, we have to deal with today's realities. If Russia does not oppose NATO in constructive ways, the views of anti-Russian ideologists in the Western foreign policy establishment, like Zbigniew Brzezinski, may prevail."

ECONOMIC ISSUES

TATARSTAN OIL INDUSTRY FACES CRISIS. Director of the Russian Fossil Fuel Research Institute A. Mazgarov described the upcoming challenges facing Tatarstan's oil sector at the annual congress of the Tatarstan Academy of Sciences on 19 February. Of the republic's total oil reserves, about 50% are comprised of low-quality "heavy petroleum" that will bring only a low price on the world market. At the same time, Kazakhstan and Azerbaijan have begun extracting higher quality oil. According to the speaker, if Kazakhstan produced 25 million tons of oil in 1997, the by 2007 it plans to produce 90 million tons. Likewise, Azerbaijan can increase its extraction from 12 million tons to 50 million tons over the same period. Additionally, if the Iraqi embargo is lifted, the world market will be saturated with high-quality oil sold ten times cheaper than oil extracted in Tatarstan. Obviously, the Tatarstan oil industry is in a precarious position. Mazgarov believes that the industry may collapse within the next two to three years. He suggested that it might be possible to improve the situation but stressed that only science can avert the impending oil crisis. - Midkhat Faroukshina in Kazan

VOLGA PETRO-CHEMICAL COMPANIES TO FORM A CARTEL. Members of the Greater Volga regional association met in Dzerdzhinsk, the center of the Nizhnii Novgorod Oblast chemical industry, to discuss the state of the petro-chemical processing industry. Delegation heads from 11 Volga regions, excluding Bashkortostan, signed a statement of intent to form a cartel agreement. The cartel's goals will be to coordinate price setting, control competition among cartel members, and eliminate outside competitors. If the agreement is implemented, it will be the first formal cartel organization in Russia.

The Volga region is home to more than 150 petro-chemical companies, which produce 35% of the country's chemical products. Privatization has hit the sector very hard, breaking the developed Soviet-era ties connecting producers, suppliers, and consumers. The ruble corridor has hurt sales, as much of the industry's products have been traditionally exported. Energy producers exacerbate the situation with their high rates for power supply. Even Tatarstan's relatively successful petro-chemical sector was forced to collude. That is why Tatarstan and Dzerdzhinsk were co-initiators of the cartel agreement. Unofficially, the collusion is an attempt to divide the market peacefully and create a common front against foreign competitors, who have better conditions for production and sales.

A new non-profit organization, Volgokhim, was created to facilitate cooperation between the industry and oil and gas extraction companies, conduct joint market studies, and facilitate cross-ownership of shares in each other's companies. Even though Volgokhim's is headquartered in Dzerdzhinsk, the General Director of Tatarstan's Kazanorgsintez, Nail Yusupov, is its president. (A manager from a Dzerdzhinsk company is Volgokhim's general director.)

Volgokhim's other task will be lobbying on behalf of the petro-chemical industry at all levels of government. That should prevent Moscow's favorable treatment of companies close to the capital, as in the recent case of Ruskhim. However, many doubts have been expressed about the usefulness of the cartel

agreement itself. Concerns have been raised that stronger companies will use the new framework to destroy troubled enterprises. And, of course, it will be most difficult to agree on prices. - Yury Rodygin in Nizhnii Novgorod

NEW EUROPEAN TRANSPORTATION ROUTE TO RUN THROUGH NIZHNI.

An international conference on the development of the Russian transportation system within the framework of the so-called "Crete corridors" was held in Nizhnii Novgorod. Last year, at the 3rd European Transportation Conference in Helsinki, the decision was taken to extend transport corridor number two, which connects Berlin, Warsaw, Minsk, and Moscow to Nizhnii Novgorod, located east of Moscow. The recent Nizhnii conference was held to discuss the project in detail.

Participants from Germany, Poland, Belarus, and Russia were present, along with representatives of EU commissions, the European Bank for Reconstruction and Development, and foreign transport consulting firms operating in Russia. Russian regions affected by the proposed extension sent delegates as well. Invitations to participate were also given to regions that might be interested in extending the route even further east, through their territories and all the way to the Pacific Ocean. Such an undertaking would require connecting with the Trans-Siberian Railroad and South-East Asian or Central Asian transport networks. The latter scenario is politically and economically important, as it promises Russia substantial revenue from transit shipments. Deputy Minister of Transportation Eduard Poddavashkin said that the Trans-Siberian route is preparing to bear the additional cargo that will be carried by the extension of Route Two to Vladivostok and Nakhodka. He further emphasized that Russian roads can successfully compete with transportation links in Central Asia, Iran, Turkey, and China.

This situation raises the question of building a freight terminal in Nizhnii Novgorod to handle container cargoes. If such a terminal is built, the region will become a key point in the Russian transportation network due to the conjunction of railroad, river, and highway routes.

Speaking at the conference, Nizhnii Novgorod Governor Ivan Sklyarov emphasized the region's accomplishments in attracting foreign investment and developing business contacts with Germany, Italy, and England. He also said Nizhnii Novgorod Oblast must further develop its transportation system for easier shipment of cargo to and from the region. The oblast government is prepared to support such initiatives by offering concrete investment incentives and tax exemptions. According to the director of the oblast's department of transportation, Sergey Dyachenko, the region will reap great benefits from the extended transport route. Those benefits will be both direct, such as greater tax collection from local firms that will enjoy greater cargo turnover, and indirectly, through the creation of a modern transportation and communication infrastructure. For federal-level transportation authorities, the Nizhnii conference provided another opportunity to demonstrate their determination for Russia to occupy a key place in the international transportation infrastructure. - Yury Rodygin in Nizhnii Novgorod

TVER OBLAST SIGNS AGREEMENT WITH SBS-AGRO. Chairman of the SBS-Agro banking group Aleksandr Smolenskiy signed a cooperation agreement

with Tver Governor Vladimir Platov during a visit to the region on 25 February. The agreement outlines joint efforts by the oblast and the bank to implement modern banking technologies and financial instruments in the region's economy.

According to the treaty, the oblast government must create certain conditions to allow the bank to develop the region's financial system. For example, the oblast will endorse non-cash transactions facilitated by the use of debit cards. The administration also promised to help small and medium enterprises, issue loans to farmers, and actively attract foreign investment. In turn, the bank will finance several projects. The oblast government and the bank will jointly select commercial schemes worthy of financing under the federal development program as well as the program for the development of the flax industry in 1997-2000. The bank considers the agreement an important business deal, not a charitable undertaking, noted Smolenskiy. He also said he was impressed by the growth of new housing developments around Tver, an encouraging sign that the region will return the loans.

The agreement assumes that total foreign investment in the oblast economy will reach DM 45 million and \$12 million. Smolenskiy expressed the hope that future projects will attract even more investment.

SBS-Agro plans to finance new equipment purchases by such companies as Tver Manufacturing, Svetotekhnika, and the Zavidovsk Poultry Farm. Also, the Khleb bread-making company and the Tver-Pivo brewery will receive funds to expand production. Smolenskiy is a sharp critic of interest-free loans, and although farmers will get 105 million rubles of favorable credits, repayment will be strictly monitored and enforced. Last year, SBS-Agro financed only 8,000 projects because many proposals did not seem viable.

In conjunction with British Petroleum, SBS-Agro is building a set of multi-purpose complexes, each including a gas station, a car service station, a restaurant, and a motel. Both partners consider Tver an attractive region for the projects, because it is located on two very important highways: Moscow-St. Petersburg and Moscow-Riga. Tveragrostroi is most likely to be the contractor for the project and will receive loans from SBS-Agro.

Cooperation between SBS-Agro and Tver Oblast demonstrates the growing interest of large Moscow-based industrial-financial groups in investing in regional agriculture and industry. - Boris Goubman in Tver

FOREIGN TIES

VOLGOGRAD SELLS TRACTORS TO IRAQ. The Volgograd Tractor Plant will sell 250 DT-75 tractors to Iraq this month, according to its Trade Department Chief Alexander Deriabin. The plant won a tender issued by the Iraqi Agriculture Ministry last year. The contract could be a lifesaver for the plant, which is barely surviving in the new economic conditions. Deriabin said a UN commission is now considering an Iraqi plan to purchase an additional 250 Volgograd tractors. - Ivan Kurilla in Volgograd

FRENCH INVEST IN MAGADAN GOLD. The French bank Societe Generale announced it would loan \$50 million to Magadan's gold miners to finance the

upcoming mining season. According to Deputy Governor Aleksandr Titkin, that money will comfortably finance the extraction of 10 tons to 12 tons of gold, which the Russian government has refused to buy. The government has signed agreements with only seven of 230 mines, promising to finance the extraction and then buy the gold. The other mines are forced to look for financing in the commercial banking sector, which charges ridiculously high interest rates of 40% to 60% annually. Societe Generale agreed to charge only 12% to 16% on the condition that the miners repay the credit in gold. That requirement has prompted the oblast government to pressure Moscow to adopt a federal law regulating the transactions of precious metals and gems, which would permit Russian regions to trade gold on the world market. Only a few days remain for the adoption of the decision because the miners must receive the funds in March in order to begin their work for the season. The miners must take advantage of the frozen roads to transport equipment and provisions to the mines. Once the spring thaw begins, the roads will become impassable. - Sergey Shilo in Khabarovsk

KRASNOYARSK ENVOYS VISIT TOKYO. A delegation from Krasnoyarsk Krai, led by Governor Valerii Zubov, made a four-day working visit to Tokyo in late February. The trip was a follow-up to the Krasnoyarsk summit between President Yeltsin and Prime-Minister Ryutaro Hashimoto (see *IEWS Russian Regional Report*, 6 November). According to the Russian embassy in Japan, the Krasnoyarsk "landing party" was better prepared than were previous delegations from Moscow, Yekaterinburg, and Irkutsk.

Krasnoyarsk Krai is an attractive target for foreign investment. It offers diverse natural resources, most notably oil, natural gas, gold, and diamonds. Many of Krasnoyarsk's companies are ready to cooperate with the Japanese, especially those manufacturing rubber, viscose, cotton, cardboard boxes, and metal goods. Many, however, need to be restructured before launching joint ventures, a topic discussed in some detail in Tokyo. As a result of the governor's talks with Marubeni Corporation, the krai signed a \$250 million deal securing investments for 13 Krasnoyarsk enterprises. Framework cooperation agreements were signed with Mitsubishi and Sumitomo corporations.

The Japanese partners intend to visit the krai in March. They will tour the Norilsk Metal Works to study opportunities for restructuring the plant in return for shipments of nickel. Then, the Japanese will visit the Krasnoyarsk Aluminum Plant. Sibtyazhmash, a steel mill, will begin shipping its products in exchange for new steel-rolling equipment. As a direct result of the February meeting, the tire-maker Supershina will receive credit to finance the restructuring of its plant that will allow it to begin producing large-scale tires for 120-ton BelAZ quarry dump trucks 33 months after the restructuring. The Japanese are also interested in producing aluminum cans and manufacturing television sets in Krasnoyarsk. Zheleznogorsk (formerly the classified nuclear research site Krasnoyarsk-26) residents expect Japanese visitors soon as well. Scientists from the former top-secret military research facility visited the Tokyo Nuclear Studies Center, discussing opportunities for cooperation. The Japanese are apparently greatly interested in the Krasnoyarsk nuclear "know-how."

Krasnoyarsk does not expect a shower of investment to result from four days

of talks. Many more discussions are ahead, and the second round of the February talks is tentatively scheduled for April. Meanwhile, Krasnoyarsk officials are considering creating a corporation to ease cooperation with Japan. Governor Zubov is eager to promote foreign investment as a way to secure his reelection in the 26 April elections (see Breaking News in this issue). - Sergey Bondarev in Krasnoyarsk

REGIONAL LINKS

Tatarstan's Power-Sharing Treaty.

(http://www.kcn.ru/tat_ru/politics/pan_for/tombk.htm) The Tatarstan government Web site offers the full text of Tatarstan's power-sharing agreement with Russia and the numerous agreements accompanying it. The page also offers a large variety of other documents relating to Tatarstani politics.

CORRECTION

Columbia University Professor Steven Solnick wrote to point out that last week's RRR incorrectly asserted that the power-sharing agreement between Tatarstan and Russia had expired. The treaty (*dogovor*) itself has no expiration date. The accompanying intergovernmental agreements (*soglashenia*), of which there are a dozen or so, have a duration of FIVE years (and the treaty was signed in February 1994). The agreements may currently be under renegotiations, but the talks should not immediately jeopardize the bilateral treaty framework per se.

For instance, the treaty includes a provision for a republican central BANK, but the operation of that bank is governed by a separate inter-governmental agreement due to expire in February 1999. Presumably, the Tatars could claim that no matter how the federal authorities try to restructure it, the RIGHT to their own Bank is enshrined in the base treaty. Furthermore, the agreement on banking affairs includes a provision (in some but not all of the other *soglashenia*) for the agreement to automatically be renewed unless one side serves six months' notice.

REGIONAL PROFILE: PSKOV OBLAST

Governor: Yevgenii Mikhailov

Yevgenii Mikhailov was elected Pskov governor in November 1996, defeating the incumbent with 56.5% of the vote in the second round. He is the only governor who is a member of Vladimir Zhirinovsky's Liberal Democratic Party (LDPR). Although he has not incited trouble with his Baltic neighbors, Mikhailov's tenure has been marked by confrontation with the federal authorities. Many observers believe the governor's policies are heavily influenced by Zhirinovsky in Moscow.

Mikhailov was born in 1963 in Arkhangelsk. His family soon moved to Velikie Luki in Pskov Oblast. After secondary school and military service, Mikhailov studied at a construction institute. Later, he earned an undergraduate degree from the Moscow State University History Department, graduating in 1991. He went on to do graduate work at the university specializing in late 19th and early 20th century

Russian history, but he never defended his dissertation.

He joined the Communist Party in 1988 while he was still at the university. Two years later, he was elected to the Moscow City Council. In May 1993, Mikhailov joined Zhirinovskiy's LDPR and in November of that year became deputy editor-in-chief of the LDPR's newspaper, *Pravda Zhirinovskogo*. In December 1993, Mikhailov won a State Duma seat from a single-member district in Pskov Oblast. However, in the next parliamentary election in December 1995, he lost the contest in his district to Aleksandr Nevzorov, the nationalist journalist from St. Petersburg. Nevertheless, Mikhailov joined the Duma by winning a seat through the party list.

Other Local Leaders

Chairman of the Deputies' Assembly -- Yurii Shmatov, elected in April 1994

Brief Overview

Pskov is one of the oldest cities in Russia: it was first mentioned in written chronicles in 903, more than 200 years earlier than Moscow. Since the beginning of the 16th century, it was part of the Moscow Kingdom and, due to its favorable geographic and transportation location, grew to become one of the largest Russian cities of that era. In the 18th century, after St. Petersburg was constructed, Pskov's economic importance and prosperity declined. Only in the second part of the last century did the city regain its economic importance.

Pskov oblast is located on the north-west of the Russian Plain and borders Novgorod, Leningrad, Smolensk, and Tver oblasts; Belarus (270.4 km); Estonia (247 km); and Latvia (271.6 km). The region is rich in peat, sands, clays, timber, and fish. The two largest cities, Pskov and Velikie Luki, are home to two-thirds of the major industry. Major oblast industries are: machine-building, metal-processing, forestry, timber-working, energy, small-scale production, and food processing. Since 1991, when the oblast became a border region, its importance in the country's foreign trade, particularly with the Baltic States, has significantly increased and now about 10% of Russia's cargo export goes through Pskov Oblast.

Basic Facts

Population (1995 est.): 835,300 (0.56% of Russian total)

Industrial production as percentage of all Russian production (Jan. -Aug. 1995): 0.22%

Agricultural production as percentage of all Russian production (1994): 0.76%

Average personal income index in July 1995: 69 (Russia as a whole = 100)

Price basket index in July 1995: 84 (Russia = 100)

Average back wages owed per person (September 1995): 18,900 rubles (Russian average = 37,100)

Urban population: 65.1% (Russia overall: 73.0%)

Student population (1993): 104 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1994): 29.54%

Percent of population with higher education (1989 census): 8.1% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 29.3% (Russian average: 29.9%); Agriculture: 17.5% (12.8%); Trade: 8.7% (9.1%); Culture: 10.6% (13.6%); Management: 3.0% (2.3%)

Number of telephones per 100 families (1993): in cities : 43.9 (Russian average: 41.5); in villages: 19.1 (17.2)

According to a 1995 survey by Bank Austria, the oblast is ranked 28th among Russia's 89 regions in terms of investment climate.

Electoral History

1996 Presidential Elections

Zyuganov: 30.39%/48.08% (first round/second round)

Yeltsin: 24.81%/45.23%

Lebed: 23.56%

Zhirinovskiy: 10.19%

Yavlinskii: 7.04%

Turnout: 75.57%/73.28% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Communist Party of the Russian Federation: 22.65%

Liberal Democratic Party of Russia: 20.87%

Our Home Is Russia: 6.01%

Yabloko: 4.89%

Women of Russia: 4.78%

Communists -- Workers' Russia: 4.59%

Party of Workers' Self-Government: 4.13%

Agrarian Party of Russia: 3.93%

Congress of Russian Communities: 3.62%

In a single-member district: 1 independent

Turnout: 73.42% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 55.90% "No" -- 44.10%

1993 Parliamentary Election

Liberal Democratic Party of Russia: 43.01%

Russia's Choice: 10.13%

Communist Party of the Russian Federation: 9.50%

Agrarian Party of Russia: 8.94%

Women of Russia: 8.23%

Yabloko: 5.62%

Party of Russian Unity and Concord: 4.88%

Democratic Party of Russia: 4.06%

In a single-mandate district: 1 Liberal Democratic Party of Russia
Turnout: 68.27% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 33.77%

Ryzhkov: 28.45%

Zhirinovskiy: 14.83%

Tuleev: 9.41%

Makashov: 6.65%

Bakatin: 3.21%

Turnout: 82.57% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [*Russian regions on the eve of 1995 elections*], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [*Results of the 17 December 1995 elections, regional breakdown*], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumi 1995* [*State Duma elections 1995*], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [*Governors of Russia*], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995.

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BREAKING NEWS

POLITICS

NEMTSOV, LUZHKOVA VISIT SIBERIA. At the Siberian Agreement regional association meeting on 28 February in Buryatiya, First Deputy Prime Minister Boris Nemtsov convinced the participating governors not to request that the deadline for residents to pay the full cost of their municipal services be delayed four years, to 2007. While the governors complied with that request, they continued to press the federal government for more funds. When Moscow Mayor

Yurii Luzhkov traveled to Omsk for a meeting of the Association of Far Eastern and Siberian Cities last week, he won applause for denouncing the government's "criminal privatization program," noting that he saved the capital by blocking the federal government's privatization program there. That trip was the latest in Luzhkov's attempts to build up his reputation outside Moscow before the presidential elections. (*Russkii Telegraf*, 3 March)

MAYORS PLAN NEW NATIONAL ASSOCIATION. Russia's mayors, including those meeting in Omsk last week, are planning to create their own National Congress in April. They hope to pool their resources to lobby against what they consider the ill-planned policies of the large financial industrial groups and the regional governments, to which they are subordinate. The Far Eastern and Siberian mayors said the powerful firms were instituting a "new colonial policy" and characterized their relationship with the governors as "war, but in the good sense of the word." The mayors argue that the governors arrogate too much power for themselves and want their new congress to act as a counterweight to the Federation Council. (*Izvestiya*, 3 March)

STROEV BOOSTS IMAGE IN PETERSBURG... In addition to the recent meeting of the Federation Council in St. Petersburg, Council Speaker Yegor StroeV has recently made at least two other connections to the city, apparently in an effort to boost a possible presidential run. He is helping to sponsor the second Economic Forum for CIS countries in June, which IMF Director Michel Camdessus and UN General Secretary Kofi Annan are scheduled to attend. As that meeting's image as the "Russian Davos" grows, so does StroeV's influence in Moscow. StroeV is also the chairman of the council of the CIS Interparliamentary Assembly, which is based in St. Petersburg. The body recently elected him to his third term in office, a recognition of Russia's preeminence. StroeV is critical of the federal government's handling of its CIS policy and supported Deputy Prime Minister for CIS Affairs Valerii Serov, who was recently sacked by Yeltsin. (*Kommersant Daily*, 4 March)

... AND LENINGRAD OBLAST. StroeV has agreed to join Leningrad Oblast Governor Vadim Gustov as co-chairman of an international monitoring committee that will guarantee the construction of the Ust Luga port. The port is expected to cost \$4 billion, which will be supplied by domestic and foreign investors. (*Russkii Telegraf*, 4 March)

KALININGRAD GOVERNOR, MAYOR LOCKED IN BATTLE. Kaliningrad Mayor Igor Kozhemyakin has been sick "too often," prompting a variety of city and oblast leaders -- including his own deputies, the city council, and the governor's office -- to attempt to wrest power from him, even though he has appeared on TV to reaffirm that he is still in control. Much of the problem may stem from the on-going dispute between the mayor and Governor Leonid Gorbenko. Mayor Kozhemyakin has appointed many of the employees of the former Governor Yurii Matochkin, whom Gorbenko defeated in a bitter election campaign, to posts in his administration.. If the situation is not resolved soon, Gorbenko has warned he will assert his authority. (*Kommersant Daily*, 4 March)

YELTSIN CANCELS KONDRATOV'S SPECIAL POWERS. President Boris Yeltsin on 4 February canceled his decree granting his representative in Primorski Krai, Viktor Kondratov, special powers over the use of federal funding in the region. Kondratov himself had asked for the change because Yeltsin's July decree on the presidential representatives gave similar powers to all representatives and also allowed the new Krai Duma, which unlike its predecessor opposes the governor, to monitor his activities. In an article published by *Vladivostok* the week before Yeltsin's action, Governor Yevgenii Nazdratenko argued that Kondratov was incompetent and that he had not won any additional funding for the region beyond what Nazdratenko himself had gained from Moscow. Nazdratenko ruled out any cooperation with Kondratov because of his "negative personal qualities." In an interview with *Kommersant Daily* (5 March), Kondratov charged that Nazdratenko was spending federal money in ways that Moscow did not approve.

VLADIVOSTOK BUSES STOP RUNNING. Buses in Vladivostok cannot run as scheduled because the city has no money to buy fuel after the kra administration froze the mayor's bank accounts at the end of February. (*Izvestiya*, 5 March) Meanwhile, Governor Yevgenii Nazdratenko called on residents of the Far East to offer humanitarian aid to help counter the dire lack of food in North Korea. Last October, the kra sent eight boxcars of aid to the country. (*Kommersant Daily*, 6 March)

INTEREST INCREASES IN KRASNOYARSK ELECTIONS. Communist Party leader Gennadii Zyuganov declared that the 26 April gubernatorial elections in Krasnoyarsk Krai will have "significance for the entire Russian Federation" (*Russkii Telegraf*, 5 March), while *Izvestiya* (6 March) has noted that the voting marks the beginning of the presidential race, which will culminate in 2000. According to the president's representative in the region, Yu. Moskvich, presidential administration analysts believe former Security Council Secretary Aleksandr Lebed will win based on their analysis of protest votes in opposition victories by men like Kemerovo Governor Aman Tuleev and Kursk Governor Aleksandr Rutskoi. There are also rumors that Boris Berezovskii, who is running for a Duma seat in Altai Republic, is backing Lebed. Ultimately, the Communist vote may be decisive in determining a run-off vote between incumbent Valerii Zubov and Lebed. It is still unclear which man the Communists will support. Lebed said he would not introduce radical changes to the oblast's economy if he won, and that he might even appoint Zubov as his deputy (*Segodnya*, 6 March). Zubov canceled a scheduled meeting with Lebed, claiming he was too busy to meet with his main opponent.

ISHAEV BLAMES MOSCOW FOR GROWING SEPARATIST TENDENCIES IN THE REGIONS. Khabarovsk Governor Viktor Ishaev argued that the "capital itself is responsible for provoking separatist feelings in the territories of Russia." He said the constitutional guarantee for equality among the regions is a "deceit (*obman*)" because the federal government treats regions differently depending on their relationship with officials in the capital. Ishaev complained that although his region pays the federal government enormous sums, it has not made good on its debts to the kra. Claiming there were no pension arrears in his region, he said he was angered by phone calls from federal officials asking if he had paid all

pensions. He said the federal authorities ruin all projects with which they are involved. Ishaev pushed the federal government to preserve Russia's integrity while safeguarding the interests of the regions. (*Izvestiya*, 5 March)

KRASNODAR GOVERNOR DELIVERS ANTI-SEMITIC SPEECH. Krasnodar Krai Governor Nikolai Kondratenko spoke before a forum of local young people and used the words "*zhidy* (kike)", "*zhidomasonry*," "*kosmopolity*," and "*sionisty*" 61 times, according to *Izvestiya* (4 March). The paper claimed he typically made such comments. He blamed the Jews for a host of problems, including the collapse of the Soviet Union, the destruction of the Communist Party, and the Chechen War. He divides the local media into two groups: "patriotic" and "Zionist." According to his close friends, the paper reports, the governor is convinced of a global Jewish conspiracy and often discusses it privately. (*Izvestiya*, 4 March)

ST. PETERSBURG GOVERNOR, SPEAKER LOCKED IN CONFLICT. In most Russian regions, the executive firmly controls the legislative branch. Russia's northern capital, however, is a strong exception. St. Petersburg Governor Vladimir Yakovlev has been trying to remove Yuri Kravtsov, the chairman of the St. Petersburg Legislative Assembly, since mid-January when the assembly passed a city charter that Yakovlev opposes. Kravtsov's supporters have so far blocked a meaningful vote on the question, but in the process have paralyzed local government. The conflict has even spurred federal threats to intervene to restore order. Sergei Vasiliev, deputy chief of staff for the Russian government, warned it was not the right time to discuss Kravtsov's resignation (*St. Petersburg Times*, <http://www.spb.ru/times/>, 9-15 March). In an open letter, the well-respected scholar Dmitrii Likhachev and the actor Kirill Lavrov warned that the power crisis was turning into a "tragifarce."

EUROPEAN UNION BACKS MERGER OF ST. PETERSBURG, LENINGRAD OBLAST. The European Union authorized \$3.3 million for a program to encourage the unification of St. Petersburg and Leningrad Oblast to make the region more attractive to foreign investors. The program aims to foster cooperation in areas such as industrial planning, transport, housing, and investment. It will encourage the city and oblast to work together to attract foreign investment instead of competing as they have done in the past. (*St. Petersburg Times*, <http://www.spb.ru/times/>, 9-15 March)

MOSCOW, INGUSHETIYA FAIL TO SIGN TREATY ON POWERSHARING. Ingushetiya President Ruslan Aushev and Prime Minister Viktor Chernomyrdin were scheduled to sign a powersharing agreement on 6 March, but Aushev refused to sign. The treaty was supposed to end the dispute between Ingushetiya and the federal authorities over Aushev's desire to appoint officials in Ingushetiya's procurator's office and the republican office of the Ministry of Internal Affairs. Moscow currently appoints those officials. Aushev wanted to hold a 1 March referendum on those issues, but he withdrew the proposal under pressure from the Russian Supreme Court. The federal government made very few concessions in the treaty, but expected Aushev to sign anyway. On 3 March, the acting head of Ingushetiya's MVD, Daud Korigov, who is loyal to Aushev, was arrested in Moscow for preventing some employees in

the procurator's office from entering their work place. Aushev demanded the release of Korigov and called his detention an attack on himself. (*Russkii Telegraf*, 7 March)

PRESIDENTIAL ADMINISTRATION ANNOUNCES INFORMATION CHANNEL FOR REGIONAL MEDIA. The presidential administration is planning to set up an All-Russia Technical Information Channel (OTIK) to supply the regional media with news from major international news agencies; summaries of the press and broadcast media; official information from the federal government; legal information; political and economic overviews with biographical information; and information from the regions. The information will be transmitted from Moscow via satellite at a relatively low cost for subscribers. The administration hopes to get 10,000 subscribers to offset the \$20 million already invested in the project, but so far only Leningrad and Saratov oblasts are on board, offering a few hundred subscribers. There are concerns that the channel will undercut independent information providers whose products are significantly more expensive and that the information will not be objective. Critics see the channel as an attempt by the presidential administration to control the regional media before the upcoming presidential elections at a time when the reach and influence of the central press is declining. (*Ekspert*, 9 March)

ECONOMICS

RUSSIANS CLAIM OIL LIKELY IN THE SOUTHERN KURILS. *Izvestiya* on 6 March reported that sources in the Russian oil industry believe there is oil in the Southern Kurils, a discovery that would radically change the on-going negotiations with Japan over the islands. Russia took possession of the islands after WWII from Japan, and the two countries have never signed a peace treaty because of the territorial dispute. Until now both sides have viewed the islands as economically meaningless, but the discovery of useful resources could change that assessment. If deposits are confirmed, the discovery could exacerbate the dispute or encourage both sides to cooperate in exploiting the oil.

The Russians hope to draw Japan into investing in oil recovery in the Far East as a way to break Japan's heavy dependence on Middle Eastern oil. The country now gets 70 percent of its energy from the Middle East. Currently, foreign energy investment in Russia is only 10 percent of the money going into Azerbaijan because Russia lacks a complete legislative base on development and high taxes. The Japanese have not commented on the possible oil reserves. Rosneft, the only Russian company working on the Sakhalin shelf, may gain the rights to extract the potential Kuril oil. The company will be privatized soon and the potential oil may increase its value. (*Russkii Telegraf*, 11 March)

VORONEZH, ULYANOVSK ASK GOVERNMENT TO RECREATE AVIATION MINISTRY. The Ulyanovsk Oblast Legislative Assembly and the Voronezh Oblast Duma have asked the federal government to recreate the Aviation Industry Ministry. Both regions are home to idle aircraft production plants, the Voronezh Aviation and Aircraft Production Association (VASO) and Aviastar. Regional leaders and industrialists believe that state management will restore economic strength to the area. VASO tried to build planes with

imported Pratt & Whitney and Collins engines, but the projects were unsuccessful. Aviastar had a similar experience when it tried to sell its planes with Rolls Royce engines. There are no customers for the low-quality Russian-made engines. The reestablishment of a ministry is likely to be of little help, however. Reviving the plants would require restoring full state-financing and protectionist measures to shut out Western competitors. (*Kommersant Daily*, 4 March)

TAX POLICE ATTACK TEXACO. The Russian State Tax Service has accused Texaco International Operations of not paying \$6.4 million in local income tax and \$5.8 million in road taxes in Muravlenko, Yamal-Nenets Autonomous Okrug. It is the first time a major international oil company has been accused of breaking the law in Russia. The firm said it has paid all its taxes. (*Kommersant Daily*, 5 March)

SARATOV HOLDS FIRST LAND AUCTION. Saratov Governor Dmitrii Ayatskov supervised the first land auction in the city of Balakov on 5 March. Ayatskov also plans to open Russia's first legal house of prostitution in the city. The auction sold 18 of 24 lots offered, collecting 468,000 rubles. (*Kommersant Daily*, 6 March) The Chairman of the State Duma Committee on Agriculture criticized the sales for the low prices charged for the land and alleged that the sales were "taking land from the peasants." (*Russkii Telegraf*, 7 March) President Yeltsin again warned on 6 March that he would not sign a land code that did not allow the purchase and sale of land.

GAZPROM UPSET WITH CHELYABINSK LEADERSHIP. Gazprom Chairman Rem Vyakhirev traveled to Chelyabinsk to meet with Governor Petr Sumin on 3 March. Vyakhirev was concerned about the ongoing scandals at the Magnitogorsk Metallurgical Combine and the Chelyabinsk Tractor Factory. Magnitogorsk is a major debtor to Chelyabenergo, which in turn owes Gazprom 500 million rubles (\$83 million). The leadership battles translate into a postponement of the adoption of a repayment plan. Gazprom until recently has bought 60 percent of the tractor factory's output. The plant has been declared bankrupt in a move by the oblast leadership to gain control over it. Sumin wants to cooperate with Gazprom because the firm plays such a large role in the oblast's economy, but the two sides have yet to establish a mutually acceptable relationship. (*Kommersant Daily*, 6 March)

TULEEV OPPOSES COAL MINERS STRIKES. The coal miners of Kemerovo Oblast are warning of a massive strike in April if they are not paid the more than 1 billion rubles (\$167 million) trade union leaders believe they are owed. Kemerovo Governor Aman Tuleev, who has traditionally supported the unions, is now warning them against the strike. Tuleev claimed that the union leaders were part of a larger "coal Mafia" and that any strike would simply lead to mine closings. The oblast is essentially bankrupt and therefore has no resources to help improve the situation. (*Russkii Telegraf*, 4 March)

NEW JOURNAL ON RUSSIAN BUSINESS. A new journal, *Russia's Potential*, about doing business in Russia is now being published with a board of advisors headed by Federation Council Chairman Yegor Stroev. The journal seeks to provide potential domestic and foreign

investors with information about the Russian regions. *Russia's Potential* is published in Russian and English and there are plans to translate it into Spanish, Japanese, Arabic, and other languages. (*Finansovye izvestiya*, 3 March)

FEDERATION COUNCIL REJECTS HIGHER TAXES ON FISHING

INDUSTRIES. The Federation Council has rejected a bill that would have dramatically increased the taxes collected from Russian fishing enterprises. The projected revenue had already been added to the 1998 budget even before the bill was approved. The governors of the regions argued that the new taxes would render the fishing business highly unprofitable. The governors were upset because they were not consulted in the drafting of the bill even though the management of natural resources is supposed to be under joint regional and federal jurisdiction. The governors of Kamchatka Oblast and Primorskii Krai, where major fisheries are located, were particularly opposed. (*Finansovye izvestiya*, 3 March)

RUSSIAN AUTO PRODUCTION SET TO INCREASE WITH FOREIGN HELP. The Economics Ministry believes that in five years Russia will produce 1.5 million light cars a year, 500,000 more than now. The growth will come from joint ventures established by such firms as Fiat, Daewoo, Hyundai, Opel, and Ford. Development of the industry will follow the example set by the recent Fiat and GAZ joint venture: in exchange for significant tax concessions, joint venture partners are required to invest \$250 million over five years in assembly projects in which at least 50 percent of the components are produced in Russia. Five plants are now likely to benefit from the concessions. In addition to the Fiat-GAZ project, they include Taganrog's Doninvest plant, which is producing Daewoos; production of Hyundais in Izhevsk; production of Opels at AvtoVAZ; and Ford's plans to work in Leningrad Oblast. Projects that do not meet the high criteria include the KIA-Baltica plant in Kaliningrad, the joint venture between Moskvich and Zil, and the production of Chevrolet Blazers in Yelabug. (*Izvestiya*, 6 March)

ST. PETERSBURG SEEKS TO BOOST SMALL BUSINESSES. Over the last several years, many Russian regions have passed legislation designed to foster the growth of small businesses. However, improper implementation of the legislation has often thwarted the intended results. In June 1996, St. Petersburg adopted a flat tax for small enterprises with 15 or fewer employees and revenues of less than \$1.4 million. Those firms needed only to pay 10 percent of their revenues instead of a 2 percent asset tax, 33 percent profit tax, 20 percent VAT, and other taxes. However, to take advantage of the lower taxes, the firm had to pay a licensing fee that ranged from \$2,100 to \$8,500 a year. As in Vladivostok, where similar fees were assessed, most firms found it impossible to pay for the license (see *IEWS Russian Regional Report*, 29 January). Only 0.5 percent of the city's small businesses, or 311 of the 39,000 eligible companies, and 70 of the city's 30,000 self-employed entrepreneurs applied to use the law. The city's legislature is now considering a bill to eliminate the fees for businesses and reduce them for entrepreneurs. (*St. Petersburg Times*, <http://www.spb.ru/times/>, 9-15 March)

BUSINESS BRIEFS

-- **TATARSTAN'S KAMAZ** truck plant continues to remain idle. Every truck the plant produces now costs it 50,00 to 60,000 rubles (about \$9,000). KamAZ Board of Directors Chairman Ravil Muratov asserts that the plant will only resume work when it has orders that will be paid in cash. To pay off its massive debts, KamAZ is planning to hand over its stock to its creditors, who will then sit on the board of directors. The main parties concerned are the Tatarstan government, the Russian government, four banks (the EBRD, Vneshtorgbank, Sberbank, and Tokobank), and the American firm Kohlberg, Kravis & Roberts (KKR). (*Kommersant-Daily*, 3 March)

-- On 4 March, the **SAYANSK ALUMINUM FACTORY (IRKUTSK OBLAST)** and **INKOMBANK** signed an agreement to jointly manage the bank's 52 percent share of the **SAMARA METALURGICAL COMBINATE (SAMEKO)**. Sameko will now be integrated into Siberian Aluminum, which is headed by the Sayansk plant, allowing for a more efficient use of resources by all sides. Sayansk is Russia's third largest aluminum producer. Sameko is the country's largest producer of rolled aluminum. The combined organization will be the fifth-largest vertically integrated aluminum company in the world. In October 1997, Sayansk, Sameko, and the **AMERICAN REYNOLDS INTERNATIONAL INC.** signed a tolling agreement stipulating that Sameko must deliver 10,000 tons of rolled aluminum to the Americans each year. Although the amount is small, it is a first step. Sayansk, Sameko's main supplier, is now planning to invest \$50 million in the plant. (*Kommersant Daily* and *Finansovie izvestiya*, 5 March)

-- Two of Russia's largest machine building enterprises, **YEKATERINBURG'S URALMASH** and **ST. PETERSBURG'S IZHORSKIE WORKS**, announced a merger on 5 March. Uralmash, which specializes in construction and boring equipment, had sales last year of \$200 million. Izhorskie -- which is now building four nuclear reactors for the Leningrad Atomic Energy station, China, and Iran -- had sales of \$300 million last year. The stock swap is expected to take three to four months. The two partners have yet to name their new alliance. Uralmash is the main initiator of the deal and claims that the alliance does not present any danger of monopolizing the market. (*Kommersant Daily*, 6 March)

-- **KAMAZ** and the Czech Republic's **SKODA** signed a deal to create a joint venture to produce Skoda Liaz trucks. The financial details have not yet been released. In recent years, Liaz trucks have lost their primary market in Eastern Europe and KamAZ's main production lines have been idle for lack of orders. Plans for similar joint ventures between **IVECO-URALAZ** and **ZIL-CATERPILLAR** to manufacture European-quality trucks have not progressed. (*Kommersant Daily*, 6 March)

-- The city of **MOSCOW** will buy a 51 percent controlling stake in **SHEREMETEVO-2** airport from the federal government for \$400 million to \$600 million. Both sides have agreed on the sale in principle but must now determine the price. (*Finansovie izvestiya*, 3 March)

-- **REEBOK** lowered its prices for sports shoes and clothing in **VLADIVOSTOK** by 20

percent to 30 percent. The company has a store in Vladivostok and 15 fitness clubs. It hopes to increase sales in the region through its local dealer **OSNOVA** by launching a massive advertising campaign in the local media. (*Zolotoi rog*, <http://vladivostok.com/homerus1.html>, 3 March)

PATTERNS OF REGIONAL DEVELOPMENT

SEGEZHABUMPROM MAJOR ISSUE IN KARELIYA CAMPAIGN. The fate of the paper company Segezhabumprom is the focus of attention as the race for Kareliyan premier continues. The republic will hold elections on 26 April. The Swedish paper giant AssiDoman recently decided to sell its stake in the plant after declaring that it could not make a profit under the conditions imposed by federal and regional officials. Now both of the major candidates hoping to become Kareliya's next leader are seeking to prove that they can resolve the problem.

Incumbent Viktor Stepanov said at a 4 March press conference that a solution is being worked out following his recent talks in Moscow and that the republic may buy the company from AssiDoman. According to Stepanov, the Swedish media have been justifying AssiDoman's decision to withdraw from the Kareliyan market, citing the company's refusal to bribe Russian officials. The Swedes are reportedly willing to sell their 57 percent stake in the plant, worth \$55 million, for only \$20 million. They are supposedly even willing to accept in-kind payments, such as paper or timber. Stepanov was quick to point out that AssiDoman said it would have ceased its operations in Kareliya much earlier had it not been for his efforts.

The other candidate for the republic's number one spot is the former mayor of Petrozavodsk, Sergey Katanandov. In recent campaign appearances throughout the republic, Katanandov has criticized the republic's leadership for wasting time with the AssiDoman affair. When he visited Segezha, the residents gave him their frank and less than flattering assessment of the republic's economic policy. Katanandov immediately petitioned Stepanov to create an emergency commission to deal with the situation. Interestingly, while Katanandov criticizes Stepanov for relying too much on Moscow, he himself is calling on the federal center for more help. His assertion that it is necessary to "take drastic measures" on the republican level leave his exact intentions unclear. The republican leadership now handles matters pertaining to supplying Segezhabumprom with raw materials, and the federal government could only give more aid through additional loans. Katanandov was trying to procure such aid during his recent meetings in Moscow with First Deputy Prime Minister Boris Nemtsov and others in the Russian Government.

Either way, Katanandov is rising in the opinion polls by exploiting the Segezhabumprom affair. And if Stepanov fails to make the company work again before election day, he can safely say good-bye to support from Segezha voters. - Boris Matveev in Petrozavodsk

PERM GOVERNOR REFUSES TO PLAY SEPARATIST GAMES. Perm Oblast Governor Gennadii Igumnov decided not to attend a meeting of the Economic Cooperation Association of the Urals Oblasts and Republics in Yekaterinburg on 27 February. He had been invited by Sverdlovsk Oblast Governor Eduard Rossel, who also serves as the association's president. In his place, Igumnov sent a deputy governor. As an editorial in the local newspaper

Zvezda (26 February) speculates, Igumnov's refusal was most likely motivated by the inclusion on the agenda of a discussion of the Urals Economic Union. The Perm governor was likely concerned that Rossel hoped to add a political dimension to the union, which now has a general economic focus, by returning to his long-time pet-project of creating a Urals Republic. Yeltsin sacked Rossel as Sverdlovsk Oblast governor in 1993 after he declared the establishment of a Urals Republic. However, as early as last fall the Perm governor took a firm stand against any new attempts to create such a political entity. Igumnov's refusal to attend the regional summit emphasizes his refusal to play separatist games. - Andrey Suslov in Perm

TVER MAYOR TO LEAD PRO-LUZHKOVA SOCIAL-DEMOCRATS. The Social Democrat organization was recently created in Tver and is headed by the city's mayor, Aleksandr Belousov. As the head of the city administration, Belousov cannot be a member of any political party but he can join and even lead public movements. The organization's founding meeting took place last week with 30 supporters in attendance. The Tver Social Democrat members received messages of support from Moscow Mayor Yurii Luzhkov and the Federation Council Speaker Yegor StroeV. The movement can potentially play several roles. It could be Luzhkov's base in the region for future presidential elections. It could also be the foundation for Belousov's gubernatorial campaign two years from now. Finally, it could promote Muscovite commercial interests in the Tver market. - Boris Goubman in Tver.

CENTER-PERIPHERY RELATIONS

LOCAL GOVERNMENT EXECUTIVES CAN SERVE IN REGIONAL LEGISLATURES. Responding to a query by Tver Oblast Governor Vladimir Platov, the Russian Central Electoral Commission asserted that municipal executives can serve in oblast-level legislatures. Two local government executives were recently elected to the Tver Oblast Legislative Assembly, but the body refused to recognize their mandates on the grounds that doing so would violate the separation of power. Since Tver was not the only region to encounter that dilemma, the Central Electoral Commission made a general ruling, applicable to all regions, based on existing Russian legislation. Because Articles 1 and 2 of the federal Law On the Basics of Municipal Service in the Russian Federation (8 January 1998) does not consider municipal government heads civil servants, the separation of power limitation imposed by Article 11 of the same law does not apply to them. - Boris Goubman in Tver

ECONOMIC ISSUES

URALS ENERGY STOCKS BOOM

by Igor Stepanov

CHELYABINSK--Despite the experts' predictions that the Russian stock market will plunge continue to plunge, the market for Urals regional stock has been booming as the value of many issues soar. Growth is definitely in the air.

Insiders are not surprised by this turn of events. The initial panic stemming from the

long-term lack of demand from Moscow for local companies' stocks has passed. Regional investment companies have regrouped and found new areas in which to invest, mostly local companies. At the same time, market players are still cautious and are trying to invest in familiar and secure stocks, of which there are few. Most of the secure stocks are in the fuel and energy sectors.

By early March, stocks for Urals energy companies had made the most headway in terms of market valuation, even though the total volume of trade is only a fraction of last fall's. Regular Chelyabenergo stocks, for example, have risen by 25 percent, currently selling for 2.40 rubles to 2.60 rubles each in Chelyabinsk and Yekaterinburg. Increases in Chelyabenergo preferred stocks have been less significant, rising by only 10 percent or so to sell for 0.80 rubles to 0.90 rubles a share. The modest price fluctuation testifies prevailing positive market conditions. The market, it must be noted, ignored media reports that Chelyabenergo suffered losses of 230 billion old rubles (\$38 million) last year. In addition, power production has increased considerably, rising by 11.5 percent. It is reasonable to expect Chelyabenergo stocks to continue their climb at least through March. By then, the Board of the Unified Energy Systems (UES) should announce whether it will retain Chelyabenergo's trust supervision over the Troitsk Power Station, and announcement that could alter the company's share price.

Permenergo has been another notable stock so far this year. The price for the company's regular stock jumped from 17 rubles to 18.50 rubles to 20.00 rubles a share. Its preferred stocks increased from 11 rubles to between 13.25 and 13.50 rubles a share. As in the case of Chelyabenergo, growth has occurred despite the company's overall economic indicators.

The value of Sverdlovennergo stocks has increased significantly even though all investment companies have not corrected their strategies. For example, the Rosaktiv investment house, historically conservative about energy stocks, kept Sverdlovennergo's regular stock price at 1.83 rubles a share. In contrast, the Yekaterinburg-based Teksi-stock, famous for its rapid and flexible reaction to market fluctuations, sharply increased the price for the same stock, both for regular and preferred issues. The regular stock jumped from 1.64 rubles to 2.44 rubles and the preferred stock increased from 0.75 rubles to 0.88 rubles.

Overall, Gazprom and of UES stocks have enjoyed a considerable increase in value. The latter did particularly well in Perm, where investment companies bumped their value from between 1.30 and 1.35 rubles to between 1.60 and 1.65 rubles for regular stocks, and from between 0.82 and 0.87 rubles to 1.02 rubles for preferred stocks. In Chelyabinsk, regular UES stocks fluctuated from 1.30 rubles to 1.60 rubles a share, while the preferred stocks floated in the 0.80 rubles to 1.00 ruble corridor. Such passivity can be explained by a traditional lack of interest in UES stocks by Chelyabinsk investors. Prices for UES stocks also varied widely on the Yekaterinburg market, where they now sell for between 1.00 ruble to 1.55 rubles each. In early March, many local companies increased the price of UES stocks.

Gazprom stocks enjoy the most success in Yekaterinburg, where they go for 5.00 rubles to 5.55 rubles a share. While that is lower than earlier this year, it is higher than prices in Chelyabinsk or Perm. In Chelyabinsk, the market the price for Gazprom stocks approaches 4.50 rubles a share, while in Perm it is 5.00 rubles a share. In the Urals region overall, Gazprom stocks have increased in price by 0.20 rubles to 0.50 rubles during the first week of

March.

LUKoil stocks have also shown sustained growth in the Perm market. The company's regular stocks increased in price from between 98 rubles and 100 rubles a share to between 102 and 104 rubles a share. Its "privileged" stocks increased from between 60 rubles and 61 rubles to 65 rubles a share. In contrast to Perm, where virtually all key investment firms handle LUKoil stocks, only a few traders handle them in Yekaterinburg and Chelyabinsk. Therefore, it is difficult to estimate the total LUKoil investment portfolio in the Urals market, although some patterns do emerge. For example, last week a Chelyabinsk company, Investitsii i Finansy, bumped up LUKoil's regular share price from 90 rubles to 97 rubles. It did the same for its preferred stocks, rising the price from 60 rubles to 61 rubles. In Yekaterinburg, Rosaktiv has been keeping the share price of LUKoil's stocks constant at 60 rubles a share.

Even though the overall market for energy stocks is on the rise, giving an indirect boost to metallurgical sector stocks – a sector that is dependant on power suppliers -- portfolio investment in most other industries has been unaffected. Food-processing, chemical, construction materials, and machine-building sector stocks have remained virtually immobile. Obviously, one can talk of sustained general stock market growth only when growth is experienced in most, if not all, economic sectors.

MOSCOW INVESTOR TO JUMPSTART FAR NORTH DIAMOND MINE

by Gleb Tiurin

ARKHANGELSK--The most recent extraordinary meeting of shareholders in the Severoalmaz diamond mining company on 28 February brought sensational news: the company now has its first strategic investor, a Moscow-based company called Soglasie.

The Lomonosov diamond deposit is one example of the incredible sluggishness in Russia's development of natural resources. Six deposits discovered 18 years ago 100 kilometers from Arkhangelsk today remain untapped. During the Soviet era, the lack of development was attributed to resource conservation. After market reforms were launched, Severoalmaz was created to develop the Lomonosov deposit but its application for a mining license was delayed. After about ten years of exploratory work, the company announced in late 1997 that the only way to further develop the mine and proceed with extracting diamonds was to build a quarry.

As the chairman of Severoalmaz's board, Vyacheslav Krotkov, explained to shareholders during the meeting, the mine needs a \$700 million investment. The company has already spent five years searching for a partner. Such industry leaders as the diamond giants DeBeers and ALROSA, as well as UNEXIMbank, Gazprom, Rosneft and several other financial conglomerates were considered. Archaic regulations listing diamond extraction as a classified project have discouraged foreign investors. This month, that situation could change if Prime Minister Viktor Chernomyrdin keeps his promise to remove the top-secret status from the Lomonosov deposit. Analysts say all necessary approvals have been received.

Soglasie is one of Severoalmaz's shareholders and has agreed to assume the initial costs of the project. Even though Soglasie does not specialize in mining, it will invest \$50 million in the preliminary work. Why did shareholders approve this company instead of waiting for the

Russian government to conduct an official tender? Soglasie has courted the Lomonosov deposit for a year-and-a-half, systematically buying Severoalmaz's stocks both as new issues and on the secondary market. Beginning in August 1997, Soglasie controlled 53 percent of the company's stock. (The oblast's State Property Committee in turn owns 25.1 percent of the stock.) In addition to the agricultural concern Nazarievo, the law firm Svoboda, and the Kristalldiam partnership, one of the shareholders is the president's administration.

According to Severoalmaz General Director Vitaliy Fortygin, the main problem the company confronts is the lack of an effective owner, which would prevent any company from operating efficiently. Thus the partnership with Soglasie, which has been in the works for the last year-and-a-half, is significant. Fortygin hopes that with federal and regional support, the Lomonosov diamond deposit will be fully explored and its potential realized.

Despite that optimism, Arkhangelsk Deputy Governor Nikolay Malakov cautioned that the governor does not intend to put all his eggs in one basket and plans to use his blocking stake in the company to steer the management's policy in the appropriate direction. Soglasie's General Director Arosh Abramyan did not reply to that comment and did not offer much elaboration on his firm's plans and potential partners.

The president of Sakha-based ALROSA, Vyacheslav Shtyrov, flew to the shareholders' meeting on his private jet. His company owns less than 1 percent of the stock and it recently suffered a major blow when President Yeltsin approved a credit line for Arkhangelsk Oblast to be spent on Severoalmaz, leaving Sakha in the cold. Shtyrov put up a good front and heartily congratulated Severoalmaz. He said Russia needs to fight for its leading place in the increasingly hostile world diamond market, where newcomers from South Africa and Canada might soon emerge. Shtyrov said Russian producers must unite to preserve the country's share of the world market. ALROSA, he said, is interested in developing Severoalmaz and coordinating diamond sales with it.

The Lomonosov deposit will remain quiet for the next year-and-a-half while all the necessary technical paperwork is completed. Now, at least, there is hope that the immense natural potential of the deposit will be exploited. (Pomorie TV, 7 March; *Pravda Severa*, 4 March).

COMPETITION TO INCREASE IN URALS AIRLINE MARKET. Competition for airline customers in the Middle Urals market, such as those who use the Moscow-Yekaterinburg route, will heat up soon, according to analysts. Currently, the Moscow-Yekaterinburg route is serviced by two airlines, Urals Airlines and Transaero. That number will double when Aeroflot and Vnukovo Airlines enter the market.

The attraction of the Middle Urals market is explained by the stable business interests of the region's residents, who consistently fill planes headed toward Moscow. That steady flow of profits has attracted Aeroflot and Vnukovo Airlines. According to a Federal Aviation Administration spokesperson, both airlines have been granted operating license for that route. Preliminary data on the weekly quotas that will be assigned to the carriers suggests that Urals Airlines will be assigned 4,000 seats; Transaero will be given 1,000 seats; Aeroflot will get 300 seats; and Vnukovo Airlines will be allotted 600 seats.

A local carrier also wants to stake its claim to the market. Yekaterinburg-based

Aviakon Citotrans planned to launch a daily shuttle to the capital city by last fall and even leased an additional TU-154M plane. However, the Federal Aviation Administration refused to grant Aviakon an operating license, claiming that demand for air carriers had been satisfied in the Urals. The company appealed to the Moscow Arbitrage Court, which overruled the regulators' decision. Aviakon is now preparing to file its license application, even though it will face much fiercer competition now than it would have last year. Aviakon is optimistic about receiving a fair share of the market, which would allow it to serve 1,000 to 1,500 passengers a week.

For an average consumer, this heightened competition is a blessing. With four or five carriers on the market, competition is bound to translate into better service and lower prices. Consider Urals Airlines. When Transaero entered the Middle Urals market several years ago, Urals Airlines lost many of its customers to the competitor's better service, which was provided at similar prices. As a counter-strategy, Urals Airlines introduced several significant price cuts and improved the quality of on-board service, thus reclaiming much of the lost market.

Such market developments in the Middle Urals airline industry show that Moscow still considers the region an equal economic partner. Many foreign countries echo that sentiment and have been paying increased attention to the region in their foreign trade policies. In fact, Urals Airlines plans to operate a regular flight to London by the end of the year. - Dmitry Strovsky in Yekaterinburg

FOREGIN TIES

ITALIANS TO RESTRUCTURE IRKUTSK MILL. Representatives of the Italian firm Braybanti Golfetto arrived in Irkutsk yesterday. The company makes wheat-milling equipment and came with a restructuring proposal for the management of the Irkutsk Bread-Making Plant. Two mills currently grind flour in the oblast, one dating to 1911 and the other one to 1934. Their equipment is obsolete and well-worn. Experts think restructuring the region's economic independence will be in jeopardy if the restructuring of the mills is further delayed, because flour is a necessary staple.

According to Deputy Governor Aleksey Sobol, Braybanti Golfetto's proposal is more attractive than any others that were submitted because of the company's extensive experience with Russian partners, its competitive prices, and its relatively close spare parts warehouse in Moscow. The Italians offer warranty and technical support for their equipment. No agreement has been signed yet. However, in the company's previous experience no more than a year has elapsed between talks and the introduction of its equipment. - Galina Solonina (Teleinform) in Irkutsk

NIZHNII AIRPLANE MANUFACTURER TO COOPERATE WITH ITALIANS.

Under the auspices of President Yeltsin's recent visit to Italy, discussions were held about the prospects of making Yak-130 planes in Nizhnii Novgorod. Director of the Sokol aviation plant Vladimir Pomolov said the construction of training planes, such as the Yak-130, is an international problem because the technology for conventional trainers lags behind that of combat planes. (*Birzha*, No. 9) Originally, the Yak-130 was a purely Russian project, he said, but the Russians decided to team up with the Italians in order to outstrip American and British

competitors. The primary feature of the Yak-130 that separates it from other training planes is its versatility. Training on a Yak-130 will give a pilot the skills to fly combat planes as varied as the Russian MiG-29 and Su-27, the American F-16, and the French Mirage.

The Italians estimate Yak's export potential at 1,500 to 2,000 units. The project's total cost is \$200 million. The Italians have earmarked \$100 million from their federal budget for the project; the Russian side has not done likewise. The Russian partner will obtain funding through three methods. The first is by tapping Sokol's own reserve fund and taking out loans to procure 15 percent to 20 percent of the total funding. The second is to rely on state subsidies for possibly up to 20 percent of the funding. Finally, the venture can use the old USSR debts to the Czech Republic and to Slovakia, which can now be repaid in-kind with equipment such as Yak-130 planes. The planes will be equipped with Slovak engines. - Yury Rodygin in Nizhnii Novgorod

REGIONAL PROFILE: SMOLENSK OBLAST

Governor: Anatolii Glushenkov

Anatolii Glushenkov was elected Smolensk governor in April 1993, without the support of either the presidential administration or the Communist opposition. He was born in 1942 in Smolensk Oblast. At the age of 18, after finishing technical school, he worked as a carpenter, truck driver, and locksmith. Upon graduation from an aircraft technical school in 1968, he began working at the Smolensk Electronic Machines Works first as a master and then, after completing a correspondence course offered by the Leningrad Aircraft Equipment Institute in 1975, he rose to become deputy chief engineer. In 1975, Glushenkov was elected head of the plant's Communist Party organization. In 1979, he was elected deputy chairman of an executive committee (*raispolkom*) of a Smolensk city district. Beginning in 1983, Glushenkov was deputy director and then director of the Smolensk Refrigerator Works.

In December 1993, he was elected to the Federation Council, the upper house of the new Russian parliament, where he became a member of a committee on CIS affairs. In 1996, he was elected deputy chairman of the Parliamentary Assembly for the Russian-Belorussian Commonwealth.

Other Local Leaders

Chairman of the Oblast Duma -- Sergei Antufev, elected in April 1994

Brief Overview

Smolensk Oblast is located on the East-European Plain, at the conjunction of the Dnepr, Volga, and West Dvina rivers. It borders Tver, Moscow, Kaluga, Bryansk, and Pskov oblasts and Belarus. Smolensk, first mentioned in 863, was once the center of an independent Smolensk Kingdom. It was later part of Belarus, Lithuania, and Poland and became part of the Russian state in 1686.

Smolensk began industrializing in the early 17th century and developed a strong

industrial base by 1900. Regional industries such as machine manufacturing, chemical and oil-processing, forestry and timber-working, are based on local mineral resources. Those resources include peat, charcoal, and phosphorous. The oblast is home to one of the country's largest flax-processing enterprises as well as the Smolensk Nuclear Power Plant.

Almost all of the region's exports, including raw materials, machines, fertilizers, and processed diamonds, are exported to Belgium, the US, Germany, Italy, and France.

Basic Facts

1995 Population (est.): 1,1173,00 (0.79% of Russian total)

Industrial production as a percentage of all Russian production (Jan. - Aug. 1995): 0.65%

Agricultural production as a percentage of all Russian production (1994): 0.98%

Average personal income index in July 1995: 68 (Russia as a whole = 100)

Price basket index in July 1995: 82 (Russia = 100)

Average back wages owed per person (September 1995): 27,300 rubles (Russian average = 37,100)

Urban population: 69.6% (Russia overall: 73.0%)

Student population (1993): 106 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1994): 27.87%

Percentage of population with higher education (1989 census): 8.7% (Russia overall: 11.3%)

Percentage of population working in (1993): Industry: 29.6% (Russian average: 29.9%);

Agriculture: 15.9% (12.8%); Trade: 10.0% (9.1%); Culture: 11.0% (13.6%); Management: 2.4% (2.3%)

Number of telephones per 100 families (1993): in cities : 43.0 (Russian average: 41.5); in villages: 18.5 (17.2)

According to a 1995 survey by Bank Austria, the oblast is ranked 24th among Russia's 89 regions in terms of investment climate.

Electoral History

1996 Presidential Election

Zyuganov: 44.57%/56.25% (first round/second round)

Yeltsin: 21.98%/38.15%

Lebed: 15.92%

Zhirinovskiy: 8.33%

Yavlinskii: 5.11%

Turnout: 72.88%/69.16% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Elections

Communist Party of the Russian Federation: 31.89%

Liberal Democratic Party of Russia: 19.64%

Our Home Is Russia: 4.59%

Communists -- Workers' Russia: 4.54%
Yabloko: 3.97%
Agrarian Party of Russia: 3.63%
Russia's Democratic Choice: 3.61%
Women of Russia: 3.32%
Congress of Russian Communities: 3.10%
In single-member districts: 2 Communist Party of the Russian Federation
Turnout: 68.55% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 41.92% "No" -- 58.08%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 32.63%
Communist Party of the Russian Federation: 16.15%
Agrarian Party of Russia: 13.05%
Russia's Choice: 11.39%
Women of Russia: 6.43%
Democratic Party of Russia: 5.74%
Yabloko: 4.69%
Party of Russian Unity and Concord: 4.09%
In single-mandate districts: 1 Communist Party of the Russian Federation,
1 Agrarian Party of Russia
>From electoral associations: 1 Communist Party of the Russian Federation
Turnout: 65.07% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 37.57%
Ryzhkov: 33.52%
Zhirinovskiy: 9.37%
Makashov: 6.92%
Tuleev: 6.79%
Bakatin: 2.70%
Turnout: 82.45% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95 [Russian regions on the eve of 1995 elections]*, Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam [Results of the 17 December 1995 elections, regional breakdown]*, Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995 [State Duma elections 1995]*, Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii [Governors of Russia]*, Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995.

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BREAKING NEWS

POLITICS

GRASS ROOTS PROTESTS CONTINUE ACROSS RUSSIA. It is common for observers of Russia to note the ability of the Russian people to withstand great deprivation with stoicism and with little protest. A closer analysis of what is actually happening in the regions, however, suggests that people are taking much more effective grass roots action than is commonly perceived. Although the Communist Party of the Russian Federation has done little to build a reputation as an effective catalyst for opposition in Russian politics because it generally cooperates with the government in deeds if not in rhetoric, its web site (<http://www.kprf.ru>) does provide a daily list of protests across the country. As a rule, the protests involve only a handful of people, usually in the dozens, and are focused on purely economic goals. But taken together they suggest a strong potential for instability. Some of the recent postings (12-17 March) mentioned miner strikes in Rostov Oblast and Vladivostok; 37 hunger strikers at an auto depot in Kemerovo; preparations for an all-Russian strike sponsored by the Federation of Independent Trade Unions on 9 April demanding "Complete payment of salaries" in Sakhalin, Tatarstan, Samara, Altai Krai, Nizhnii Novgorod, Yaroslavl, and Primorskii Krai; and workers from the defense-oriented Maslennikov Factory blocking traffic and fighting with policemen in Samara to protest low pay. So far those protests remain isolated and uncoordinated. Previous attempts at mass action, such as the planned strike on 9 April, have generally disappointed their organizers in the past and had little impact.

NIZHNI VOTERS LIKE LUZHKOVA BETTER THAN NEMTSOV. Polls of citizens in Nizhnii Novgorod and Dzerzhinsk, the two largest cities in Nizhnii Novgorod Oblast, at the end of January and the middle of February show that they give President Boris Yeltsin relatively low marks (25 percent and 22 percent in each city say they trust him) and generally have a dim view of radicals of all persuasions, be it Anatolii Chubais (9 percent and 8 percent), Gennadii Zyuganov (15 percent and 16 percent), or Vladimir Zhirinovskii (6 percent and 7 percent). At the federal level, Moscow Mayor Yurii Luzhkov wins the highest marks from the residents of the two cities (43 percent and 36 percent), while former Nizhnii Governor and current First Deputy Prime Minister Boris Nemtsov is in second place (34 percent and 32 percent). Although the two cities share many similar points of view, Dzerzhinsk, a heavily polluted chemicals-industry center, is more likely to back radical politicians opposed to the current Kremlin incumbents. (*Birzha*, 6 March)

LUZHKOVA DEFIES CONSTITUTIONAL COURT ON RESIDENCE PERMITS.

Moscow Mayor Yurii Luzhkov said on 10 March that he would not obey a 2 February Constitutional Court decision to abolish residence permits that effectively prevent non-Muscovites from moving to the city. Luzhkov claimed that the capital was only slightly better off than the rest of the regions and was not in a position to share its wealth with all comers. Despite six rulings by the court giving Russians the right to live wherever they can afford to, cities like Moscow, St. Petersburg, Vladimir, Voronezh, and others refuse to change their restrictive laws.

(*Russkii Telegraf* and *Kommersant Daily*, 11 March) Constitutional Court Justice Vladimir Yaroslavtsev denounced Luzhkov's defiance of the court order as unwise, noting that there are already 1 million people in Moscow who have not registered. He stated emphatically that "there will be no closed cities" and that it would make more sense to register the currently illegal interlopers. (*Kommersant Daily*, 12 March)

BORDER GUARDS MEET. The heads of the border guard services for Russia, Ukraine, and Belarus met in Gomel (Belgorod Oblast) on 12 March. The meeting was the first for the group, which usually meets in the context of events including all CIS countries. The goal of the meeting was to improve the flow of people across the borders. Russia has no guardposts on its border with Belarus and there are no restrictions on travel. Ukraine is trying to demarcate its borders with Russia and Belarus, but criticizes Russia for dragging its feet on the issue.

TOMSK PAPER MUST PAY MAYOR. The Tomsk paper *Tomskaya nedelya* must pay Tomsk Mayor Aleksandr Makarov 91,000 new rubles (\$15,000) after losing a case in which the mayor sued to protect his honor. *Tomskaya nedelya* Editor and owner Oleg Pletnev is a member of the city council and one of the mayor's harshest critics. The articles in question dealt with allegedly shady business dealings by the mayor's relatives and the mayor's use of "terror" against some of his opponents in the city council. The paper plans to appeal the case. (*Kommersant Daily*, 13 March)

DUMA, BASHKORTOSTAN FIGHT OVER LANGUAGE. The presidential electoral law of Bashkortostan requires that the president speak the Bashkir language. According to a group of State Duma deputies, however, that provision violates federal legislation guaranteeing equal rights to all citizens. The Russian election rights law guarantees that language cannot be an issue used to exclude candidates. Speaker of the Bashkortostan State Council Mikhail Zaitsev, however, argues that the requirement is necessary so that the president can speak to his constituents who do not speak Russian. According to Radio Liberty's correspondent, only 20 percent of the republic's population speak Bashkir, dramatically limiting the field of potential presidential candidates. The Constitutional Court must now rule on the issue. The republics of Buryatiya, Ingushetiya, Sakha, North Osetiya, Tatarstan, Tyva, and Adygeya require the president to speak the local language as well as Russian. (*Russkii Telegraf*, 12 March and *Kommersant Daily*, 13 March)

DEBATES OVER LEBED IN KRASNOYARSK ELECTIONS... Lebed will not necessarily win the Krasnoyarsk elections, according to *Izvestiya* (17 March) political observer Vyacheslav Nikonov. He won only 13.87 percent of the vote in the region in the 1996 presidential elections, less than the 14.52 percent he won in the country as a whole. A recent poll taken in the city of Krasnoyarsk shows incumbent Valerii Zubov beating him by a 3:1 margin. Voters in the gubernatorial elections are generally looking for someone who can make the economy work, understands the problems of the region, and is honest and orderly. Zubov has greater management experience than Lebed and also much better ties to Moscow. Zubov has not been involved in any scandals that would hurt him. In a recent visit, Lebed mistakenly

referred to Krasnoyarsk as Krasnodar, confusing the Siberian region with the one in the north Caucasus. Nikonov speculated that Lebed flew to the US at the height of the campaign in search of additional campaign funds (see "Lebed Visits US," in this issue, for further information on the candidate's activities).

Nezavisimaya gazeta (17 March), in contrast, predicted that Lebed and Moscow Mayor Yurii Luzhkov are the only viable candidates for the Russian presidency in 2000. *Kommersant Daily* (17 March) reported that many Federation Council members believe Zubov will lose the 26 April election and are searching for a suitable candidate to replace him as deputy speaker of the national legislature's upper house. Chukotka Autonomous Okrug Governor Aleksandr Nazarov recently held an informal meeting of members in his Moscow office and proposed himself, arguing that none of the autonomous okrugs, whose problems are different from the other regions, are represented in the council's leadership. For his part, Zubov is encouraging such pessimistic feelings by refusing to grant interviews to the press, claiming that most media organs are backing his opponents. Sources in the presidential administration say they are not going to work for Zubov's reelection, *Kommersant Daily* reported.

... WHILE ROMANOV PRESENTS THE FACE OF A FRIENDLY COMMUNIST.

The Communist candidate in the Krasnoyarsk governor's race is former Yenesei Factory Director Petr Romanov, now a State Duma member. Unlike party leader Gennadii Zyuganov, Romanov is good looking, well tailored, and able to charm audiences. In 1995, when he was running for the State Duma, a woman at a news conference in Moscow even asked how he had preserved his healthy demeanor when he had reached an age close to the end of the average life expectancy for a Russian male. An article promoting his candidacy in the Communist Party's *Pravda Rossii* (<http://www.kprf.ru/pr.htm>) of 17-24 March, painted him as a man who could joke about the monarchical associations of his last name. According to the paper, he led the drive to convert defense enterprises to the production of civilian goods while reducing the amount of pollution they spewed into the atmosphere during the Gorbachev era. However, despite Romanov's jocularly and attempts to associate himself with some of the benefits of the recent reforms in the country, the paper supporting him advocates the necessity of "rational state regulation of the economy" with planned advances in production that will create new jobs. His supporters denounce the current practice of importing mineral water from Italy and potatoes from China, while at the same time enriching American farmers. With the law, a police force, and military on hand, the paper suggests that it is only necessary to have a "person willing to take responsibility for decisive actions" to improve the situation. He is not ashamed of his role as co-chairman of former KGB General Aleksandr Sterligov's Russian National Assembly (*Russkii Natsionalnii Sobor*), claiming that it was the first organization to pay sufficient attention to Russian patriotism and concern for the integrity of the state (*rossiiskii patriotism, gosudarstvennost*).

ECONOMICS

MASKHADOV SEEKS INVESTMENT IN GREAT BRITAIN. Chechen President Aslan Maskhadov traveled to London last week in a trip designed primarily to encourage

investment in his breakaway republic. The people he met, from former Prime Minister Margaret Thatcher to representatives of the British Ministry of Foreign Affairs and private businesspeople, were most interested in the fate of Britons John James and Camille Carr, who have been held hostage in the republic since last summer. In addition to the fate of the hostages, Thatcher was concerned about Maskhadov's ability to normalize relations with Russia. Maskhadov said he is no longer counting on aid from Russia and hopes to sell oil and gas to the west. Azerbaijani oil is currently being pumped from Baku through Grozny to Novorossiisk. The British firm Robertson Associates organized the trip. Upon returning to Grozny, Maskhadov launched an unsuccessful attempt to free the hostages. (*Russkii Telegraf*, 11 March)

GORE-CHERNOMYRDIN COMMISSION MEETS IN WASHINGTON. The Gore-Chernomyrdin Commission has met ten times since its founding five years ago. Among the most recent agreements was a five-year, \$175 million contract for the Urals region to supply titanium for use in the construction of Boeing aircraft. Boeing bought an additional 2,400 tons of Urals titanium for use in the construction of ten 737s ordered by Aeroflot (*Izvestiya*, 13 March).

LUKoil and Conoco signed an agreement to develop a 4,700 square km deposit in the Timano Pechora region of the Nenets Autonomous Okrug. Deposits there are estimated at 135 million tons of oil and 63 billion cubic meters of natural gas. The firms will invest \$2 billion in the project. A similar earlier project with Arkhangelskgeoldobych was unsuccessful. (*Kommersant Daily*, 12 March)

Chelyabinsk Governor Petr Sumin participated in the meetings, winning the agreement of the American firm AGKO Limited to assemble agricultural equipment from imported kits in his region. Within five years, all the parts will be produced at converted defense enterprises in the oblast. The US Eximbank and other American banks will finance the first phase of the project with a \$62 million credit. (*Chelyabinskii rabochii*, 17 March)

Novgorod Governor Mikhail Prusak participated in the talks as part of the US Regional Initiative, which focuses aid on Novgorod, Samara, and Khabarovsk. The US has provided \$1 million for aid to small- and medium-size businesses in the oblast, while the Eurasia Foundation provides money for Novgorod students to study in the US. (*Izvestiya*, 18 March)

NORTHWEST RIVERS OPEN TO TOURISTS. This summer, Russia will open its northwestern rivers to foreign ships weighing less than 20 tons as a way of attracting more tourists without investing considerable sums to create a larger hotel infrastructure. Last year, the country attracted 2, 515, 003 tourists, less than 1 percent of the international total of tourists. The decision will affect Kareliya, Leningrad Oblast, Murmansk, Arkhangelsk, Novgorod, and Pskov. Kareliya is a particularly popular destination and is increasing its emergency response resources to handle the expected influx. (*Kommersant Daily*, 12 March)

FEDERATION COUNCIL APPROVES BUDGET. The members of the Federation Council approved the 1998 federal budget on 12 March with a vote of 115 to 22, even though they were very unhappy with it. The budget calls for expenditures of 499, 945.2 million rubles (\$83.3 billion) and revenues of 367, 548.0 million rubles (\$61.3 billion), with a deficit of 132, 397.2 million rubles (\$22.1 billion) or 4.7 percent of GDP (the full text of the law on the budget

is available at <http://www.akdi.ru/gd/proekt/21639GD.HTM>).

Among the governors' complaints were the supposedly unjust way money is distributed to the regions; the reduction of the amount of money distributed to the regions -- from 100 trillion old rubles (\$16 billion) last year to 38 billion new rubles (\$6.3 billion) this year; the high taxes on the regions compared to the center; the system of transfers in which regions pay taxes to Moscow and then receive some money back; and the fact that the regions often do not receive the money allocated to them in the budget. Federation Council Chairman Yegor Stroeve summed up the regional leaders' unhappiness, noting that, "We live in a federal state, while the federal Finance Ministry treats us as if it were a unitary state." The governors and regional legislative leaders nevertheless felt obliged to pass the budget so they could begin lobbying for the funds earmarked for their regions. (*Kommersant Daily*, 13 March)

Luzhkov was satisfied with the new budget because it gives Moscow 2 billion new rubles (\$330 million) in subsidies and 1.1 billion rubles (\$170 million) for the capital's subway. Samara Governor Konstantin Titov gave the budget a grade of C- because he felt it had outlays of 50 billion rubles (\$8.3 billion) not covered by income, which threatens needed investment expenditures. (*Nezavisimaya gazeta*, 11 March)

PERM MAY WANT TO DESTROY MISSILES AFTER ALL. Last year, Perm Greens blocked an attempt by local defense enterprises to destroy some of Russia's strategic missiles (see *IEWS Russian Regional Report*, 18 December). They even called a referendum on the issue, but the court canceled the vote at the last minute, saying such questions could not be decided by voters. In the subsequent oblast legislative elections, pro-industry deputies took a majority and are interested in winning at least part of the missile-destruction contract, especially because of rumors that the Russian government is considering giving it to Votkinsk (Udmurtiya) and Zlatoust (Chelyabinsk). However, the deputies did not want to take responsibility for the decision and encouraged Governor Gennadii Igumnov to take the lead. The governor has now sent a letter to the federal government indicating that Perm would like to participate in the destruction of the missiles but only after comprehensively assessing the environmental impact of the process. Lockheed Martin has already won a US contract to provide the know-how for destroying the rockets. (*Nezavisimaya gazeta*, 11 March)

SMALL BUSINESS LOANS BOOMING IN SAMARA. Working through local banks, the European Bank for Reconstruction and Development (EBRD) has loaned more than \$10 million to small businesses in the city of Samara and almost \$9 million in the oblast. The boom is driven by the activity of local entrepreneurs and competition among the local banks, which drives down interest rates. While entrepreneurs initially sought loans for businesses involved in trade activities, now they are seeking investment in small-scale production such as photo laboratories and auto parts. The banks involved include Sberbank, Rosestbank, Samaraagrobank-SBS-AGRO, Inkombank, and Rossiiskii kredit. (*Ruskii Telegraf*, 12 March)

KALININGRAD IMPOSES IMPORT QUOTAS ON 35 GOODS. The federal government has approved Kaliningrad's two-year-old request to impose import quotas on 35 goods brought into the oblast's Special Economic Zone. The move reflects the strong anti-trade

bias of current Governor Leonid Gorbenko. Kaliningrad is the only oblast that has managed to free itself of the usual Russian taxes, a benefit won by former Governor Yurii Matochkin. The creation of the special zone has lowered prices on most goods, but it has not attracted investors interested in reviving the area's productive enterprises. In practice, most of the goods imported into the region duty free, generally alcohol and tobacco products, are trans-shipped for consumption in Russia proper. The new quotas will end that practice. Beyond hurting those involved in these trade activities, the quotas are likely to be a disaster for the region. For one, they limit the import of sausage to 2,000 tons a year. The oblast produces an additional 9,000 tons, but consumers need 13,000, creating a likely shortfall of 2,000 tons a year. Foreign investors are probably going to be even more cautious about investing in Kaliningrad given this complex legal environment. (*Segodnya*, 13 March)

WESTERN TOBACCO COMPANIES EXPAND IN RUSSIA. Three major western tobacco companies announced on 16 March that they plan to significantly increase their presence in Russia. Philip Morris announced it would build a \$250 million to \$300 million cigarette factory in Leningrad Oblast beginning in late May. The company already has plants in St. Petersburg and Krasnodar. RJR Reynolds International said it would invest \$120 million over the next two years in improving production at its St. Petersburg plant. B.A.T. Industries Plc said it would invest \$60 million. The firm owns plants in Moscow and Saratov. Russia is the world's fourth largest tobacco market and about two-thirds of its adults smoke between 220 billion and 260 billion cigarettes a year. (David Johns on's List; *Kommersant Daily*, 18 March; *Russkii Telegraf*, 17 March)

TOURISM GROWS IN PRIMORSKII KRAI. Until the collapse of the Soviet Union, Vladivostok was a closed city that foreigners could not visit. Now tourism is the fifth largest money-maker in Primorskii Krai, and the region is in fourth place in Russia overall, trailing only Moscow, St. Petersburg, and the Golden Ring. The region's 180 tourist firms brought in more than 126 billion old rubles (\$21 million) in 1997, 13 percent more than in 1996. During that time, 30,000 foreign tourists from 34 countries visited the krai. Most were from China, but visitors arrived from many countries throughout Asia and from the US. The American Sky Princess visited the port twice last year, bringing 1,200 tourists each time. The region suffers from the usual lack of infrastructure, making it difficult to accommodate many more tourists. (*Finansovie izvestiya*, 19 March)

TATARSTAN HOLDS LAND SALES. Tatarstan's capital Kazan is set to hold its fourth land auction, selling 20 plots for such uses as homes, offices, stores, cafes, or even parking garages. Six hundred plots have already been sold and a plot appropriate for building a private house last year went for 1.12 billion old rubles (\$190,000). (*Izvestiya*, 17 March) Saratov Oblast has been receiving much attention for pioneering land sales, but other regions and individuals have quietly been making such sales for a long time.

BUSINESS BRIEFS

-- **PROCTOR AND GAMBLE** sponsored the construction of a \$2.5 million modern infection department in the Vovmoskov city hospital (**TULA OBLAST**). The company owns the local Novomoskovskbytkhim. Governor Vasili Starodubtsev has opposed the firm's attempts to increase the company's profitability and cease production of unprofitable aerosols. The new facilities are expected to improve relations between the governor and the American investors. (*Izvestiya*, 12 March)

-- The **US EXIMBANK** has given a ten-year, \$110 million credit to **SHERATON** to build a hotel in Dagomys, not far from Sochi in **KRASNODAR KRAI** on the Black Sea. The Americans are also planning to build a golf club and floating casino in Adler with an overall investment of \$425 million. (*Kommersant Daily*, 12 March)

-- The **EBRD** is organizing a \$105 million credit for the **MAGNITOGORSK METALLURGICAL COMBIMATE** to help improve its overall financial situation and increase its exports. The EBRD will provide \$35 million of its own money, a group of western banks will provide \$60 million, and two Russian banks will each provide \$5 million. (*Segodnya*, 12 March)

-- **ST. PETERSBURG'S BALTIC BREWERY**, owned by the Scandinavian **BALTIC BEVERAGES HOLDING**, announced that it would spend \$25 to \$30 million to buy or build a brewery in Moscow. The acquisition would allow the firm to save money on transportation costs. **MOSCOW'S OCHAKOVO** brewery also announced that it would build a new brewery in Moscow or **MOSCOW OBLAST** no later than 2000. The rapid growth in production facilities will quickly flood the Moscow market, potentially forcing some existing brewers out of business. (*Ekspert*, 16 March)

-- **FINLAND** will invest \$22 million in **NORTHWEST RUSSIA** as a result of dozens of agreements signed in Helsinki at the sixth session of the Intergovernmental Group for the Development of Cooperation between the Neighboring Regions of Finland and Russia. Key infrastructure projects will fill gaps in the environment, transportation, telecommunications, and health care fields, and will address needs in the development of regional government. (*Finansovye izvestiya*, 17 March)

-- Metromedia International Telecommunications Inc., a subdivision of **METROMEDIA INTERNATIONAL**, announced on 13 March that it would buy 50 percent of Russia's largest paging company, **MOBIL TELECOM**, from the American firm **BELT INC**. The purchase is the largest for Metromedia in Russia, although neither side would reveal the financial details. In Russia, Metromedia owns shares of **KOSMOS-TV**, the **ST. PETERSBURG PAGING SERVICE, PT-PEIDZH**, and several local TV and radio stations in St. Petersburg and **NIZHNII NOVGOROD**. It also operates international toll services, cellular telephone services, and telephone networks. Mobil Telecom has 60,000 clients and last year's turnover was \$10 million to \$12 million. The company operates in 75 Russian cities, giving Metromedia good access to Russia's regions, and has a large growth potential. Metromedia hopes to extend

the range of Mobil Telecom's services throughout the former Soviet Union. Metromedia already has about 75,000 subscribers in 112 cities of the ex-USSR. (*Kommersant Daily*, 14 March; *Moscow Times*, 17 March; *Russkii Telegraf*, 14 March)

-- **BAHLZEN AG**, Germany's largest confectionary maker, has decided not to proceed with plans to build production facilities in St. Petersburg. In 1995, Bahlzen bought 20 percent of the **LIGOVKA FACTORY** and planned to make caramels and pop corn there. However, the Russian managers of the plant engaged in some shady business dealings without Bahlzen's knowledge. When the deal fell through, Bahlzen had to pay DM500,000. The new director of Ligovka is planning to use the plant's well-situated land for a business center instead. (*Kommersant Daily*, 17 March)

-- **ST. PETERSBURG'S NORD OVOSHCH** and the American **AVS SERVICE** are equal partners in the construction of an \$80 million sugar factory in **LENINGRAD OBLAST**. Customers of the factory will include **COCA COLA** and **PEPSI**, both of which have bottlers in the region. Financing will come from undisclosed American sources. The deal may not have bright prospects because half of Russia's existing sugar factories currently produce nothing. However, production processes used by the new plant will be 10 percent to 15 percent cheaper than those used by existing plants. (*Kommersant Daily*, 17 March)

PATTERNS OF REGIONAL DEVELOPMENT

LEBED VISITS US. General Alexander Lebed, a contender in the Krasnoyarsk Krai gubernatorial election scheduled for April 26, visited New York last week in what he claimed was a search for foreign investment for the krai (see *Segodnya*, 13 March). He had a breakfast meeting with former US President George Bush and traveled to Houston to meet with Texas Governor George W. Bush (both of whom he had known previously). During an informal cocktail reception on 13 March at the home of an American entrepreneur with an extensive pharmaceutical and healthcare business in Russia, Lebed declared: "I was always known as a general, 100 percent. But after what I have learned in public service, I now consider myself as only 20 percent general." Introduced as a hero who had stopped two wars, he conceded the accuracy of that description, but distinguished between the two: "The first war [the Transdnister/Moldovan conflict] I stopped by the decisive use of brutal force in 11 days. The second war [Chechnya], however, I stopped with the use of reason (*razum*). That took longer, but I now believe that only reason, not force, can settle conflicts and lay the basis for peace."

During conversations with the guests, Lebed denounced the tiny minority of Russians who, because they were in the "kitchen when the pie was divided," had enriched themselves at the expense of the 85 percent of the population that is impoverished. He asserted that Russia's middle class only comprises eight percent of the population. Lebed faulted the Yeltsin administration for paying pensioners -- like his own mother in Rostov, who worked throughout her life as a telegraph operator for the railroad -- only 280,000 rubles a month (\$47), less than half the level required to meet the poverty threshold of 571,000 old rubles (\$95). In response to a question, he said many former KGB officers had made a successful transition to business;

others, however, who remained in the security services, would have no scruples whatever about seizing privatized assets should some radical leader come to power.

Lebed seems to have broken with advisors like economist Vitalii Naishul and Sergei Glazev, now deputy chief of staff of the Federation Council staff, who helped him in previous campaigns. On the US trip, he brought a new support team that included Chief Economic Advisor Marina Goncharova, Press Secretary Vladimir Yakushenko, and Advisor for Analytical Questions Konstantin Utolin.

In terms of foreign policy, he advocated an integrated "Marshall Plan" approach to Western assistance for Russia instead of the existing series of fragmented, ill-coordinated initiatives. He criticized the Gaidar/Chubais reform strategies and endorsed "moderate" economic policies including foreign investment policies based on mutual advantage, "not altruism." Economics Adviser Goncharova suggested, without amplification, that foreign investors who had made enormous profits in Russia should take that factor into account in their negotiations with Russian partners.

Lebed went into no detail about his campaign tactics in Krasnoyarsk beyond dismissing, with a humorous reference to Mark Twain, that rumors of support from financial tycoon and Chubais' political rival Boris Berezovsky were "greatly exaggerated." - Heyward Isham

LUZHKOV STARS AT SOCIAL DEMOCRATS' CONGRESS. A conference entitled The Century of Russian Social Democracy brought representatives of various Russian regions to Moscow on 14 March. The meeting helped consolidate various political groupings on the left end of the spectrum. If the process continues, the nucleus of that alliance might be formed in time for the next parliamentary or presidential elections. Despite policy disputes among the various factions, Moscow Mayor Yurii Luzhkov, who addressed the delegates, is likely to be the consensus candidate for a presidential bid.

The conference attracted a wide range of politicians. State Duma Speaker Gennadii Seleznev addressed the delegates, and although Federation Council Speaker Yegor Stroeve could not attend, he sent a welcoming message. Former USSR President Mikhail Gorbachev was among the high-ranking guests of honor. The two keynote speakers were former Moscow Mayor Gavriil Popov and the country's top labor union leader Mikhail Shmakov. Other speakers included Gorbachev's former pro-reform advisor Aleksandr Yakovlev, academician Leonid Abalkin, prominent Russian political scientist Fyodor Burlatskiy, nationalist State Duma Deputy Dmitry Ragozin, and others. The mixture of political groupings was most evident when the hard-line Communists in the audience heckled Yakovlev during his speech. - Boris Goubman in Tver

CENTER-PERIPHERY RELATIONS

OUR HOME IS RUSSIA: THE REGIONAL BRANCHES

By Yurii Korguniuk, *Partinform*

MOSCOW -- As of 1 April 1997, Our Home is Russia (NDR) had 86 regional branches and 1,880 organizations on the city and raion level, according to a press release NDR distributed at

the fourth congress of the movement in April 1997. The movement was also actively working to establish its presence in villages and rural settlements. In 23 regional branches, the NDR implemented a mechanism for individual membership and over 43,000 people joined the party by April 1997. Additionally, NDR had 32 affiliate member organizations, including the Union of Land Owners of Russia, the International Confederation of Sports Organizations, the Spartak Society for Physical Culture and Sports, the Russian Energy and Technology Congress, the Public Movement of Railway Operators and Transport Builders, the Russian Union of Reserve Officers, and the Association of Russian Schools of Higher Education.

According to the movement's executive committee, in the autumn 1997 elections, NDR took 20 percent to 25 percent of the vote in many regions, and in some regions (such as Novgorod and the Jewish Autonomous Okrug), NDR won up to 90 percent of the vote. Altogether, 203 NDR members entered regional and local legislatures in 47 regions.

Back in early 1997, the NDR Executive Committee sent a letter to its regional branches recommending that they set up NDR factions in regional and local legislatures. Such factions were created in 21 regions, and in November 1997, delegates from those factions created the Association of NDR Deputies. There could have been 11 more such factions across Russia, but in some regions NDR-affiliated governors refused to form such groups. Instead, many of them decided to set up their own political organizations.

Overall, this situation testifies to the fact that in reality NDR is not an independent public political organization but simply an appendage to the real "party of power," a role successfully played by the executive branch of the government. Therefore, NDR's regional branches are at the complete mercy of local authorities. Those regional organizations that enjoy the support of the local governor fare best. The situation in Bashkortostan is an example of this, even though some conflict with Moscow has occurred. Local NDR deputies criticized the party's national leadership for petitioning the Constitutional Court to review the Constitution of Bashkortostan (see related story in this issue).

In Saratov Oblast, NDR's position was strengthened when Governor Dmitrii Ayatskov switched from the Reforms-New Course movement to NDR after winning his 1996 gubernatorial bid. He was elected to NDR's council at the April 1997 congress. In Samara Oblast, Governor Konstantin Titov heads the regional branch of NDR, which counts 3,780 members, rivaling the local Communist Party organization, with about 4,000 members.

In Novgorod Oblast, the mayor of Novgorod Aleksandr Korsunov heads the local NDR chapter. Additionally, the regional branch's leadership includes oblast Governor Mikhail Prusak and deputy speaker of the city дума Sergey Bessonov. Altogether, NDR has seven deputies in the oblast Duma and three deputies in the city legislature. Perm Oblast's NDR activists pride themselves on having insured the victory of Governor Gennadii Igumnov. As of late April 1997, the Perm NDR branch boasted 1,215 members and had 41 branches in raions and smaller cities in the oblast.

In the Komi Republic, NDR has 1,426 members and the head of its executive committee is the chief of staff for the parliament V. Osipov. During the 30 November 1997 election, NDR supported the winning chief executive Yurii Spiridonov, who also serves on NDR's national council. A similar situation exists in Tomsk, Irkutsk, Penza, and Rostov oblasts, as well as in the republics of Adygeya and Kabardino-Balkariya. In particular, Tomsk's NDR

counts many businesspeople among its members.

In some Russian regions, local leaders might remain loyal to the federal center but nevertheless do not favor their local NDR branches. Consider the City of Moscow and Omsk Oblast, where Mayor Yurii Luzhkov and Governor Leonid Polezhaev, respectively, favor the Russian Movement for New Socialism. In Sverdlovsk Oblast, Governor Eduard Rossel heads the Renewal of the Fatherland movement. In Primore, Governor Evgenii Nazdratenko left NDR to support General Aleksandr Lebed's movement, but later joined the Communist-backed National Patriotic Union of Russia. St. Petersburg's Governor Yakovlev enjoys the support of a diverse group of political forces, from the liberal Yabloko to the moderate anti-reformists.

In those regions, NDR's situation is much shakier because local authorities give its branches little material support. Of all the regional branches in that group, only two are doing relatively well: the Sverdlovsk Oblast NDR, whose membership rivals that of Rossel's movement, and the St. Petersburg NDR branch. In St. Petersburg, five NDR members became city Legislative Assembly members in 1997 and Deputy Governor Viktor Yatsuba joined the local NDR council.

When a region is headed by a governor from either the Communist Party or one of its "patriotic" allies, the NDR must rely on the apparatus of the president's representative in the region (Pskov and Leningrad oblasts) or on NDR members of local legislative bodies. According to the deputy chair of the NDR Executive Committee Vladimir Ryzhkov, virtually all regions with Communist or "patriotic" governors have strong NDR factions in parliamentary opposition. In reality, however, that holds true only in some regions, such as Khakassiya (led by Aleksey Lebed, General Lebed's younger brother), Voronezh Oblast (where seven NDR legislators oppose Governor I. Shabanov), the Altai Republic, and others. In some regions, the local NDR leadership managed to find common ground with a "patriotic" chief executive. Consider the Republic of Marii El, where the president is Vyacheslav Kislitsyn from the National Patriotic Union of Russia. Similarly, in Volgograd Oblast the new Communist Governor Nikolai Maksyuta has shown surprising loyalty to NDR and his Deputy Governor A. Krashchenko has continued his support for the movement. Additionally, 10 of 38 heads of raion administrations remain NDR members, while the speaker of the oblast дума L. Semergei heads NDR's regional branch.

Usually, however, electoral victories by patriotic forces prompt the eventual weakening and stagnation of regional NDR branches. That happened in Novosibirsk, Kemerovo, Bryansk, Vladimir, Kursk, Murmansk, and Chelyabinsk oblasts, and in Krasnodar Krai. In those cases, local NDR leaders often sought alliances with local branches of the Democratic Choice of Russia or Yabloko.

DEBATES RAGE OVER TATARSTANI CITIZENSHIP. Tatarstani politicians are involved in a heated debate over the issue of republican citizenship. A bill on citizenship introduced to the State Council (Tatarstan's legislature) in February has met staunch opposition from Russian-speaking parliamentarians, while enjoying the solid support of ethnic Tatars. Consequently, at President Mintimer Shaimiev's recommendation, parliamentary debate over that issue was postponed until 27 March. The local media have also participated in the public

discussion of the bill, often presenting opposing views. During a recent visit, State Duma Speaker Gennadii Seleznev referred to the bill as a "provocation" in a speech before an audience of Kazan State University professors and students.

Why all the fuss? Why did the laws on citizenship, adopted earlier by the Republic of Sakha (Yakutiya) and the Kabardino-Balkar Republic, not provoke such an outrage? The devil is hiding in certain details of Tatarstan's draft law, which, if implemented, might put a significant strain on relations between Moscow and Kazan. For example, Article 6 states that the loss of Russian citizenship does not imply automatic loss of Tatarstani citizenship. Critics are fast to point out that, by implication, a person holding Tatarstani citizenship but not Russian citizenship could enjoy all the rights of a citizen within the republic, but without any of the obligations to the Russian Federation (such as obeying Russian laws or serving in the military, for example).

Another controversial article concerns the "hereditary expatriates" from Tatarstan. Such people currently live outside the republic but will be able to gain Tatarstani citizenship through a simplified procedure. The very concept of "hereditary expatriates" is blurry, defined in the bill as "persons with at least one direct relative in the parental line who was a Russian citizen and lived in the Republic of Tatarstan." It is not clear how far back one can go in tracing parental lineage to meet this requirement. Documenting the proof of residency dating back several centuries, for example, might also be problematic. Moreover, no Russian citizen could have lived on the territory of the "Republic of Tatarstan" prior to 1920, when such an entity came into being. Some opponents of the bill speculate that the clause is the result of a desire to increase the number of eligible voters for the 2000 and 2001 elections in Tatarstan. Others openly express concern about the increase in the number of ethnic Tatars living in the republic.

The bill touches on the very sensitive (for Moscow) issue of separate passports issued by the 21 ethnic republics within the Russian Federation. A Tatarstani passport, like a Russian passport marked with the appropriate stamp, could be used to prove Tatarstani citizenship. At this point, the result of the debate is unpredictable. The only certainty is that with the local oil industry facing a severe crisis, this is a bad time for Kazan to seek confrontation with Moscow.

- Midkhat Faroukshine in Kazan

SOCIAL ISSUES

GETTING A PHONE IN DAGESTAN IS NOT AS EASY AS IT SEEMS. Dagestan has gradually begun increasing phone rates to levels that should provide enough revenue to insure self-sufficiency. The process should be completed by 1 January 1999. From now on, phone installation will cost 600 rubles (\$100) for state-supported organizations and 2,250 rubles (\$375) for commercial entities. Individuals will pay 500 rubles for installation in urban areas and 350 rubles for installation in rural areas. Monthly rates will vary as well. State-supported organizations should pay 30 rubles (compared to 20 rubles before the reform) and urban dwellers will pay 15 rubles (up from 10 rubles). People in the countryside will pay 70 percent of the urban monthly rate.

One should not be fooled by those numbers, however, as they do not tell the whole story of Dagestan's telephone system. For example, the 500-ruble installation fee only covers the technical logistics, such as installation of the cable and connection to the switchboard. First,

one must gain approval to own a phone line. To get to the front of the long queue, one must pay a bribe of about \$1,000 to the appropriate official at the Makhachkala City Telephone Network. Many people have been waiting for their own phone for over 27 years, despite the fact that recently installed Samsung telephone hardware allows the city to provide phone numbers for everybody. In some older and run-down parts of the network, where installation is complicated, one must pay an additional \$200 on top of the original bribe.

To install a phone in my own apartment, I had to find a way around the city network by working through a nearby defense plant. For a \$250 bribe and a \$250 official fee, the plant official connected my phone to the company's internal phone network. I paid the workers \$100 for cable and installation and now I pay 12 rubles a month for phone service. The only drawback of using the company's phone network is that I cannot call outside city limits, but that is not crucial since I mainly use the phone to connect to the Internet. Most importantly, all outside callers can reach me at my new number. - Nabi Abdullaev in Makhachkala

KOMI MINERS' CONGRESS PROTESTS INDUSTRY CRISIS, GOVERNMENT POLICY

by Yurii Shabaev, Institute of Language, Literature, and History, Komi Research Center

SYKTYVKAR -- Given the generally dire state of the deeply divided and poorly organized Russian labor union movement, the miners stand out as an exception. The miners' unions have kept their members well organized. It is no surprise, therefore, that miners are a visible political force to which both federal and regional authorities must pay close attention. That is why the First Congress of the Pechora Coal Basin Miners attracted so much attention from the national and local media.

Held in the polar city of Vorkuta on 12 March, the congress brought together 200 delegates and the managers of all the coal mines in the region. Komi Republic President Yurii Spiridonov and high-ranking federal officials from Moscow also attended. The key question discussed at the congress was how to maintain production at levels high enough to prevent the closure of mines and insure material well-being for the miners.

Yurii Spiridonov once again used the opportunity to scold federal authorities for the terrible state of the industry, which still remains under Moscow's jurisdiction. He specifically accused Moscow of neglecting Vorkuta's interests, giving the Kuznetsk coal basin preferential treatment even though the country cannot rely on the latter for all its coal needs. At the same time, levels of production at Komi mines have been one-third of the Russian average, while the mines' efficiency levels are higher than the national average. (TV, *Panorama respubliki*, 12 March)

In discussions, the congress participants were divided: some felt political questions should be avoided in favor of economic ones, while others insisted that it was time to clearly define a political platform. The latter point of view prevailed, and political demands were included at the top of the 30-point final resolution adopted by the congress. In particular, the miners demanded that President Yeltsin and the federal government solve the industry's problems or resign. Managers of mining enterprises felt the main topic of discussion should have been how to assure sustainable federal financing for the industry, but that question was set

aside in favor of political issues.

Economic discussions opened the conference. Komi President Spiridonov again made a notable impression, drawing on his years of experience as an engineer and a mine manager. His main point was that the country as a whole needs a unified and cohesive coal policy and that new mines need to be built as old mines are shut down. According to Spiridonov, that is especially true of the Pechora coal basin, where traditional consumers have not only expressed their continuing interest in local coal but would like to see more of it supplied in the future.

Spiridonov noted, however, that the republic is tying most of its hopes to the construction of two state-of-the-art power stations: the Southern station in Syktyvkar that will supply the south of the republic with energy, and the Intinsk station, which will use local coal and produce energy for export. Construction of the first station is already under way, and the German firm Siemens has been contracted to supply necessary equipment. The second station is a bit more problematic, as about \$400 million worth of credit still must be raised. Some American investors have expressed an interest in the project, and talks are under way. (*Panorama respubliki*, 13 March)

The Komi government has correctly determined that the Russian Northwest lacks sufficient energy and could use additional sources of power. The same is true of Scandinavian countries, especially given the upcoming closure of several Swedish nuclear power plants. Therefore, along with the planned transport corridor of Syktyvkar-Arkhangelsk-Oulu to Finland, an electric power-supply corridor will be created to satisfy the energy needs of the Nordic countries. That will sharply increase the demand for Pechora basin coal, and more of it could be extracted profitably.

The miners met the rosy picture painted in Spiridonov's speech with skepticism. They tend to judge the situation based on bleak pocketbook realities: many Vorkuta miners have not been paid in six months and many of the mines where they work will have to close. Financing coal mines is another painful issue, especially in the Far North, where living conditions are especially harsh. And despite all the petitions to the government, visits by high-ranking officials, and protest actions, nothing has changed for the better, leading miners to believe that cooperation with the current government is senseless. Additionally, aside from stating the obvious fact that the industry is in a crisis, the congress failed to produce a concrete program or constructive proposal on how to solve that crisis.

The Vorkuta congress could be viewed as a dress rehearsal for the All-Russian Congress of Coal Miners, scheduled for April. Obviously, that national forum will be a thorn in Moscow's side. However, it will hardly destabilize the general political situation in the country, since the miners' union movement is now less influential than before. The miners have grown too dependent on federal subsidies to pose much of a threat.

MINERS, CHEMICAL WORKERS PROTEST WAGE ARREARS IN PERM.

Protesting mounting wage arrears, on 12 March workers of the Gubakhinsk Coke and Chemical Plant and miners from the Nagornaya coal mine blocked the Perm-Solikamsk highway, a major traffic artery. Simultaneously, another group of workers blocked a bridge over the Kosva river along the same route. The actions drew wide attention throughout the region.

The workers and miners have not been paid since last September. Workers at the Nagornaya mine have been on strike since 2 March, but only now have they opted for more decisive action. The chemical workers' decision to support the miners only aggravated the situation. Local teachers and doctors promise to join the protest.

The work stoppages suggest that Russian workers are no longer willing to passively accept unpaid wages. However, it is unclear how effective the strikes will be. Peculiarly, the strikes have been characterized by a lack of concrete demands. It is also unclear whom the strikers' are trying to address.

Fortunately, after several hours of blocking traffic the protestors had let off sufficient steam and decided to continue their protest in front of city hall. No violent incidents were reported during that show of public discontent. However, the miners' strike continues. As of 16 March, 16 people remained in the Nagornaya pits, where work has been stopped since the beginning of this month. (*Zvezda*, 13 March; TV Channel T7, 16 March) -- Andrei Suslov in Perm

NIZHNI TO COOPERATE WITH ALCOHOL PRODUCERS. The Nizhnii Novgorod Oblast administration and 17 local alcohol companies on 5 March signed a cooperation agreement for 1998, outlining mutual obligations taken by both sides. Speaking at a press conference, Deputy Governor V. Evlampiev noted that this industry is particularly important for the state because a significant share of budget revenues on the federal, regional, and local levels comes from the sale of alcoholic beverages. In 1998, the total volume of alcohol production in the oblast should increase by 47 percent compared to last year. The industry plans to greatly exceed the 5 percent growth rate in production set for all industries and achieve a 100 percent growth rate at some newly built plants. Moreover, the government plans to finance the development of the industry's production facilities in the oblast with a 75 million ruble (\$12.5 million) five-year loan, with an interest rate set at half that of the Central Bank's usual rate. About one-third of the finished product will be exported to Barnaul, Omsk, Syktyvkar, Sakha (Yakutiya), Krasnoyarsk, and neighboring regions, such as Kirov, Perm, and Moscow oblasts. The remaining spirits will still provide at least a case of vodka for every Nizhnii Novgorod Oblast resident. Given such a huge increase in vodka production, it is hard to imagine that the other industries in the region will meet their targeted 5 percent growth. -- Yuri Rodygin in Nizhnii Novgorod

ECONOMIC ISSUES

ST. PETERSBURG ADOPTS STRATEGIC PLAN. St. Petersburg has adopted a detailed strategic plan to improve the overall quality of life for its citizens. The plan envisions the city as an integrated part of the Russian and international economy and particularly seeks to strengthen St. Petersburg's role in the Baltic Sea region and the Russian northwest. Its four main tasks are to create an attractive business climate, integrate the city into the world economy, improve the overall appearance and environment of the city, and develop a healthy social climate. Among the key indicators of success are the creation of 200,000 jobs, increasing the real income of the population by 15 percent, lengthening the average life span by three years, and increasing the

amount of money collected by the state by 20 percent while using those funds more effectively (see Section 5 of the plan).

The committee supervising the plan includes representatives from the governors' office, the city legislature, St. Petersburg's members of the State Duma, officials from Leningrad Oblast, local businessmen, business associations, and scholars. The plan compares St. Petersburg to a firm fighting in the market place for investment and seeking to create jobs. The authors view the plan as a "contract for social agreement" in which the authorities, the private sector, and social organizations (NGOs) take on responsibilities to work together. The plan seeks consensus in society to achieve the goals defined, a task that should be accomplished in the next four to six years.

The voluminous text of the plan, with useful charts and color maps of the city, is available on-line at: <http://www.stratplan.leontief.ru/windru.htm>. The text of the plan lists the city's strengths, such as its proximity to Europe and educated population, and its weaknesses, such as the great divide between rich and poor and the many people who need housing (see Table 1). The charts also provide copious information for those interested in the economic development of Russia's northern capital. In 1995, St. Petersburg firms sold 4.8 trillion rubles (\$800 million) worth of goods to Russia, 310 billion (\$52 million) to the countries of the former Soviet Union, and 447 billion (\$74.5 million) to other foreign countries (map 4.1.4.). Within Russia, its major trading partners were Moscow, Pskov, Samara, Volgograd, Krasnodar, Voronezh, and Tver (map 4.1.3.).

The plan is very thorough in breaking down its key goals to concrete tasks and assigning responsibility for those tasks to specific agencies. Realization of the plan depends particularly on the actions of the governor and the city's Legislative Assembly. Given the on-going battles between the executive and legislative branches of government, a fact of life since 1990 when the first relatively free municipal elections were held, the plan will likely be difficult to implement. The tenor of recent events in the city, particularly the personal struggle between Governor Vladimir Yakovlev and Legislative Assembly Speaker Yurii Kravstov, suggests that the situation is not improving (see *IEWS Russian Regional Report*, 12 March). - Robert Ortung

ASTRAKHAN, KALMYKIYA SEEK TO CASH IN ON CASPIAN TRADE. The Russian regions of Astrakhan and Kalmykiya, which border the Caspian Sea, are fighting to secure future transit routes for Caspian trade from Central Asia and Iran to Russia and Europe. The ancient Caspian port of Astrakhan is seeking to restore its place as a leader in Russian trade with the East: last summer, the first part of a new sea port in Olya, near Astrakhan, was opened for Caspian ships. Now it has the capacity to handle 300, 000 tons of cargo per year. With construction continuing, the port facilities will be able to handle 600, 000 tons of cargo by the end of 1998. In December 1997, the first trans-Caspian ferry sailed to Iran. Now, the ferry carries 50 trailer trucks with cargo. Once rail links are extended to the port, it will carry railway cars loaded with cargo.

While the federal budget paid for much of the construction of Astrakhan's seaport and the Caspian merchant fleet, commercial credits financed the construction of port facilities in Olya. According to the Astrakhan Oblast administration press service, Governor Anatolii Guzhvin met in Moscow last week with a group of Swiss businessmen and signed an agreement

to continue talks on the construction of the second part of the Olya port. Guzhvin has also discussed the possibility of winning financial support for port construction with Transstroï President V. Brezhnev and LUKoil President Vagit Alekperov. Additionally, an Iranian delegation led by Ambassador Safari Mehdi visited Astrakhan to discuss creating a Russian-Iranian joint venture in Olya.

Other Volga cities may benefit from the port construction along with Astrakhan. Volgograd, in particular, stands to gain as the major transportation center controlling both railway links to Astrakhan and the Volga-Don river ship canal that connects the Caspian basin with the Azov-Black Sea basin.

Kalmykiya is trying to steal the initiative from Astrakhan by building its own seaport in Lagan for a railway and ferry connection to the Iranian port of Amir-Abad. Construction will be complete by the end of 1999, setting up possible competition for Astrakhan/Olya. However, the Lagan port will operate in a shallow area of the Caspian Sea, a constraint that may prove problematic in the future. On the other hand, if the optimistic predictions of a booming Caspian trade are realized, both of the Russian ports will be profitable.

Still the main threat to the prosperity of the Russian regions is not the competition among the regions themselves but the other transport routes currently under construction by other Caspian states. Uzbekistan is planning to create a transportation line linking Tashkent, Ashkhabad, Turkmenbashi, Baku, Tbilisi, and Poti and across the Black Sea to Ukraine. Turkmenistan is building railways to Iran, while Georgia is establishing connections with Turkey. If Russia fails to offer a cheaper and safer route, it may lose lucrative eastern trade. - Ivan Kurilla in Volgograd

CHELYABINSK INVESTORS STRUGGLE WITH FINANCIAL CRISIS. Hard work is the only way to beat the crisis resulting from the collapse of the South East Asian economy. Such was the general assessment given by the head of the Chelyabinsk investment firm Milkom-Invest, Igor Kravchenko, during an interview with an *RRR* correspondent. The way to deal with the financial crisis is not to sit idly and wait for it to pass but to actively try new solutions regardless of outside conditions. That is the key to success.

According to Kravchenko, last year was economically pivotal for Russia as more Western portfolio investment poured in, mainly from pension funds, venture capital firms, and mutual funds. On the eve of the Asian crisis, capital inflow was booming, with some stocks growing four to ten times in value. Portfolio investors hardly affect the management of Russian companies; they are more interested in the stable growth of dividends and companies' market valuation. The downside of portfolio investment is that it is often transitory, and investors can pull out as easily as they entered the market. When several large portfolio investors left the market, Russian stocks began falling.

To insure stability in their development, Russian companies must seek domestic strategic investors who are less affected by the volatile world of financial markets. Another source of investment could be individuals' personal savings. In Chelyabinsk Oblast alone, savings held by the general public are valued at 6 billion new rubles (\$1 billion), an amount that grows by 250 million new rubles every month. Most of that money is held in risk-free vehicles, such as foreign currency, although it could be working in the oblast economy. Freeing those savings for

investment must be a top priority for the region.

A legal framework for profitable investment in the Russian economy already exists, said Kravchenko. Several important pieces of legislation have been adopted, such as the Law on Joint Stock Companies and the Law on the Protection of Shareholders, and a draft Law on the Protection of Investors' Rights is about to be approved. Additionally, the government is trying to convince people to transfer their savings to investment-based holdings and is urging the development of a professional financial market.

The Chelyabinsk financial market is one of the least developed in Russia, suffering a dearth of professional traders. Given the lack of transparency in most local companies, there is plenty of room to create a secondary market for their stocks and to advise them on the best strategy for attracting private financial resources. For many local companies, 1998 might be a pivotal year because they will be forced to restructure and maximize their human, production, and raw resources potentials. Russian companies must definitely capitalize on human capital, the source of their comparative advantage. There is also a high probability that capital might migrate from the government bond market back into stocks this year.

On the regional level, the market is virtually dead. The volume of trade has dropped dramatically and very few purchase orders are sent from Moscow. Gazprom and Unified Energy Systems (UES) stocks are almost the only ones attracting attention.

Commenting on his company's investment strategy, Kravchenko noted that Milkom-Invest often uses its own funds to buy stock in companies that seem likely to turn a profit. Additionally, the company has acted as a broker for Moscow-based and foreign investors interested in local stocks. Milkom-Invest has actively tried to create demand for the stocks of specific firms. For example, when groups of American, French, and Swiss investors visited the region, Milkom-Invest accompanied them on tours of Svyazniform and Chelyabenergo, trying to interest the foreigners in buying those firms' stocks.

Kravchenko believes the key to profiting from the sale and purchase of stocks is identifying a firm with a lot of unrealized potential and buying its stock at a low price. When the company becomes more productive and therefore more valuable on the stock market, its stock can be sold at a much higher price. Western market analysts have developed a lot of know-how in identifying good prospects among Russian regional companies. In contrast, Russian investment firms lack such skills and rely mainly on their instincts, which more often than not guide them well. - Igor Stepanov in Chelyabinsk

FOREIGN TIES

SAMSUNG TO INVEST IN IRKUTSK PLANTS. During a one-day visit on 5 March, the Moscow representatives of Samsung made initial contact with representatives from some Irkutsk companies. The delegation included the head of Samsung's Moscow office, Shin Dong Jin, and the head of the chemical and electronics department, Pak Deh Him. Samsung is interested in investment projects supported by the oblast government, especially in the chemical and paper-making industries. The company is also interested in developing the Kovytkinsk condensed gas field. Moreover, the South Koreans would like to set up assembly lines for their

own electronic consumer goods production in Irkutsk. According to Deputy Governor Aleksandr Sobol, the oblast is very much interested in cooperating with Samsung, partly to alleviate the currently low volume of trade with South Korea, which now amounts to barely \$50 million a year. - Galina Solonina (Teleinform) in Irkutsk

MARUBENI TO INVEST HEAVILY IN NIZHNIY ECONOMY. Representatives of the Japanese Marubeni Corporation visited Nizhnii Novgorod for two days last week. The goal was to develop mutually beneficial cooperation projects and to deepen trade relations between the region and Japan. Marubeni recently signed a \$250 million agreement with Krasnoyarsk Krai (see *IEWS Russian Regional Report*, 5 March 1998), and was seriously considering involvement in Primore (see *IEWS Russian Regional Report*, 10 July 1997). During the visit, Marubeni signed a five-year cooperation agreement with the oblast administration. The delegation's composition suggests that Marubeni's main interests lie in the chemical industry and the transportation sector. While in the city of Dzerzhinsk, the delegation visited companies such as Kaprolaktam, Orgsteklo, and Korund. In the oblast capital, the two sides discussed the possibility of turning an unfinished atomic power station into a steam-gas power plant. In addition, opportunities for processing fuel oil at the NORSI-OIL facilities were discussed. At the GAZ car plant, the Marubeni delegation discussed a potential joint venture that would produce spare parts for automobiles.

The agreement focused on developing the fuel and energy sectors, including building and reconstructing power stations and laying a pipeline network; developing transportation infrastructure, including highways, an international airport, a river port cargo terminal, and railway repair; and introducing environmentally friendly technologies in the petro-chemical, timber-processing, and other industries. Both sides expressed their readiness to cooperate on converting defense enterprises to peacetime production. The oblast administration expects the new Marubeni connection to attract more investment from other Japanese and foreign financial institutions. According to oblast Governor Ivan Sklyarov, if Marubeni invests at least \$250 million in the Nizhnii economy it will be granted considerable tax benefits. The agreement also stipulates a joint Coordination Council, which will meet at least twice a year to discuss specific areas of cooperation. - Yurii Rogygin in Nizhnii Novgorod

REGIONAL LINKS

Federation Council on-line - (<http://www.akdi.ru/sf/>) This information server for the Federation Council has lists of laws approved by the council, back issues of the press service's bulletin with useful documents and the reaction of members, and information about the Federation Council in the media. The site already has the full text of the just-adopted 1998 budget law.

List of Regional Links - (<http://www.nemtsov.ru/biblio/links/regions.htm>) Boris Nemtsov became the first senior Russian politician to launch his own web site this week (an event covered in great detail on Russian Television), and, befitting his past as Nizhnii Novgorod Oblast governor, it has a long list of links to useful sites in the regions.

Regional Protests - (<http://www.kprf.ru>) The Communist Party of the Russian Federation's web site provides an up-to-date list of all the protests taking place across the country. It also has the full text of the latest issue of the newspaper *Pravda Rossii*, the party mouthpiece.

REGIONAL PROFILE: KALUGA OBLAST

Governor: Valerii Sudarenkov

Valerii Sudarenkov, the former Communist chairman of the oblast legislature, was elected governor in November 1996. In the 9 November 1996 run-off election, he finished ahead of the incumbent Oleg Savchenko with over 63 percent of the vote, twice as much as his rival. Despite his Communist ties, he seems to have good relations with the president's staff. After his election, the administration described his positions as "balanced and thought out" and claimed he has better experience than his predecessor.

Sudarenkov was born in 1940 in a Kaluga Oblast village. After military service and employment as a blue-collar worker, Sudarenkov switched to full-time party work in 1972. During the next 14 years, he rose from an obkom instructor to become the first secretary of the Kaluga Oblast Communist Party organization. Between 1986 and 1990, Sudarenkov served as a deputy prime minister of the Uzbek SSR. In February 1990, he returned to the Kaluga obkom as its first secretary, where he remained until the party was banned in August 1991. In 1990, the 28th Party Congress elected Sudarenkov to the CPSU Central Committee.

In spring 1990, Sudarenkov won election as chairman of the Kaluga Oblast Legislative Assembly and gained a second term four years later. In December 1993, he was also elected to the Federation Council, the upper house of the Russian parliament, where he was a member of a committee on science, culture, and education. Since January 1996, he has served as chairman of the same committee. In March 1996, he also became a member of the Russian delegation to annual sessions of the Council of Europe.

Other Local Leaders

Chairman of the Legislative Assembly -- Viktor Kolesnikov, elected in late 1996.

Brief Overview

Kaluga Oblast is located in central Russia and borders Moscow, Tula, Orel, Bryansk, and Smolensk oblasts. The oblast center, the city of Kaluga, is located 190 km south-west of Moscow. Until 1917, the region was one of the most industrially backward areas in the country; however, it was industrialized during the first decades of the Soviet regime.

Almost half (49 percent) of the regional GDP comes from machine-building and metal-processing industries, followed by food-processing (20.1 percent) and light industries (16.6 percent). Most of the machine-building industry is concentrated in Kaluga city, Ludinovo, and Kirov and specializes in energy, transport, aerospace and electronic equipment, and machine-

tool construction. Non-ferrous metals, steam locomotives, electric transformers, and steam turbines are exported from the region to over 40 foreign countries. The second largest city in the area, Obninsk, houses Russia's first nuclear power plant as well as many research institutes. Over 100 regional companies have won foreign investment from 22 countries. Although the oblast lacks special legislation offering investment incentives, investment there has become less risky since 1996.

Basic Facts

Population (as of 1 Jan.1997): 1,095,800 (0.74% of Russian total)
Urban population (1989 census): 73.6% (Russia overall: 73.0%)
Student population (1996): 104 per 10,000 (Russia overall: 171/10,000);
Pensioner population (1996): 27.77% (Russia overall: 25.78%)
Percent of population with higher education (1989 census): 11.1% (Russia overall: 11.3%)
Percent of population working in (1993): Industry: 33.1% (Russian average: 29.9%);
Agriculture: 12.5% (12.8%); Trade: 8.3% (9.1%); Culture: 14.7% (13.6%); Management:
2.7% (2.3%)
Average monthly personal income in 1996: 554,000 rubles (Russian average: 764,000 rubles)
Average monthly personal expenses in 1996: 459,000 rubles (Russian average: 753,000 rubles)
Average monthly subsistence requirement in 1996: 294,200 rubles (Russian average: 369,400 rubles)
Consumer price index (as of Dec. 1996): 98.93 (Russia overall = 100)
Industrial production as percentage of all Russian production (1996): 0.38%
Proportion of loss-making enterprises (1996): 65%(Russia overall: 56%)
Number of enterprises which have wage arrears (1996): 2,025 (12.38% of total number of regional enterprises)
Agricultural production as percentage of all Russian production (1996): 0.95%
Number of private farms (as of 1 Jan. 1997): 1,902 (0.68% of Russian total)
Capital investment (1996): 1, 557, 200,000 rubles (Russia overall: 370 trillion rubles)
Sources of investment (1996): federal budget: 12.5% (Russian average: 9.2%); regional budget: 3.9% (9.6%); enterprises: 41.7% (66.3%)
Number of joint ventures (as of 1 Jan.1997): 26 (0.16% of Russian total)
Fixed Capital Invested in Joint Ventures and Foreign Companies (1995): 374 million rubles
Number of small businesses (as of 1 Jan. 1997): 6,913 (0.82% of Russian total)
Number of enterprises privatized in 1996: 41 (0.82% of Russian total), including those which used to be municipal property: 75.6% (Russian average: 67.1%); regional property: 12.2% (14.3%); federal property: 12.2% (18.6%)
Number of telephones per 100 families (1996): in cities: 49.7 (Russian average: 48.7); in villages: 17.7 (19.7)

According to a 1997 survey by *Ekspert* magazine, the oblast is ranked 29th among Russia's 89 regions in terms of investment potential and 35th in terms of investment risks. A 1995 survey by Bank Austria ranked the oblast 9th in terms of investment climate.

Electoral History

1996 Presidential Election

Yeltsin: 31.43%/48.59% (first round/second round)

Zyuganov: 35.42%/45.58%

Lebed: 15.60%

Yavlinskii: 7.46%

Zhirinovskiy: 5.11%

Turnout: 72.85%/71.26% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Elections

Communist Party of the Russian Federation: 25.99%

Liberal Democratic Party of Russia: 10.01%

Our Home Is Russia: 9.02%

Congress of Russian Communities: 6.56%

Yabloko: 5.33%

Agrarian Party of Russia: 4.42%

Communists -- Workers' Russia: 4.42%

In single-member districts: 1 Agrarian Party of Russia, 1 Pamfilova --

Gurov -- Lysenko bloc

Turnout: 68.17% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 49.48% "No" -- 50.52%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 28.06%

Russia's Choice: 16.58%

Communist Party of the Russian Federation: 14.31%

Agrarian Party of Russia: 10.13%

Yabloko: 6.97%

Women of Russia: 6.80%

Democratic Party of Russia: 5.3%

Party of Russian Unity and Concord: 4.62%

In single-mandate districts: 1 Russia's Choice, 1 Agrarian Party of Russia

From electoral associations: 1 Women of Russia

Turnout: 63.74% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 54.77%

Ryzhkov: 19.23%

Zhirinovskiy: 8.58%

Tuleev: 5.98%

Makashov: 3.86%

Bakatin: 3.75%

Turnout: 82.55% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regionni Rossii*, Moscow, 1997.

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BREAKING NEWS

NAZDRATENTKO ANNOUNCES HE WILL RUN FOR ANOTHER TERM... For the first time, Primorskii Krai Governor Yevgenii Nazdratenko announced he will run for another term in 1999. His star has greatly diminished in the region because locals have seen few positive results from his tenure in office. Nearby Khabarovsk is doing much

better now, which is unusual and irritating for Vladivostok residents. The public still associates Nazdratenko with a "criminal clan" that includes Deputy Governor Konstantin Tolstoshein, the man who took over as mayor of Vladivostok after Nazdratenko had Yeltsin issue a decree removing the democratically-elected Viktor Cherepkov from office. Cherepkov won his seat back after a two-year battle.

Nazdratenko and Krai Duma Speaker Sergei Dudnik just returned from California's Silicon Valley, where they participated in the Gore-Chernomyrdin Commission's attempt to stimulate trade between the Russian Far East and the US West Coast. Nazdratenko thinks the krai could be a transit point for US goods headed for northern China, saving 1,700 miles over Chinese ports. Before the prime minister was sacked, he suggested holding the next Gore-Chernomyrdin meeting in Vladivostok, although Khabarovsk is also vying for the opportunity. Sakhalin has already been designated as the next meeting site, assuming the sessions continue under the new prime minister.

The governor said the federal authorities now accepted his position on a variety of issues and there was no more reason for hostility between him and the Kremlin (see also *Nezavisimaya gazeta*, 18 March, which attributes the change to the rise of Viktoriya Mitina as the presidential administration's key arbiter with the regions, among other reasons). Nazdratenko also announced he is considering holding a krai referendum on the buying and selling of land. He said Chevron will be prospecting for oil in the region and that Primore is competing with Khabarovsk Krai to establish sister-region relations with the US state of California. (*Vladivostok*, 20 March)

... AND SO DOES CHEREPKOV. Following Nazdratenko's announcement, Vladivostok Mayor Viktor Cherepkov declared he would like to continue as Vladivostok mayor. Cherepkov cited the need to continue his battle with Nazdratenko as one of his main reasons for running. (*Vladivostok*, <http://vl.vladnews.ru/>, 23 March) Cherepkov has gained points lately for repairing some local roads and reviving some factories. Voters see him as somewhat eccentric, but honest. The running feud between the krai's major politicians is largely responsible for the region's inability to take full advantage of its enormous economic potential.

On 20 March, about 6,000 Vladivostok residents, mainly doctors and teachers, took part in a demonstration to support Cherepkov over Nazdratenko. The mayor threatened to block the city streets and launch a strike if the governor did not revoke the month-old decision to freeze his bank accounts. He declared that the city was on the verge of complete collapse. Dalenergo has threatened to shut off electricity to the city's transportation system and streetlights. (*Kommersant Daily*, 21 March) On 24 March, the Nazdratenko-controlled Vladivostok radio station canceled the broadcast of a show in which Cherepkov participated. The governor controls most of the media in the krai and opposition papers are printed in Khabarovsk. Then, on 26 March, the local procurator, accompanied by armed OMON (special purpose police) troops, entered the mayor's finance department offices and began confiscating documents. (NTV, 26 March)

YELTSIN STRIPS GOVERNORS OF BODYGUARDS. President Yeltsin on 20 March removed the security details from 40 governors including Moscow Mayor Yurii Luzhkov and St. Petersburg Governor Vladimir Yakovlev. He said the move was

necessary to save federal money, although the amount saved is relatively small. The other 49 governors have not had protection. Luzhkov has had the same bodyguard since 1992 and it is likely that the bodyguard will become a city, rather than federal, employee. (*Izvestiya*, 21 March)

KONDRATENKO CONTINUES ATTACK ON ZIONISM. Krasnodar Krai Governor Nikolai Kondratenko, responding to charges that his recent statements were anti-Semitic and responsible for stirring up inter-ethnic conflict, once again denounced "Zionism." He said: "Why has there been such a fuss [in the mass media]? ... This is Zionism. Zionists conceal their dirty politics behind issues of nationality, claiming that someone is speaking out against the Jewish people. Jews are a nation, Zionism is a policy. A cruel and insidious policy." Kondratenko said he considered it his duty to speak out even if it means "they will not allow me to lead" the krai any more. (*Izvestiya*, 24 March)

TULA FACTORY DIRECTORS MAKE \$1 MILLION EACH. Last week the Tula Oblast administration released data on the governor's salary and that of local enterprise directors. Governor Vasili Starodubstev made 94 million old rubles (\$16,000) for his work at the Lenin State Farm, the Academy of Agricultural Sciences, the governor's office, and the Federation Council. The 46 directors of Tula enterprises made 328 billion rubles (\$56 million) in 1997, an average of 6 billion each (\$1 million). The rise in salaries came at the same time as profits and production fell dramatically and wage arrears in the region grew to 700 billion rubles (\$117 million). The Tula administration did not release the names of the most highly paid executives. (*Kommersant Daily*, 25 March)

ECONOMICS

ULAYANOVSK AUTOMOBILE FACTORY IN TROUBLE. The Ulyanovsk Automobile Factory (UAZ) has halted production until the end of March on its most popular models -- light off-road vehicles and minibuses -- because of overstocking. Until recently, the plant had sold most of those vehicles through barter deals. Managers, however, wanted "real" money but sales have not gone as well as hoped because the cars are effectively more expensive if customers cannot pay for them in-kind. Now the firm is looking for a strategic foreign investor, with the help of its auditor KPMG. UAZ is the last major Russian carmaker that has not signed a deal with a foreign partner. Daimler-Benz was interested in assembling light trucks at the plant, but it did not win government tax breaks and abandoned the project in 1996. At that time, the Germans had planned to invest \$200 million in the project. The Russian government is now offering considerable tax breaks to western firms that invest \$250 million. (*Kommersant-Daily*, 19 and 25 March)

ST. PETERSBURG COURT RULES IN FAVOR OF SUBWAY. For the first time, a St. Petersburg court has ruled that the St. Petersburg firm Minutka must carry out a Swedish arbitration court decision requiring it to pay \$1.2 million to East-West International Ltd. The two companies had set up a Subway fast-food restaurant on Nevsky Prospekt in 1994. The Americans invested \$1 million in refurbishing the store. After a dispute over the franchising fee, the Russian side broke the agreement and

prevented the Americans from entering the store. The restaurant restored its original name but continued to sell food prepared with the American equipment. The Stockholm court ruled in favor of the Americans in January 1997. Since then, Minutka has refused to pay. (*Kommersant Daily*, 19 March)

KOMMERSANT DAILY: US-CHELYABINSK COMBINE DEAL DOESN'T MAKE SENSE. At the recent meeting of the Gore-Chernomyrdin commission in Washington, Chelyabinsk Governor Petr Sumin signed a \$62 million agreement with the American firm Agco to create a joint venture designed to produce 200 combines a year. An analysis published in *Kommersant Daily* (20 March) charges that the venture has little chance for success and is just part of the governor's on-going attempt to take complete control of the Chelyabinsk Tractor Factory. A venture between Canada's Western Combine and Chelyabinsk Tractor, Uralskii Kombine, is already operating in the oblast. It is in trouble because it has only been able to sell 109 of the planned 200 combines. The oblast administration won control of the Chelyabinsk Tractor Factory one month ago, when a regional court declared it bankrupt. The effort to set up the Agco venture is probably the oblast administration's attempt to further distance itself from Chelyabinsk Tractor's former leadership. (*Kommersant Daily*, 20 March)

REGIONS SEEK TO OVERCOME FEDERAL PROBLEMS IN ATTRACTING INVESTMENT. The absence of clear legislation defining the rights of investors and of a coherent federal tax code is blocking a flood of investment into Russia. To circumvent those problems, regions are adopting their own laws and offering their own incentives. The recognized leaders in this area are Samara, Nizhnii Novgorod, Novgorod, Moscow, and St. Petersburg. Leningrad Oblast, quickly trying to catch up, last year adopted a law freeing direct investors from regional profit, property, and road fund taxes. The oblast seeks to attract portfolio investment by releasing banks from paying taxes on profits for money earned from investment projects. The law requires the banks to register in the oblast and is designed to increase the number of foreign banks in the region. Leningrad Oblast Vice Governor Valerii Goloshchapov argued that those measures helped the region land a \$50 million investment from US heavy equipment manufacturer Caterpillar. However, now the governor fears federal help is needed to secure further improvements in the investment climate. The sacking of the Chernomyrdin government will make coordinated federal efforts more difficult to achieve (see analysis in this issue). (*Russkii Telegraf*, 19 March)

TULEEV BLOCKS NEW OWNERS AT YUZHNI KUZBASS. Kemerovo Governor Aman Tuleev is blocking the new owners of Yuzhnii Kuzbass, the Sibir Central Concentrating Factory and Uglemetkorporatsiya, from appointing their chosen general director, Valentin Neidenov. The governor favors the previous director and will not allow the decision replacing him taken at the 3 March shareholders meeting to be implemented. Tuleev has sent a letter to the prime minister asking that the result of the auction for ownership of the factory be overturned and that the oblast receive 50 percent of the proceeds rather than 10 percent. Yuzhnii Kuzbass produces 20 percent of Russia's coking coal. The dispute could threaten the disbursement of World Bank funds intended to help the coal region because one of the preconditions for transferring the money is privatization of

the coal enterprises. Tuleev recently signed a deal with Moscow in which his region will exchange shares in the firm for fuel from Moscow's Central Fuel Company. Moscow also wants to use Yuzhnii Kuzbass to mine manganese and marble in Kemerovo. (*Ekspert*, 23 March)

ROSVOORUZHENIE TO OPEN OFFICE IN VLADIVOSTOK. Primorskii Krai Deputy Governor Konstantin Tolstoshein announced that Rosvooruzhenie would open an office in Vladivostok on 23 March. The final agreement will be signed in mid-May when Rosvooruzhenia head Yevgenii Ananov visits the region. The arms export agency also plans to open offices in Yekaterinburg, St. Petersburg, and Saratov. (*Kommersant Daily*, 24 March) The agency has already opened offices in Tatarstan, Nizhnii Novgorod, and Udmurtiya (see *IEWS Russian Regional Report*, 12 February 1998).

BUSINESS BRIEFS

-- **METROMEDIA INTERNATIONAL TELECOMMUNICATION INC.** has invested between \$1 million and \$2 million in **TELEPLUS**, a subscription-based satellite television service in **ST. PETERSBURG**. The service currently rebroadcasts Western stations like CNN, MTV, BBC World, Euronews, Eurosport, Cartoon Network, and TNT to St. Petersburg viewers. It is negotiating to include films among its offerings. Metromedia owns 50 percent of the stock, while the Leningrad Radio and Television Transmitting Center and Petersburg Cable Television each own 25 percent. The Russian partners are providing the cable network, office space, and space on the local TV tower. Metromedia is supplying funding and, most importantly, access to the programming. So far the service has 100 subscribers. Teleplus is hoping to gain between 2,000 and 3,000 subscribers by the end of the year. Petersburg Cable Television has 10,000 subscribers in the city of 5 million people. (*Russkii Telegraf*, 20 March)

-- The **TYUMEN OIL COMPANY** and the **MAGADAN** administration signed an agreement to build an oil refinery in Magadan to sell fuel products in the Far East. Prices will be 25 percent to 30 percent cheaper than those currently supplied by Sidanko, according to Governor Valentin Tsvetkov. Sidanko had an initial option on the project but already has facilities in the region, particularly the Angarsk Petrochemical Plant, that are not operating at full capacity. Tsvetkov believes the Angarsk products are too expensive. The plant will be designed by **PETROFAC** (USA) and could process oil from **SAKHALIN**. (*Russkii Telegraf*, 14 March)

-- **MARUBENI** (Japan) is planning to build the world's largest floating gas-powered electric station with a capacity of 150 megawatts on **SAKHALIN**. The project's \$170 million costs will be financed from long-term credits from the Japanese Eximbank. The company has built similar structures in South East Asia and Latin America. (*Zolotoi rog*, 17 March)

-- **WIMM-BILL-DANN**, one of the largest Russian producers of juice and dairy products, is seeking to buy an additional 31 percent of the **VLADIVOSTOK DAIRY COMBINE**, a purchase that would give it a controlling stake. The company sells J 7 and

Rio Grande juices and had turnover of \$500 million in 1996. Sales for 1997 are expected to be 25 percent higher when the final figures are ready. The firm is facing increasing competition from local producers and foreign firms like Britain's **DEL MONTE**, which entered the Russian market last year. To secure its sales, it is seeking to better establish itself in the regional market. The three plants currently in the holding are located in the **MOSCOW** region. (*Kommersant Daily*, 21 March)

-- South Africa's **DE BEERS** has signed an agreement with the little-known **SOGLASIE** company, giving it the rights to develop the Lomonsov diamond deposits in **ARKHANGLESK OBLAST**, which are estimated to contain \$12 billion worth of precious stones. Soglasie owns a controlling stake in Severalmaz, which has the license to develop the field. Australia's **ASHTON MINING** and **ALMAZY-ROSSII-SAKHA** had also been competing for the rights to develop the field. Soglasie's owners include Nazarevo (20 percent), which has ties to President Yeltsin's business office, Svoboda (40 percent), the Virgin Islands' Gal Marine Ltd. (20 percent), and the Isle of Man's Edgelane Investments Limited (20 percent). \$750 million will be required to develop the site. (*Kommersant Daily*, 18 March)

-- On 12 March, the US's **AEROJET** successfully launched an American K-1 rocket (used to put telecommunication satellites into orbit) with an adapted NK-33 rocket engine built at the Kuznetsov plant in **SAMARA**. The firm saved 70 of the engines that were built in the early 1970s despite orders from Moscow to destroy them. Aerojet is buying the engines for \$1.1 million each; so far, the Samara firm has shipped 45 engines to the US. The money from Aerojet has given Kuznetsov the capital to develop NK-93 aircraft engines. Once those engines are tested they could be used on Ilyushin or Tupolev aircraft. Russian aircraft now have few buyers because of safety concerns. (*Russkii Telegraf*, 14 March)

-- **LENINGRAD OBLAST** has appointed **WEST MERCHANT BANK** and **MOSCOW NARODNY BANK**, both based in London, to manage its \$30 million Eurobond issue. **PRICE WATERHOUSE** is serving as the financial advisor. (*Moscow Times*, 18 March)

-- **SAMARA OBLAST** is preparing to release a \$400 million Eurobond issue at the beginning of April. **GOLDMAN SACHS** and **ALFA BANK** will handle the issue. (*Russkii Telegraf*, 19 March)

-- **KODAK** opened facilities to produce the chemicals required for developing and processing film in mini-laboratories at its Slavich plant in Pereslavl-Zalesskii (**YAROSLAVL OBLAST**). That is the second step of the project. Last year, the plant set up facilities to cut and package paper. By 2000, the plant will be able to manufacture paper for printing color photographs. Overall investment is \$10 million over ten years. (*Russkii Telegraf*, 20 March) Kodak this week announced it would invest \$1 billion in China.

-- The **IRKUTSK OBLAST** administration has failed to publish the conditions for a

tender to develop the gold deposits at Sukhoi Log, Russia's largest area of gold deposits, as promised in March. The conditions will not be ready for an additional six months.

Among Russian companies interested are **MENATEP, ROSSIISKII KREDIT, UNEXIMBANK, EVROZOLOTO**, and **ALMAZY ROSSII SAKHA**. Foreign firms include **DE BEERS**, Canada's **BARRICK GOLD**, and Australia's **STAR TECHNOLOGY**, which has long been involved with the site. (*Kommersant Daily*, 19 March)

-- The German chemical and pharmaceuticals firm **BAYER** and Tatarstan's **NIZHNEKAMSKNEFTEKHIM** have signed an agreement to produce and sell the rubber used in automobile and bicycle tires. Nizhnekamskneftekhim makes more than 50,000 tons of synthetic rubber a year. Bayer officials believe the Tatarstani firm has reasonably modern production equipment, but still plans to upgrade it. (*Finansovie izvestiya*, 24 March)

-- **ALMAZY ROSSII SAKHA** intends to begin looking for diamonds in the **EVENK AUTONOMOUS OKRUG**, which is part of Krasnoyarsk Krai. The Canadian companies **SIBERIAN PACIFIC RESOURCE** and Canadian **NORD-WEST INDUSTRIAL INC.** are already working in the area, but Alrosa wants to protect its "Russian turf." Alrosa's attempts to work in Archangelsk failed.

-- **SBS-AGRO** bank plans to spend 7 billion rubles (\$1.2 billion) on investment projects over the next ten years primarily in the fields of agriculture, small- and medium-sized business, construction material manufacturing, and housing construction. The financing will take place within the framework of the 40 agreements the bank signed with regional administrations across Russia in 1997 and earlier this year. (*Segodnya*, 25 March)

--Yeltsin has signed a decree allowing **TATARSTAN** to issue Eurobonds. The republic is planning to seek between \$200 million and \$400 million on the western capital markets in 1998. The lead managers of the issue will be **ALFA BANK** and **ING BARINGS**. Yeltsin has authorized 12 of the 89 regions to issue Eurobonds. So far, only Moscow (\$500 million), St. Petersburg (\$300 million), and Nizhnii Novgorod (\$100 million) have floated the bonds.

CENTER-PERIPHERY RELATIONS

THE REGIONS AND THE SACKING OF CHERNOMYRDIN. In a surprise move, President Yeltsin fired Prime Minister Viktor Chernomyrdin, First Deputy Prime Minister Anatolii Chubais, and Interior Minister Anatolii Kulikov on 23 March. The president also sacked his other ministers, although most will likely hang on to their jobs. Yeltsin appointed 35-year old Sergei Kirienko as acting prime minister and seems likely to name Kirienko prime minister soon. Kirienko, a close ally of former First Deputy Prime Minister Boris Nemtsov, is the former minister for fuel and energy and gained a solid reputation as a technocrat for turning around Nizhnii Novgorod's Norski oil. The cabinet shakeup will affect how the federal government deals with the regions.

Although the popularly elected governors are increasingly powerful, they must

maintain strong ties with the federal government to ensure access to federal funds and other benefits distributed by Moscow. Building a strong personal relationship with the prime minister is a key element in that lobbying process. Chernomyrdin held his position for more than five years and provided a strong sense of stability. The governors' immediate reaction was concern about the agreements they had reached with the federal authorities. (*Russkii Telegraf*, 24 March) Now the governors must learn to work under new conditions.

Following the firings, Yeltsin seems to be very interested in courting the governors. Yeltsin stressed that point at a meeting with his staff on 24 March, when he said: "We must work with the regions. We must work in contact with the governors. We must bring them closer to ourselves, to our hearts." (NTV, 24 March) For his part, Kirienko met with Federation Council Chairman Yegor Stroeve on 25 March and declared that it was vitally important for him to get to know the opinions of the governors. Stroeve admitted that Yeltsin had not consulted him on the decision to remove Chernomyrdin, although he said they had discussed the problem of wage arrears and miners' strikes.

According to *Izvestiya* (25 March), many governors, mainly from the democratic camp, have a strong shot at being nominated for cabinet posts. The likely candidates include Saratov's Dmitrii Ayatskov (48 years old), Samara's Konstantin Titov (53), Rostov's Vladimir Chub (49), and Novgorod's Mikhail Prusak (38). Former Nizhnii Novgorod governor Nemtsov is likely to stay on as the number two man in the cabinet. The paper speculates that Prusak, Ayatskov, Titov, or Yaroslavl Governor Anatolii Lisitsyn could be put in charge of the economy. Of course, if the governors leave their elected offices to work on the federal level, they will give up what job security they have to serve at the personal whim of the president.

Many of the governors were active in Chernomyrdin's "party of power," Our Home is Russia (NDR), as a way of guaranteeing access to influence at the federal level (see *IEWS Russian Regional Report*, 19 March 1998). The party has no ideology or platform except to support those in power. Now that Chernomyrdin is out of office, its prospects are bleak. Saratov's Ayatskov said from Tokyo that Chernomyrdin's chances of winning the presidency now are "close to zero" and his party has no future. (*Segodnya*, 25 March) Such was the fate of former acting Prime Minister Yegor Gaidar's Russia's Democratic Choice in the 1995 Duma elections. It did not win enough votes to cross the 5 percent barrier required to win party-list seats in the lower house. It did, however, win nine of the 225 single-member district seats. According to Sergei Belaev, the former chairman of NDR's Duma faction, the party is already dead. It does not initiate legislation in the Duma nor has it been actively supporting gubernatorial candidates in recent elections. (*Kommersant Daily*, 25 March)

Regional businessmen seemed happy with the changes in Moscow. Kakha Bendukidze, chairman of the board of directors of Yekaterinburg's Uralmash, for example, supported the nomination of Kirienko. (*Izvestiya*, 25 March)

Reaction among the governors has been mixed. The Primorskii Krai administration has kept silent (*Vladivostok*, 25 March), however, the governor claims to have a "fruitful" relationship with Kirienko who was working closely with the krai administration to solve the Far East region's chronic energy problems. The *Moscow Times* (25 March) noted that one of Kirienko's major achievements as fuel and energy minister was helping to solve the electricity blackouts that have plagued the region.

Nazdratenko undoubtedly welcomes the most recent demise of his longtime rival Chubais.

Moscow Mayor Yurii Luzhkov met with Kirienko on 25 March and asked him to undo Chubais's privatization and drop the government's policy of monetarism. Among other things, Luzhkov requested special privileges for donor regions to the federal budget.

Tomsk Governor Viktor Kress complained that nobody from Moscow had called him to explain what was going on. In a round-up of regional opinion published in *Kommersant Daily* (25 March), he described Yeltsin's statements as "vague and incomprehensible." He claimed the changes would not make a big difference because the regions had to get by on their own anyway. Nevertheless, he said he trusted Kirienko.

Omsk Governor Leonid said he backed the decision to sack the government because it tried to live on domestic and foreign credits while selling off state property. At the same time, it did not resolve the problems facing the defense and agriculture industries. Nizhnii Novgorod Governor Ivan Sklyarov described the changes in the government as "necessary" and welcomed the increasing role that leaders from Nizhnii Novgorod would play in the federal executive branch.

Samara Governor Konstantin Titov, one of Chernomyrdin's closest allies, claimed it was too early to tell which regions would benefit or suffer from the changes, but that in the past "we constantly lost out in such situations." He said he would be happy if the new government could work more successfully with the State Duma and the regional leaders in the Federation Council to boost the economy rather than constraining it with taxes and customs duties.

The changes in the government will affect some regions' immediate plans. On 26 March, the government was supposed to discuss investment in Leningrad Oblast. Leningrad Governor Vadim Gustov said he had told Yeltsin the regional governments could not conduct investment policy without help from the center. (*Russkii Telegraf*, 24 March) For the time being, focusing on such specific matters will be impossible in Moscow. - Robert Orttung

FOREIGN TIES

AT EUROPE'S EDGE: SVERDLOVSK OBLAST AND THE WORLD ECONOMY

by Gerald M. Easter

YEKATERINBURG -- President Yeltsin played host to Chancellor Helmut Kohl of Germany and President Jacques Chirac of France on 26 March in Moscow. The summit initially was scheduled to take place in Yekaterinburg, capital of Sverdlovsk Oblast and Yeltsin's home region. But those plans were scrapped as a result of the president's most recent illness. The original location held symbolic significance, as one of the main purposes of the meeting was to draw attention to the economic potential of Russia's regions. The German and French heads of state were accompanied by a retinue of ministers, bankers, and businessmen, as well as 300 foreign journalists.

The shift in locale disappointed local leaders, who were busily directing a flurry

of activity in preparation for the visit. Snow was removed from the main boulevards; billboards came down; the monument marking the Europe-Asian border was polished; a German-French-Russian film festival was scheduled to fill the city's movie screens; and the local candy factory produced special three-sided boxes of chocolates to commemorate the summit. In addition, Moscow pledged to underwrite no less than 16 local renovation projects in anticipation of the summit. But in the spirit of contemporary center-regional relations, not all of the promised funds materialized and several projects were left unfinished.

Beyond those cosmetic changes, the summit would have presented local leaders with a unique opportunity to show off the region and engage in high-level discussions of regional economic investment. Indeed, relations with Europe have become increasingly important to Sverdlovsk as it struggles to define its place in the world economy.

Located in the central Ural Mountains region, Sverdlovsk Oblast is literally at the edge of Europe. Yekaterinburg, in fact, straddles the Europe-Asian border. Prized for its mineral wealth and interior location, Sverdlovsk became a center for military industry in the Soviet era. The region was then closed to foreign contact, as all roads led to Moscow. But that was not always so the case. In the 19th century, the Urals region was well-connected to European markets as a supplier of iron and metals. Indeed, the Statue of Liberty and the roof over the British Parliament are said to be partially constructed from Urals metal. On the eve of World War I, England, France, and Belgium provided nearly one-third of the investment capital for regional industrial development. Now, after more than 70 years, Sverdlovsk has rejoined the world economy and regional leaders are seeking to restore its lost historical ties to Europe.

The European integration process entails three inter-related areas: economics, politics, and infrastructure. Economics, to be sure, drives the process. But to what extent does Europe figure in the region's foreign economic relations as a whole? What is the nature of economic relations between Sverdlovsk and Europe? And how do economic relations influence the integration of the region's politics and infrastructure into Europe?

Sverdlovsk Oblast has been one of Russia's more successful regions in terms of foreign trade. In 1997, the total volume of foreign trade in Sverdlovsk was valued at nearly \$4 billion, with a surplus of more than \$1.6 billion. The bulk of the region's exports come from ferrous and non-ferrous metals and metal products (1996: 61 percent, 1997: 63 percent), and chemical products (1996: 22 percent, 1997: 22 percent). The region's chief imports are manufactured goods (1996: 27 percent, 1997: 30 percent) and food products (1996: 21 percent, 1997: 20 percent).

The region is now in the process of cultivating new trade partnerships. Trade relations with members of the Commonwealth of Independent States (CIS) have declined as products from CIS countries are displaced by foreign entries into local consumer markets and CIS countries are unable to pay world prices for raw materials from Sverdlovsk. An increase in imports from Eastern Europe, especially food products, has led to rising trade deficits with Hungary, Poland, and Slovenia. But trade with the former communist bloc overall accounts for only about 5 percent of the region's foreign trade. Trade ties have been established with East Asia, most notably Taiwan, China, and South Korea. And following a visit by regional leaders to Tokyo in September 1997, Japan has begun to show greater interest in the region. But Sverdlovsk-East Asian economic integration, in general, is proceeding slowly, accounting for roughly 15 percent of foreign

trade in 1997.

The most dramatic change in Sverdlovsk's foreign trade relations has come from the West. America presently ranks as the region's top individual trade partner, accounting for 13.5 percent of all foreign trade in 1997. As a bloc, however, over the past five years the European Union has emerged as Sverdlovsk's principal trade partner, accounting for more than one-third of all Sverdlovsk's foreign trade in 1997. The Netherlands ranks a close second behind the US, accounting for 13.3 percent of the region's total foreign trade in 1997. Germany, Great Britain, Switzerland (not an EU member), and Italy finished respectively as the region's fourth, fifth, eighth, and eleventh ranked trade partners for 1997.

While Sverdlovsk-European trade ties continue to grow, the relationship has not always been smooth. The European Union has sought to regulate and limit the inflow of goods and raw materials from former communist bloc countries. In particular, the European Union anti-dumping committee has restricted the import of cheaply priced extracted minerals from Russia, which nonetheless accounted for 20 percent of the European market in 1997. Those policies adversely affect Sverdlovsk, which is the source of much of Russia's minerals and metals exports. That situation, moreover, is viewed as a double standard, because Russia has not adopted comparable policies to protect its producers from the import of European manufactured and consumer goods.

Although Sverdlovsk shows positive signs of economic recovery and new wealth, the regional economy as a whole remains badly underfinanced. According to estimates, capital investments in the region's productive sectors in 1996 were just 40 percent of what they were in 1990. Local leaders are increasingly relying on Europe for new sources of investment capital. The European Bank of Reconstruction and Development (EBRD) has been especially active in the region by funding a micro-lending program to small businesses; writing investment profiles for regional firms; training a regional cadre to meet international standards of financial auditing; promoting enterprise to enterprise joint venture projects; and providing financial assistance to social and health projects. The Urals Regional Venture Fund, administered by Britain's Flemings Bank, has proven one the most successful EBRD-funded programs in the region. The fund provides seed capital (from \$300,000 to \$3.3 million) to companies with a demonstrated ability for growth over a five to seven year period. In 1997, the fund invested \$1 million in a joint venture between a local truck factory and a Dutch firm to build refrigerated trailer units. The lack of refrigerated transportation has long hindered the development of Russian food markets. In December 1997, the first five units rolled off the assembly line and onto the region's highways.

Sverdlovsk consistently scores among the top five of Russia's 89 regions in foreign assessments of investment risk and potential. As Moscow's role as a source of revenue diminishes, regional leaders are increasingly looking to Europe for investment capital. The regional government, for example, recently succeeded in securing a direct credit line of up to DM100 million from Germany's Deutsche Bank to fund a large public works project. More notably, Sverdlovsk is one of only 12 regions approved to issue \$500 million worth of Eurobonds. The revenue raised from the bond sale is earmarked for short-term investment projects in the metallurgical and machine-building sectors. Britain's West Merchant's Bank will prepare the tender. The first offering of \$100 million was scheduled for March 1998, but was pushed back to the summer in the

hope the region might negotiate lower interest obligations. The process of economic integration will be considerably enhanced by Sverdlovsk's entry into Europe's financial markets.

While economics dominate Sverdlovsk-European relations, political contacts and cooperation serve to strengthen those ties and further the process of European integration. Great Britain initially sent a trade representative from the Ministry of Foreign Affairs to establish an office in the region. As economic activity increased, the need for political representation became apparent. In September 1997, the trade office was officially upgraded into a consulate general, which now issues visas and deals with British affairs in the region. Germany is involved in a similar process. As Germany's economic presence in the region grows, there is increasing interest in establishing a political presence. While Germany has yet to commit to a permanent consulate general, it recently initiated an "at large" consular office. A representative from the Moscow embassy, who travels to the region every 20 days to issue visas, staffs the office. Other government representatives in the region include a US consulate general; a Hungarian trade representative; a Japanese cultural-information office, and a proposed Chinese consulate general and a proposed Finnish trade representative.

Sverdlovsk has also sought to develop "inter-regional" foreign relations. In such instances, regional leaders have entered into negotiations and agreements with political counterparts in another country. The most successful effort involves Baden-Wurtemberg, the German federal land, with which Sverdlovsk has cooperated since 1991. Agreements between Sverdlovsk and Baden-Wurtemberg include the creation of a service center for the timber and paper industry, an educational exchange program to train local managers in global economic practices, and over 100 enterprise-to-enterprise projects. On a smaller scale, Sverdlovsk and Edinburgh, Scotland signed an agreement on the management of the huge Nizhnii Tagil metallurgical plant.

Finally, the process of European integration entails the development of infrastructure ties. For decades, the region was isolated from Europe as a result of its deep interior location and high security status. Even residents of Yekaterinburg were unlikely to have come into contact with Westerners during the Soviet era. When Sverdlovsk was finally declared open, there was no infrastructure to connect the region to Europe. Over the past five years, infrastructure obstacles have gradually been overcome, allowing for direct transportation links to the region. Germany's Lufthansa Airlines and Hungary's Malev provide regular direct commercial flights from Frankfurt and Budapest. The main regional air carrier, Urals Airlines, schedules regular charter flights to Paris, Rome, Madrid, and London. Negotiations are underway with French and German contractors to build state of the art passenger and service facilities at Yekaterinburg's Koltsovo Airport, which in the past two years has handled over 1,000 international flights and 10,000 foreign visitors. While Sverdlovsk will not soon become a popular tourist destination, infrastructure links are fundamental for European integration and will eventually support increased socio-cultural interaction between Sverdlovsk and Europe.

Over the past year, the international community has focused increasing attention on Russia's regions. 1998 promises to be a pivotal year for at least several of Russia's federal subjects as greater amounts of financial assistance and investment capital are directed away from Moscow. In a few years, a handful of "second cities" are likely to emerge, still trailing Moscow but well ahead of the rest of the pack. This inter-regional

competition for international investment resources will be influenced by geographic, demographic, and sectoral factors; each region will exhibit some combination of structural advantages and disadvantages. The disposition of the local leadership toward the world economy is also a determining factor in this competition. In that regard, Sverdlovsk's leaders have successfully exploited the region's advantageous resource base and urban consumer markets while striving to overcome its disadvantageous interior location. As indicated by its growing relationship with Europe, Sverdlovsk appears well-positioned to be among the select group of Russian regions set to prosper in coming years.

Gerald M. Easter is conducting field work in the Urals region for a book on Russian federalism.

DISPATCHES FROM THE FIELD

NEW TVER INTERNATIONAL AIRPORT SEEKS EXPANDED TRADE

by Mikhail Alexseev, University of Washington

TVER -- This city of about half a million people located 100 miles northwest of Moscow on the Volga river is poised to become a major new entrepot for airborne cargo traffic to Russia. The Tver region administration and the Tver branch of the Russian State Transportation Company, Rossia, have been granted a license to use the Migalovo military airport for civilian purposes. (*Izvestiya*, March 11) The air force base is already being converted to service international flights. Former military installations now house immigration, customs, and disease control agencies. Charter flights to Turkey, mostly ferrying *chelnoki* (shuttle traders) bringing cheap consumer goods into Russia, have begun to take off from Migalovo.

In early March, I visited my former home and my mother in Tver, just a couple of miles from Migalovo air force base. The street is still called 50 Years of October Avenue, in honor of the officially discredited Bolshevik revolution, and the infrastructure in the surrounding areas has changed little. Judging by its appearance, this avenue, which is the shortest route from Migalovo to downtown Tver, the Volga river port, and the railway station, has not been repaired since my family first moved into its apartment nearly 30 years ago.

With only one lane of traffic in each direction, the road is scarred by huge potholes, many more than one-foot deep. In some areas, cars must stop and wait until there is no traffic in the other direction so they can drive around a pothole. And, where the street car tracks cut into the road, the asphalt is bulging and peeling off along the track, further narrowing the passable surface. It is essentially impossible to drive faster than 30 miles per hour for any length of time on most roads in Tver. (A detour from Migalovo to downtown via the left bank of the Volga River is lengthier and the roads are in a similarly sorry state.)

One advantage for Migalovo is that it is located within a mile or two of the main Moscow-St. Petersburg highway. The word "highway," however, must be interpreted in the Russian context: it is one lane of traffic in each direction, with a patchy surface.

Nevertheless, after observing the highway traffic from my apartment window for five days, I do not recall any significant congestion, even at the major intersection with the 50 Years of October Avenue -- an indication that this narrow road could sustain a substantial increase in trade flows.

An *Izvestiya* report estimates the air force base conversion will cost \$26 million. The new airport will not compete with Moscow's Sheremetyevo-2 (located just 80 miles south) for Delta or Aeroflot passengers, but will primarily service cargo traffic. The Rossia Transportation Company counts on servicing 100 flights daily, given that Tver lies along the P-24 international air route. The company and the Tver administration also plan to set up a free economic zone around the airport, granting lower customs tariffs to users. It is unclear whether the costs of air base conversion include local infrastructure upgrades, nor it is clear how cost effective the new airport will be. Another moot point is whether the airport can be linked --and at what cost-- with a planned bullet train from Moscow to St. Petersburg that will bypass Tver and marginalize it as a rail cargo terminal.

On this trip I did not hear any MIG fighters going supersonic, a vivid childhood memory. The hope is that on future trips, I will see signs that the budding airborne trade through Migalovo has helped reverse infrastructure decay in this city on Russia's Golden Ring, renowned for its tradition of *kuptsi* (tradesmen).

Mikhail Alexseev visited Tver from 5-11 March 1998.

PATTERNS OF REGIONAL DEVELOPMENT

IRKUTSK POLITICAL PARTIES SIT OUT LOCAL ELECTIONS. According to the chairman of the Irkutsk Oblast Electoral Commission Aleksandr Vedrov, political parties will not participate in the oblast's 1998 campaigns. Local chief executives will be elected in 30 oblast municipalities, and local legislatures will be elected in 12 of them. Additionally, four regions will hold by-elections for six seats in city and oblast dumas. The various local electoral commissions have registered 187 mayoral contenders and 389 legislative candidates. Despite the high level of participation, Vedrov points out that political parties have nominated only three candidates, including one from the Communists and one from the ultra-nationalist Liberal Democratic Party. Vedrov explains the low level of partisan participation by citing the complex organizational procedures associated with the nomination process. Moreover, candidates do not view regional political parties as viable social and political forces that could propel them to electoral victories. - Ekaterina Vorobieva (Teleinform) in Irkutsk

KOMI REPUBLIC FIGHTS OVER ELECTORAL SYSTEM. Heated debates continue to rage in Komi Republic over electing local government bodies. After the Russian Constitutional Court found several provisions of the republic's constitution violated federal law, Komi's State Council (the republican legislature) set the election date for 7 February 1999. The local chapter of the National-Patriotic Union of Russia appealed to the republic's constitutional court, claiming the parliament's decision violates voters' rights, and proposed calling elections for 21 June 1998. However, the court ruled in the republic's favor. (*Respublika*, 13 March) The republican government maintained in

court that elections to the local government bodies should be held concurrently with elections to the State Council, also scheduled for 7 February 1999. In justifying their decision to uphold the 1999 election date, the justices cited the underdeveloped legal framework for elections, the lack of legislation on financing local government, and the desire to save public funds.

However, even elections to the State Council could be postponed amidst the current controversy over redistricting. Members of the republican parliament are elected in two different types of districts: territorial districts and administrative-territorial districts. Thirty deputies are elected from the former, and 20 from the latter. While the territorial districts are fairly similar in terms of population, the administrative-territorial districts are not. Their boundaries coincide with those of municipal and raion borders, giving the 200,000 residents of Vorkuta and the 13,000 residents of Kortkeroskiy raion each one elected representatives in parliament. Needless to say, Vorkuta voters are underrepresented in this scheme.

The State Duma recently adopted a law on voters' rights, which states that electoral districts cannot vary by more than 10 percent to 15 percent of the population. That new policy caused much protest in the regions, particularly in Komi Republic. Komi's republican parliament petitioned the State Duma to amend the law and lobbied the country's legislature during parliamentary hearings on the matter. According to their arguments, the seemingly inequitable apportionment of the electorate among various districts actually insures the representation of various ethnic groups, especially the republic's "titular" nationality, the Komi. About half of all ethnic Komi live in rural areas, and the current system allows rural residents to elect 40 percent of the parliament although they comprise only 25 percent of the republic's total population.

As a direct result of that system, ethnic Komi comprise 34 percent of the parliament, while their share in the republic's population is about 27 percent. At the same time, while ethnic Russians comprise 57 percent of the republic's total population, their representation in the parliament amounts to 44 percent. Urban dwellers tend to ignore ethnic affiliations in their voting preferences, but rural Komi consistently vote their co-ethnics into the legislature. Many Komi nationalists in the cities also use rural districts to promote their political careers, which is why they so actively lobby to preserve the current system.

However, the State Duma hearings have not proven conclusive, as the Federation Council must also consider the matter. Nevertheless, plenty of Duma members support the right of regions to decide their own electoral district policies. Only Yabloko has sharply criticized that stance. - Yury Shabaev in Syktyvkar

DAGESTANI PARLIAMENT AMENDS CONSTITUTION. On 19 March, 112 of the 121 members of Dagestan's parliament, the Popular Assembly, ignored protesters' demands and voted for a republican constitutional amendment allowing one person to be elected chairman of the State Council (the republic's collective executive) for two consecutive terms. The original text of the constitution provided constant rotation of the chairmanship among different ethnic groups. In addition to amending the constitution, the assembly passed a resolution asking the current State Council chairman, Magomedali Magomedov, to stand for reelection under the new provision and asking members of the Constitutional Assembly to support his candidacy.

The day before the vote, between 1,500 to 2,000 people rallied on Makhachkala's central square. Led by the newly created Committee to Protect the Constitution, they demanded that the deputies not change the constitution. According to Kurban Makhmudgadzhev, chairman of the Makhachkala city council and one of the committee's leaders, committee members represent many ethnic groups and social classes. Rally participants carried signs demanding the resignation of current State Council Chairman Magomedov. Various political leaders spoke at the rally and criticized the republican government. They threatened to organize mass protests if the Popular Assembly amended the constitution. About 3,000 people attended a second rally on the following day. - Nabi Abdullaev in Makhachkala

SUCCESS STORIES

OREL SHARES AGRO REFORM LESSONS WITH IRKUTSK. A high-level delegation from Irkutsk Oblast visited Orel Oblast from 9-12 March. Headed by Governor Boris Govorin, the delegation included the head of the oblast's Agriculture Department Nikolay Elgert, General Director of the Irkutsk Foodstuffs Corporation Gennadii Nesterovich, farming cooperative Chairman Nikolay Romankevich, and First Deputy head of the oblast government Ivan Fedoseev. Orel Oblast Governor and Federation Council Speaker Yegor Stroeve hosted the delegation. The visit had been planned in the fall, and its main goal was to share Orel's experience in agricultural reform.

Orel authorities believe a gradual shift in people's attitudes toward property rights and the subsequent development of production forces is the best recipe for success. The first stage of the reform process is distribution of shares of farming enterprises to employees, as well as the creation of conditions for consolidation of those shares. Unlike the 1992 case of Chubais' privatization vouchers, shareholders immediately see what they will get -- a concrete share, which includes the right to some land and machinery. Stroeve has stressed several times that at the first stage, the most important thing is a psychological shift. Peasants can choose how to utilize their shares. They can sell them, lease them, transfer them (usually to the management of the farming enterprise), or give away rights to the shares. Additionally, the farm enterprise, having accumulated many shares, must insure the enterprise's profitability for the benefit of all shareholders.

In the second stage, agricultural producers will be integrated into diversified holding companies, designed to increase production efficiency. Finally, the third stage involves the development of investment projects.

Experts from Orel's Agromir firm plan to visit Irkutsk in late April. They will help transfer their lessons to Siberian soil. Specialists believe the difference in climate should not affect the rate of reforms in Irkutsk Oblast. The main condition of reform is the change in popular attitudes toward owning property, as well as new organizational and legal structures. - Ekaterina Vorobieva (Teleinform) in Irkutsk

SOCIAL ISSUES

ULYANOVSK SUES OBLAST OVER BUDGET VIOLATIONS. The Ulyanovsk city administration has taken the oblast to court over the recently adopted 1998

Ulyanovsk Oblast budget. Even though the defendants (the oblast government and the oblast legislative assembly) spent about six months drafting the budget, they still allegedly managed to violate several federal laws as well as the Constitution.

The city is unhappy with the budget because the law gives Ulyanovsk certain responsibilities normally outside of its purview, while neglecting to provide the resources to implement them. For example, the oblast legislators charged the cities and raions with paying child benefits from their budgets. A special government decree clearly requires federal funding for such a budget line, but the 1998 oblast budget neglects to specify how much money Ulyanovsk should receive to pay child benefits. Additionally, experts from the city administration said the oblast has illegally transferred to Ulyanovsk the responsibility for compensating teachers for book purchases, citizen's energy supplements, and housing subsidies.

The oblast is thus violating the "compensation principle" outlined in the Russian Constitution and federal laws on local government. The "compensation principle" states that if a regional government body (such as the legislative assembly or oblast administration) makes a policy that leads to higher spending or lower revenue on the part of local government bodies, then it must compensate the latter accordingly. The amount of compensation is to be determined when the policy is adopted, and local governments have the duty to implement the policy only in as much as the compensation has been disbursed.

In its appeal to the court, Ulyanovsk also complained about the breach of the principle regulating the "transfer of government authority." Legally, the oblast could transfer to the local level the authority to regulate prices, in order to help low-income residents. However, such a transfer of responsibilities must be accomplished through passage of a special law, again outlining the appropriate compensation amount. Nothing of the sort had been done, which leads the city to believe that the oblast budget illegally extended the city's authority and infringed upon its independence in budgetary matters.

The city also wants to challenge other provisions of the 1998 budget that reduce city income. For instance, the new budget uses unusual accounting techniques that give the city of Ulyanovsk a mere 4.7 percent of the money earmarked to support municipalities, while the rural Karsunskiy raion, with a population 12 times smaller than that of the city, will get 7.3 percent of the funds. Finally, the city points out that its earlier formal objections to the budget were completely ignored by the oblast, again in violation of the federal law regulating local government. Should the oblast court rule in the city's favor, the oblast legislative assembly and administration will be forced to correct the disputed articles of the budget. - Sergey Gogin in Ulyanovsk

ECONOMIC ISSUES

TATARSTAN'S ECONOMIC PROBLEMS MOUNT. Tatarstan continues to face increasingly alarming economic news. Although it has one of the worst records of wage arrears among all regions, Nizhnekamsk officials spent over \$500,000 on foreign trips in 1997, the chairman of the National Bank of Tatarstan recently noted. Farmers collected a record harvest in 1997, but agricultural machine operators have not been paid in a long time. And inflation in the republic is racing upward. Last year, it was at 17.5 percent compared to 11 percent in Russia overall. Some experts even claim the 17.5 percent

figure is too optimistic and suggest that real inflation is at least double that figure. Cash continues to migrate out of Tatarstan. Unfortunately, Tatarstan's industry produces only 163 new rubles (\$27) worth of goods per capita. Imports of necessary products are effectively saving the population. The republic's internal debt is approaching a critical mark of 30 percent of the regional budget. If Tatarstan crosses that line, it will be on the way to bankruptcy, writes *Kazanskoe vremya*. And if oil prices keep falling, the republic will have to cut planned expenditures listed in its budget, according to Prime Minister Farid Mukhametshin. - Midkhat Faroukshine in Kazan

CASH MACHINES GAIN WIDE POPULARITY IN CHELYABINSK. According to the press service of the Chelyabinsk branch of SBS-AGRO bank, there are 33 automatic teller machines (ATMs) in the city, of which six are located directly on the street. The number of ATMs has been multiplying rapidly, disbursing cash to customers around the clock, seven days a week. This proliferation of cash machines was caused by an increase in SBS-AGRO customers with plastic STB-CARDS --over 300,000 in this city of almost 1 million people. Virtually all large enterprises, companies, schools, and government agencies have switched to the STB-CARD system to handle employee payrolls. Institutional clients include the city and oblast administrations; local and regional tax inspectorates; the Mechel pipe plant; and Chelyabinsk Metal Works. Even tax authorities in Chelyabinsk Oblast's closed cities of Ozersk, Snezhinsk, and Trekhgornyy use the cards. - Igor Stepanov in Chelyabinsk

NIZHNI PASSES PRO-FOOD INDUSTRY LAW. The Nizhnii Novgorod Oblast Legislative Assembly adopted a law supporting the local food industry. The new legislation, which is similar to laws favoring the automobile and glass industries, relieves new food-processing enterprises with at least 6 million new rubles (\$1 million) in charter capital from paying oblast profit, property, and road fund taxes. Unlike enterprises in the automobile industry, however, food-processing businesses must sign an agreement with both the oblast and raion administrations. The oblast government hopes to use that mechanism to ensure that benefit recipients honor their commitments.

As with tax breaks for the automobile industry, the law was tailored for a specific venture: a large food plant to be built in the region by the Italian company Ferrero. The total investment will be close to \$100 million, and the Italians plan to implement the project in two stages. The first stage will commence this spring-summer and will cost \$1 million to \$2 million. During this stage, the Italians will use the facilities of the Pravdinsk Radio plant to produce food packaging materials. Raw materials for the production process will be obtained from the neighboring Balakhninsk Cellulose-Paper plant. The second stage will see the construction of a new confectionery plant in the region's Balakhninsk raion. In addition to creating 500 new jobs for local residents, the joint venture will purchase agricultural goods in the region, indirectly creating more jobs and helping the oblast budget.

Another law adopted by the legislative assembly deals with the procedure for adopting tax breaks on the oblast level. According to that act, the legislative assembly retains the right to grant tax breaks although it must clearly define the goals, conditions, and substance of each tax exemption. If the firm benefiting from the tax reductions violates the imposed conditions, the oblast retains the right to levy the tax in full over the

duration of the tax break period. Adoption of those two laws makes Nizhnii Novgorod Oblast one of the leading Russian regions in terms of favorable investment climate. - Yurii Rodygin in Nizhnii Novgorod

MARS' NEW PET FOOD PLANT DRAWS POPULAR PROTESTS. Novosibirsk Oblast Governor Vitalii Mukha recently confirmed his support for the Mars Corporation's plans to construct a new dry pet food plant in the region. At the same time, local veterinarians publicly announced that Russian-made pet food causes kidney stones in cats. The \$14 million production facility will be Mars' third plant in Russia, but its capacity will be merely one-third that of the similar Stupino (Moscow Oblast) plant opened in 1996. It will be built in a Novosibirsk suburb, and construction should begin in May and be completed nine months later. The Mars plant will create 200 new jobs for local residents. The new plant will produce 15,000 tons of Whiskas and Pedigree dry pet food annually, supplying about 1 million cats and dogs.

Veterinary doctors were alarmed when Mars first announced plans to build the new facility several months ago. The vets are concerned that Russian-made dry pet food seriously harms the health of pets. A Mars executive, Aleksandr Shalnev, denied that suggestion, stating that all dry foods, regardless of their plant of origin, are made from well-researched recipes.

The vets made their findings public before the governor gave his consent for the project. According to the authoritative chief surgeon of Novosibirsk's central pet clinic, Yurii Shmidt, research shows clear causality between the food and feline diseases. The food is especially dangerous for neutered male cats. While Dr. Shmidt did not explain whether he thinks the cause of disease is some defect in the company formula or something arising from the quality of local ingredients (water, for example), he was confident in his findings. He emphasized that his campaign is only against locally produced food and that he has no objection to imported food. - Konstantin Kanterov in Novosibirsk

REGIONAL PROFILE: VORONEZH OBLAST

Governor: Ivan Shabanov

Ivan Shabanov won the 8 December 1996 gubernatorial election with the support of the opposition National Patriotic Union of Russia (NPSR) and Agrarian Party, receiving 49 percent of the vote. Communist Party and NPSR leader Gennadii Zyuganov personally visited the region to campaign for him.

Shabanov was born in 1939 in Voronezh Oblast. He graduated from Voronezh Agricultural Institute and from the CPSU Central Committee's Academy of Social Sciences, where he received a PhD in history. His dissertation was titled "Forms and Methods of Strengthening Party Discipline." Shabanov joined the Communist Party in 1966 and worked as a member of the oblast party staff for 18 years. In 1982, he was elected chairman of the oblast executive committee where he served for eight years.

In 1990, Shabanov became chairman of the oblast legislative council. Simultaneously, until the Communist Party was banned in August 1991, he was the first secretary of the Voronezh party committee. In December 1993, he lost his bid for a seat

in the Federation Council, the upper house of the new Russian parliament, but a few months later was reelected chairman of the oblast legislature. In January 1996, Shabanov ex officio joined the Federation Council, where he serves as a deputy chairman of the committee on security and defense.

Shabanov is a sharp critic of President Boris Yeltsin and his government, vehemently denouncing Anatolii Chubais's privatization scheme. During Yeltsin's conflict with the federal parliament in fall 1993, Shabanov supported Supreme Soviet Speaker Ruslan Khasbulatov. He also criticized Yeltsin's 1993 constitution, claiming it did not secure the separation of powers and limited the rights of the regions. In May 1995, Shabanov joined the "Soglasie" (Concord) movement headed by then-State Duma speaker Ivan Rybkin.

Other Local Leaders

Chairman of the Oblast Duma -- Anatolii Goliusov, elected March 1997.

Brief Overview

Voronezh Oblast is located in the center of the Eastern-European Plain, in the basin of the middle Don River. It is part of the Black Earth Economic region and borders Rostov, Volgograd, Saratov, Tambov, Lipetsk, Kursk, and Belgorod oblasts and Lugansk Oblast in Ukraine.

The city of Voronezh was founded in 1585 as one of the fortresses on the southern frontier of the recently centralized Russian state. The region started to industrialize in the 19th century, although even now it remains a mostly agricultural area with fertile blackearth soil covering about 75 percent of its territory. Major regional industries include aircraft-building; radioelectronics; manufacturing equipment for the chemical and mining industries and agriculture; rubber and automobile tires; and food-processing. The oblast produces 99 percent of Russia's equipment for packaging dried food products, 54 percent of grain-sorting machines, and 44 percent of its VCRs. Philips had been a major foreign investor but pulled out when the market for Russian televisions collapsed.

The oblast's territory is rich in non-ore raw materials such as clays, mineral ochre, limestone, chalk, granite, and sands. Forests cover about one-tenth of the land.

Basic Facts

Population (as of Jan. 1, 1997): 2,499,100 (1.69% of Russian total)

Urban population (1989 census): 61.5% (Russia overall: 73.0%)

Student population (1996): 205 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 30.64% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 10.4% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 28.7% (Russian average: 29.9%);

Agriculture: 20.5% (12.8%); Trade: 8.2% (9.1%); Culture: 12.6% (13.6%);

Management: 2.1% (2.3%)

Average monthly personal income in 1996: 504,000 rubles (Russian average: 764,000)

rubles)

Average monthly personal expenses in 1996: 467,000 rubles (Russian average: 753,000 rubles)

Average monthly subsistence requirement in 1996: 271,600 rubles (Russian average: 369,400 rubles)

Consumer price index (as of Dec. 1996): 106.65 (Russia overall = 100)

Industrial production as percentage of all Russian production (1996): 0.86%

Proportion of loss-making enterprises (1996): 58% (Russia overall: 56%)

Number of enterprises with wage arrears (1996): 1,237 (4.32% of total number of regional enterprises)

Agricultural production as percentage of all Russian production (1996): 2.02%

Number of private farms (as of 1 Jan.1997): 1,595 (0.57% of Russian total)

Capital investment (1996): 3,151,100 rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): federal budget: 9.8% (Russian average: 9.2%); regional budget: 11.6% (9.6%); enterprises: 68.5% (66.3%)

Number of joint ventures (as of 1 Jan.1997): 58 (0.36% of Russian total)

Fixed capital investment in joint ventures and foreign companies (1995): 51,864 million rubles

Number of small businesses (as of 1 Jan. 1997): 11,135 (1.32% of Russian total)

Number of enterprises privatized in 1996: 21 (0.42% of Russian total), including former municipal property: 85.7% (Russian average: 67.1%); regional property: 4.8% (14.3%); federal property: 9.5% (18.6%)

Number of telephones per 100 families (1996): in cities: 51.4 (Russian average: 48.7); in villages: 22.0 (19.7)

According to a 1997 survey by *Ekspert* magazine, the oblast is ranked 17th among Russia's 89 regions in terms of investment potential and 20th in terms of investment risks. A 1995 survey by Bank Austria ranked the oblast 32nd in terms of investment climate.

Electoral History

1996 Presidential Election

Zyuganov: 45.48%/57.64% (first round/second round)

Yeltsin: 22.65%/36.97%

Lebed: 17.46%

Zhirinovskiy: 5.84%

Yavlinskii: 4.43%

Turnout: 71.85%/68.84% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Elections

Communist Party of the Russian Federation: 26.82%

Liberal Democratic Party of Russia: 14.42%

Our Home Is Russia: 6.88%

Congress of Russian Communities: 5.85%

Communists -- Workers' Russia: 5.66%

Yabloko: 4.44%

Agrarian Party of Russia: 4.33%
Ivan Rybkin's Bloc: 3.15%
Derzhava: 3.01%
In single-member districts: 3 Communist Party of the Russian Federation,
1 Ivan Rybkin's Bloc
Turnout: 67.97% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 44.20% "No" -- 55.80%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 30.63%
Communist Party of the Russian Federation: 14.54%
Agrarian Party of Russia: 11.99%
Russia's Choice: 11.91%
Yabloko: 7.84%
Democratic Party of Russia: 7.23%
Women of Russia: 5.96%
Party of Russian Unity and Concord: 4.02%
In single-mandate districts: 1 Russia's Choice, 1 Ovnovlenie, 2 independent
From electoral associations: 1 Russia's Choice, 1 Democratic Party of Russia, 1 Liberal
Democratic Party of Russia
Turnout: 59.92% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 57.38%
Ryzhkov: 18.06%
Zhirinovskiy: 9.20%
Tuleev: 4.55%
Makashov: 4.04%
Bakatin: 3.83%
Turnout: 80.68% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regionni Rossii*, Moscow, 1997.

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BREAKING NEWS

POLITICS

NEW SYSTEM ALLOWS PRESIDENT TO VIDEOCONFERENCE WITH GOVERNORS. A new system installed by Rostelecom and Sweden's Ericsson will provide

multi-media connections between the Russian president and 88 of the 89 regions (excluding Chechnya), according to a contract signed on 27 March. Extensive use of the new system may reduce the number of trips the governors make to Moscow and could potentially be used for Federation Council votes. The overall cost of the project will be \$11.5 million. Once all the regions are connected to the system -- some time in 1999 -- Rostelecom will make it available to commercial users. (*Kommersant Daily*, 27 March)

LUKASHENKA VISITS MURMANSK. Belarusian President Aleksandr Lukashenka visited Murmansk on 24-25 March. He said he was interested in cooperating with Russian regions to preserve Russia's union with Belarus. Discussing the regions, he said federal authorities were only interested in cooperation on paper and not in practice. Because it is difficult to reach agreement with the federal authorities, he is seeking to establish ties between enterprises. Belarus will open its first consulate in Murmansk in May and hopes to promote business with the Kola Peninsula. (NTV, 25 March) Lukashenka visited Vladivostok on 21 February (see *IEWEWS Russian Regional Report*, 26 February 1998) but Yeltsin forced him to cancel visits to Yaroslavl and Lipetsk on 2 October 1997 (see *IEWEWS Russian Regional Report*, 9 October 1997).

LOCAL GOVERNMENT POWERLESS. Local government essentially has no power, according to Arkhangelsk Mayor Pavel Balakshin, who also serves on the President's Council on Local Government. He argues that the federal government is not interested in strengthening local government because effective local governments would weaken federal power. To make local government a reality, Balakshin says federal laws must define how much tax revenue local governments should receive. Currently, the oblast governments determine those tax issues. He also advocated giving local governments the right to own land. Under proposed legislation, oblasts would own land. The mayor also complained that he wanted greater power vis-a-vis the city council. (*Pravda severa* [Arkhangelsk], 25 March)

GOVERNORS AND NDR. Former Prime Minister Viktor Chernomyrdin held a meeting of the Our Home is Russia Political Council on 25 March that was well attended by governors who are members, *Izvestiya* (27 March) reported. The only absent governors were Krasnoyarsk Governor Valerii Zubov, fighting to hold onto his seat in an electoral battle with Aleksandr Lebed; Saratov Governor Dmitrii Ayatskov, who was extremely critical of the party's chances after Chernomyrdin was sacked; and Arkhangelsk Governor Anatolii Yefremov, who has never paid much attention to such gatherings. It is unclear whether the regional leaders attended as a show of support for the ex-prime minister or to satisfy their curiosity about his fate after being fired.

LOSS OF SUMMIT COSTS ROSSEL. Yeltsin's decision to move his 26 March summit with the French and German leaders from Yekaterinburg to Moscow exacted a high cost on Sverdlovsk Oblast and Governor Eduard Rossel. Beyond the money spent sprucing up the capital for the visit (estimated at \$10 million to \$12 million, of which Moscow only paid 30 percent), Rossel had hoped the trip would encourage Yeltsin to sign up to 16 decrees

authorizing hundreds of millions of dollars of aid to the region . The decrees called for considerable aid to specific factories, the creation of a free economic zone in Verkhnyaya Salda, and the construction of an oil processing plant. While Yeltsin was not committed to those plans, oblast officials thought the president would be more likely to approve them if he visited the region. Many local officials believe Yeltsin's decision to move the summit from Yekaterinburg was not prompted by the president's poor health, as officially cited, but was a move to put Rossel in his place. The fiasco may hurt Rossel's party, Transformation of the Urals, in this month's scheduled Sverdlovsk Oblast legislative elections. (*Kommersant Daily*, 27 March) Yeltsin claims he will still visit the region. (*Nezavisimaya gazeta*, 26 March)

COMMUNISTS DOMINATE IN RECENT REGIONAL ELECTIONS. The Communists strengthened their position in the Orel, Orenburg, and Omsk regional legislatures in the 22 March elections. Independents fared best in Vologda. The leftists benefited from low voter turnout combined with active campaigning on their part. The Communists seem to do particularly well in regions with electoral laws requiring a 25 percent minimum turnout and that winning candidates gain only a plurality of votes. Aside from Vladimir Zhirinovskiy's Liberal Democratic Party of Russia, other parties are generally not active in the regional elections. In Orenburg, the Communists won 16 of 47 seats, with turnout a 45 percent turnout. Our Home is Russia won only ten seats. In Orel, where turnout was 53 percent, the Communists took 11 of 50 seats, while the other elected candidates were independents. The Communists won a majority of the seats in the Omsk city council and dramatically strengthened their position in the oblast legislature. Turnout there was 33 percent. (*Ekspert*, 30 March)

COURT FINDS KIROV EDITOR GUILTY. A court in Kirov Oblast found *Vyatskii nabludatel* Editor Sergei Bachinin guilty of possessing drugs, but levied a suspended sentence of one year in jail. After the paper published articles critical of local authorities, the police appeared in Bachinin's office claiming they had been summoned to investigate a bomb scare. During the subsequent search, they allegedly found narcotics in the editor's office (see *IEWS Russian Regional Report*, 6 November 1997 and 30 October 1997). Bachinin plans to appeal his conviction. (*Izvestiya*, 1 April)

SUPREME COURT OVERTURNS BASHKORTOSTAN LAW ON LOCAL GOVERNMENT. The Russian Supreme Court ruled that Bashkortostan's legislation on local government is unconstitutional. According to Bashkortostan's constitution, the republic's president can appoint mayors, contradicting provisions in the federal Constitution and law on local government which state that local officials must be elected. (*Kommersant Daily*, 28 March) The federal authorities have cracked down on several regions such as Udmurtiya and Komi that violate federal legislation on local government. Tatarstan also does not allow its local leaders to be elected, but the federal authorities have not yet taken action against it.

PRIMORE'S NAZDRATENKO MAY FACE PROSECUTION FOR ASSAULT. Primorskii Krai Governor Evgenii Nazdratenko is under investigation for physically assaulting an associate of Vladivostok Mayor Viktor Cherepkov during an official reception. While the

governor denies the accusations, the Procurator General's Office assigned a third party, the Khabarovsk Krai procurator, with investigating the affair. After completing its investigation, the latter recommended further inquiry by the Russian Procurator General's Office. To open a criminal case, the latter must petition the Federation Council to strip Nazdratenko of parliamentary immunity, which the upper house is not likely to do. (*Kommersant Daily*, 28 March)

ECONOMICS

MOSCOW BANKS BOOST ACTIVITIES IN THE REGIONS. Moscow banks, reducing their involvement in federal bonds, are buying more regional bonds and providing more credits to regional and local governments, *Finansovye izvestiya* reported on 26 March. Regional activity currently comprises less than 2 percent of all bank loans. On 1 December 1997, the worth of such loans was 12.81 trillion old rubles (\$2.1 billion). Major Moscow banks must establish good relations with local authorities to work in the various regions and often achieve those ties by making credit available at favorable rates. The paper argues that Moscow banks' willingness to invest in the regions belies the common provincial perception that the banks want to scoop up regional resources and then abandon local partners.

MOSCOW ADOPTS NEW HOUSING REFORM PLAN. The city of Moscow has approved a comprehensive plan for residential housing reform. The new plan's two linchpins are raising fees for municipal services, such as power and heat, and finding an owner for every house and apartment in the city. As a long-term project, the city plans to install energy meters in every apartment to help Moscow residents track their energy consumption. Creating a class of homeowners will be more challenging, as residents resist entering the established forms of collective ownership (residential partnerships, etc.). The city hopes to simplify the entire system. (*Russkii telegraf*, 1 April)

NEW CENTER-PERIPHERY DIVISION OF TAXES IN THE WORKS. Major revisions might occur in the way the federal center and the regions divide their tax revenues. Today, the regions keep two-thirds of profit tax and one quarter of the value added tax (VAT), which, along with the personal income tax, comprise the basis of the Russian tax system. The new scheme was proposed by experts from the finance and economics ministries and by the tax police. It calls for splitting the VAT equally between the Feds and the regions, giving 75 percent of the profit tax to the center and 25 percent to the provinces, and splitting the income tax 57 percent/43 percent, respectively. Those three basic taxes comprise 40 percent of an average Russian regional budget, which makes the proposed scheme very important for the development of fiscal federalism. (*Russkii telegraf*, 27 March)

BUSINESS BRIEFS

-- France's **ELF AQUITAINE** will buy 5 percent of the oil giant **YUKSI'S** shares for \$528 million. In addition to the sale of shares, the agreement involves a 50-50 venture to spend about

\$1.5 billion developing western Siberia's Sugmut field, estimated to hold more than 700 million barrels of oil. Both companies plan to study the Prirazlom oil field in western Siberia (with 1 billion barrels of reserves) and the Yurubcheno-Tokhomo gas field, one of the largest in eastern Siberia. Elf is already working in the Timan-Pechora basin. (*Moscow Times*, 24 March and *Nezavisimaya gazeta*, 24 March)

-- The **EUROPEAN FURNITURE COMPANY**, Europe's largest furniture manufacturer, has just opened in Balakovo (**SARATOV OBLAST**). The overall cost of the project was 170 million ecu. The plant is expected to be able to produce 862,000 pieces a year. Investors include French banks and the French furniture concern **SERIBO**, and **ROSLESPROM**, **EKSPORTLES**, **NAFTA MOSKVA**, the **EBRD**, and **GAZPROM**. *Nezavisimaya gazeta's* correspondent said the furniture was not of the best quality. (*Nezavisimaya gazeta*, 25 March)

-- The American firm **3M** announced the closure of its **ST. PETERSBURG** joint venture with **LENTELEFONSTROI**. Founded in 1991, the venture was intended to manufacture telephone equipment for the entire country. However, the collapse of the Soviet Union made the venture less profitable. The Russian firm will buy out the Americans, but the future of the enterprise is unclear. (*Russkii telegraf*, 26 March)

-- **FEDERAL EXPRESS** will expand its Russia and CIS operations by adding 500 cities to its routes. FedEx will then be able to deliver packages to 720 cities throughout Russia, the CIS, and the Baltic states. (*Russkii telegraf*, 2 April) The package delivery service **DHL** celebrated its fifth anniversary in **NIZHNII NOVGOROD** on 17 March. (*Birzha*, 20 March)

-- **NIZHNII NOVGOROD'S GORKII AUTOMOTIVE FACTORY** is conducting negotiations to assemble its popular Gazel model in Egypt. Diamant bank is ready to finance the deal. GAZ officials refuse to discuss the project at this early stage. (*Izvestiya*, 1 April)

-- **PRICE WATERHOUSE** is developing a business plan for **KHABAROVSK**-based Vostok airlines. The plan proposes a leasing company that will include Vostok as well as the Novosibirsk Aircraft Manufacturing Group (NAPO), which produces AN-38 planes. According to the plan, Vostok will purchase six AN-38 planes in addition to the two it purchased in late 1997. Ultimately, the leasing venture will involve other airlines from the Far East and Eastern Siberia. The US government is providing \$2 million in financing. (*Finansoviy izvestiya*, 31 March)

-- **GILLETTE** launched the construction of its new plant in **ST. PETERSBURG**, which will produce razors and accessories. The Swedish company **SKANSKA** won the tender for the construction. The project will cost \$40 million. Gillette plans to produce 860 million blades annually at the new plant. Production should commence by the third quarter of 1999. Gillette formed a joint venture with **LENINETS ELECTRONICS COMPANY** in 1993, named

PETERSBURG PRODUCTS INTERNATIONAL, specifically to produce shaving accessories in St. Petersburg. (*Russkii telegraf*, 31 March)

-- **SIDANKO** oil company opened a modern gas station in **SARATOV**, the first in the network of stations planned for the region. Besides selling gasoline and diesel fuel, each station will offer a car wash, a car service shop, a parts store, and a cafe. (*Russkii telegraf*, 31 March)

-- **TATNEFT** oil company became the latest Russian firm to list its stocks on the New York Stock Exchange. Listed on the exchange in the form of American Depository Receipts (ADRs), Tatneft's stock opened at \$23 10/16. (*Russkii telegraf*, 1 April)

-- **NESTLE** will expand its confectionery production in Russia with new equipment from Swiss producer **BOBST S.A.** and packaging from **SAMARA**-based company **SAMVEN**. Nestle also plans to expand into the Ukrainian market, and joint venture talks are under way with Lviv-based Svetoch. (*Russkii telegraf*, 1 April)

-- **MOSCOW OBLAST** tax police charged Finnish oil extraction company **NESTE PETROLEUM** with tax evasion and operating without a license between 1995 and 1997. By law, all Neste's profits made during that time, around 70 million new rubles (\$11.6 million) according to a tax police estimate, are illicit and therefore belong to the government. Neste plans to protest the decision. (*Russkii telegraf*, 1 April)

-- **UDMURTIYA'S IZHMASH** carmaker is in the final stages of negotiations with potential partners **SKODA** (Czech Republic and Germany) and **HYUNDAI** (Korea). According to preliminary reports, the joint venture will attract \$250 million of investment in Izhmash facilities and produce 170,000 cars annually. Altogether, 10 to 15 joint ventures will be formed to produce spare parts. (*Russkii telegraf*, 1 April)

-- The city of **MOSCOW** plans to issue a DM 500 million (\$277 million) Eurobond tranche this week after several deferments due to unfavorable conditions on the world financial markets. **CREDIT SUISSE FIRST BOSTON** will be the lead-manager of the issue. (*Segodnya*, 1 April)

-- The British company **NIMONOR INVESTMENTS LTD.** petitioned the **LENINGRAD OBLAST** Procurator's Office to help it regain control of **VYBORGSK CELLULOSE-PAPER COMBINE**. Nimonor bought 87 percent of the plant's stock and announced it would cut the work force by half. In response, the workers formed a strike committee and stopped work at the plant, refusing to allow Nimonor's representatives inside. Meanwhile, a compromise solution is in the works, with the assistance of the oblast administration and the federal economics ministry. (*Russkii telegraf*, 27 March)

PATTERNS OF REGIONAL DEVELOPMENT

RESULTS CANCELED AFTER NIZHNI ELECTS MAYOR WITH CRIMINAL PAST. The Nizhnii Novgorod Okrug Electoral Committee on 1 April invalidated the mayoral election results after voters on 29 March elected Andrei Klimentiev, who has two criminal convictions and is being tried for other crimes. The decision likely came from President Yeltsin, who sent Deputy Presidential Chief of Staff Yevgenii Savostyanov to Nizhnii to handle the situation, according to *Russkii Telegraf* on 2 April. Klimentiev, who was subsequently arrested, has protested the ruling. Many voters believe the decision violates their rights and constitutes impermissible interference from Moscow.

The scandal may already have negatively impacted the city. An EBRD delegation postponed its visit to the area, according to Deputy Mayor Sergei Obozov. City authorities had hoped to discuss a project to demolish dilapidated housing and restore the historic downtown. (*Russkii Telegraf*, 2 April)

With a turnout of 51 percent, 33.67 percent of the voters backed Andrei Klimentiev. The two reform candidates, acting Mayor Vladimir Gorin and former Mayor Dmitrii Bednyakov (who held the post from 1992 to 1994), split the reformist sector of the electorate, winning 31.32 percent and 24.29 percent of the vote respectively. Rounding out the field, Vladimir Kirienko took 3.87 percent, Aleksandr Kurdyumov won 0.3 percent, and 4.5 percent voted "against all." The electoral commission has called on the city дума to set new elections.

Other regional leaders fear the decision to overturn the Nizhnii elections could set a precedent in which the federal government takes the power to undo local or gubernatorial election results it dislikes. Such a scenario could occur if, for example, Krasnoyarsk elects Aleksandr Lebed as governor on 26 April. Samara Governor Konstantin Titov warned that if Moscow had pressured the electoral commission to overturn the elections, "some federal bureaucrats would have to resign."

In overturning the vote, the electoral commission charged that the candidates and their teams violated numerous federal and regional electoral laws. Those charges suggest a carnival atmosphere prevailed during the campaign. However, similar tactics have been used in almost every election in post-Communist Russia. Among the violations the commission cited were:

- Gorin and Klimentev did not include proper identifying information on their campaign posters;
- Bednyakov and Klimentev illegally offered voters money and other services in exchange for their votes. [During the campaign, the candidates had offered to increase civil servant salaries by 18 percent, boost pensions by 25 percent, reduce rents by 10 percent, and cut prices for gas and electricity. Many of those policies are set on the federal level.];
- Governor Ivan Sklyarov illegally used the mass media in his support of Gorin;
- The Nizhnii media illegally broadcast a concert with a popular artist whose name is also Gorin, the name of the acting mayor, on the eve of the elections, when all campaigning was prohibited;
- Bednyakov illegally appeared in the media on election day and criticized Gorin;
- Klimentev slandered Gorin during the course of the campaign;
- The local media illegally published public opinion polls without explicitly stating who had conducted them or the methodology employed;

- State Duma Deputy Vladimir Semago (Communist) illegally campaigned for Klimentev. [That charge is extremely strange because Duma members regularly campaign for like-minded candidates in regional elections.];

- Ballot boxes in three precincts were tampered with and some held more ballots than there were voters.

(The text of the document was published on-line the day by <http://www.inforis.ru:8002/nov/info/electxt.html>.)

The two reform candidates, acting Mayor Gorin and former Mayor Bednyakov won over 50 percent of the vote, demonstrating that most voters support current reforms. The two candidates' platforms were nearly identical and stressed that Nizhnii is Russia's "third capital," serves as a major financial center, and is a place to practice "concrete small deeds." The candidates were only divided by their dramatically different personalities. Ultimately, only their shared stubbornness kept them from joining forces.

The strong showing for Klimentiev demonstrated the public's desire to shake up the city's establishment, especially among opposition groups. That sentiment was fueled by the official attempt to smear Klimentiev by citing his previous convictions, as well as by a court ruling against him in a multi-million ruble criminal case, a ruling that many people perceived as unjust. Former Governor Boris Nemtsov, who backed former Mayor Bednyakov in an attempt to remove Gorin from office, deserves a considerable share of the blame for the situation. Current Governor Sklyarov backed acting Mayor Gorin.

Klimentiev portrayed himself as the "people's defender" more successfully than other candidates by promising some kind of benefit to just about every segment of the electorate. Apparently, seeing eye to eye with the city authorities on strategic issues was not motivation enough for voters to get off the couch and go to the polls. Voters need a passionate impetus, the promise of a better life or fear for the future, to motive them to vote. Klimentev is already preparing to run again on the same platform. He claims the decision to overturn the elections will only give him free publicity and hike his level of support to 90 percent.

The attacks on Klimentev are not the first against elected officials. The federal authorities arrested Leninsk-Kuznetsk Mayor Gennadii Konyakhin after *Izvestiya* published long articles describing his alleged criminal misdeeds. Also in September 1996, when Amur Governor Yurii Lyashko lost to Communist contender Anatolii Belonogov by 0.08 percent of the vote, Moscow had the results overturned. Belonogov eventually won in the repeat elections with a margin of 60 percent to 24 percent. - Yurii Rodygin in Nizhnii Novgorod and Robert Orttung

CENTER-PERIPHERY RELATIONS

CHERNOMYRDIN'S DEPARTURE A BLOW FOR DAGESTAN. The Dagestani authorities very carefully worded their press release reacting to President Yeltsin's firing of Prime Minister Viktor Chernomyrdin last week. The statement said the "President knows what he is doing... The new government must be more dynamic... We hope that the priorities of federal policy in the North Caucasus will not change... Programs supporting the social and economic development of the region should not be canceled or forgotten..."

Despite the tone of the text, the situation is more difficult than the leaders are willing to admit. Magomedali Magomedov's power as chairman of the State Council relies on his ability to secure funding in Moscow. The republican budget relies on federal subsidies for 85 percent of its income. At a time when republican presidents or oblast governors generally obtain only 30 percent to 40 percent of the funds allocated by the federal budget, Magomedov, who has ruled the republic for 18 years and knows all the "ins and outs" of Moscow, receives 80 percent. Moreover, he manages to win half of that amount in "real" money, not in tax amnesties.

Magomedov had very close relations with Chernomyrdin. He (and the republic) will experience some problems because he lacks good connections with the new government, which will likely to be made up of younger men. His opponents may seek to take advantage of Magomedov's weakened ties in Moscow, potentially destabilizing the political situation in the republic, especially on the eve of the State Council elections (see *IEWS Russian Regional Report*, 26 March). - Nabi Abdullaev in Makhachala

IRKUTSK GOVERNOR DENOUNCES GOVERNMENT DISMISSAL. Irkutsk Governor Boris Govorin said on 25 March that the president's decision to dissolve the cabinet and fire Viktor Chernomyrdin resembles the events of 1991 and 1993. Civilized countries do not implement such policies, and this is only one example of how sick Russian society is, said Govorin. Predictability is one of the most important criteria by which people judge their government. They must go to bed at night knowing that when they wake nothing extraordinary will have happened. Only then can the government provide people with a sense of stability, continuity, evolution, and perspective. But when everything changes without a moment's notice, a country of 150 million people can not help but feel perplexed. The governor asserted that every Russian will now wonder what was behind the president's decision and whether that move will be beneficial or detrimental. - Yekaterina Vorobieva (Teleinform) in Irkutsk

VLADIVOSTOK OWES ENERGY SUPPLIERS. Dalenergo utility company has asked President Yeltsin to intervene in its attempts to force the city of Vladivostok to pay for the energy it has consumed. The company believes that only the country's chief executive can force the city to pay its mounting energy debt. The current debt is 1 billion rubles (\$167 million), and the bill for supplying the city with heat this winter amounts to 250 million rubles (\$42 million). As a result of the city's inability to cover its debt, local miners and utility workers have not been paid in four months. The Pavlovsk coal mine has ceased supplying the city with fuel. Residential buildings have not been heated for a month. Just when Vladivostok Power Station number 2 was about to shut down its operations, new coal arrived from Kharanor, Chita Oblast. The Chita miners decided to supply the city with fuel on credit. - Sergei Shilo in Khabarovsk

SOCIAL ISSUES

KUDRIN ANNOUNCEMENT SCARES PROFESSORS. Deputy Finance Minister Alexei Kudrin announced on 26 March that the government plans to dismiss 200,000 state employees as part of a scheme to reduce spending commitments by \$6.6 billion. The move

would affect 10 percent to 15 percent of federal employees, including 68,000 university professors.

The day after Kudrin's statement, both President Boris Yeltsin and acting Prime Minister Sergei Kirienko denied the plan. Yeltsin called the statement a "provocation," while Kirienko reprimanded the deputy minister for breaking "ethical rules." Although most of the mass media interpreted Kudrin's statement as a threat to schoolteachers, his attack was in fact aimed exclusively at university-level positions.

The attack was not unexpected for members of the Russian academic community. Several weeks ago, Education Minister Vladimir Kinelev ceded his position to his former deputy, Alexei Tikhonov, an advocate of university budget cuts. A week before Kudrin's announcement, the new minister invited rectors of Russian universities to St. Petersburg to tell them about planned cuts of 10 percent to 15 percent for state-financed university student enrollment and an increase in professors' work loads. Although that announcement signaled pending job cuts for professors, the 68,000 figure was shockingly high.

The trade union of educators in Volgograd plans to participate in the all-Russian protest actions scheduled for 9 April and 14 April, but the general mood of the trade union leaders is rather pessimistic.

Some of the rectors, however, believe there is cause for cautious hope. "There is no reason for panic," Volgograd State University (VSU) Rector Oleg Inshakov told faculty members. The general direction of budgetary reforms was obvious long ago. A large portion of students currently enrolled at VSU and some other state universities pay for their education. Universities that derive a significant part of their income from non-government sources are less dependent on the state budget than other institutions. The 10 percent to 15 percent enrollment cut will not affect students who pay their own way. As a result, the real number of layoffs will be less dramatic. Unpopular universities where few students pay for their education will suffer the most. Academics are now waiting to find out who will be fired and how many positions will be lost. When those figures are made public, they will spark either unified protests or, more likely, a split dividing those who survive and those who do not. - Ivan Kurilla in Volgograd

ECONOMIC ISSUES

SVYZAINVEST STRENGTHENING HOLD OVER REGIONAL TELECOMS

Svyazinvest, a state-owned holding company set up in 1995, owns controlling stakes in 85 of Russia's 88 regional telecommunications companies and the long distance and international telephone provider Rostelecom. On 25 July, a consortium that includes Russia's Uneximbank, Renaissance Capital, Deutsche Morgan Greenfell, Soros Fund Management, and Morgan Stanley Asset Management bought a 25 percent plus one share stake in Svyazinvest for \$1.875 billion. Another group of bankers, led by the Alfa group, felt they should have won the auction and the resulting acrimony between the bidders led to a split among the major bankers who backed President Yeltsin's 1996 campaign effort. A 24 percent minus one share auction will likely be held later this year.

Although Svyazinvest owns controlling stakes in the regional telecoms, it has played a passive role in their management to date. That policy is now set to change. Following is an

interview with Svyazinvest General Director Nail Ismailov, conducted by Yurii Bryukvin, deputy editor-in-chief of St. Petersburg's *Delo*.

Q: How would you review the past year for Svyazinvest? What developments has the company seen during that time period on key fronts?

In 1997, the composite gross revenue of the entire holding of Svyazinvest, including subsidiaries and affiliated companies, amounted to about 37.4 billion new rubles (\$6.2 billion), or 1.2 times more than in 1996. Gross profits rose by 14.3 percent to about 8.8 billion rubles (\$1.5 billion). Svyazinvest provided 31.4 billion rubles worth of communication services, of which 11.9 billion rubles worth of services was provided to residential customers. The portion of the company's profits raised from services provided to the public rose 1.3 times compared to 1996, up to 37.9 percent of the total profits. Companies and subsidiaries of Svyazinvest holding paid 10.2 billion rubles (\$1.7 billion) in taxes. Payments to the federal budget in the form of value added tax (VAT) and profit taxes totaled 5 billion rubles (\$833 million).

Q: How does Svyazinvest control regional communication companies? Is there an effective mechanism for control of regional telecom firms?

The only way Svyazinvest can control the policies of regional telecom operators is through participation on the boards of those companies. There is no other effective mechanism of control.

Q: Last year, Svyazinvest significantly increased its role in the regions by increasing its representation on the boards of companies such as St. Petersburg-based Intercity and International Telephone (Spb MMT) and the Petersburg Telephone Network (PTS). Do you plan to continue that policy and how will it be further implemented?

Indeed, we plan to continue increasing our presence in the regional companies. Svyazinvest owns 51 percent of voting shares in the regional telecom operators, including those you mentioned. That is why the holding's representatives should command majorities on the boards of regional companies. Our plans will be implemented at the next shareholders' meetings. Until recently, we could not afford a greater presence, as our human resources were stretched. The lack of staff forced us to appoint representatives of the companies themselves to their own boards of directors.

Today, Svyazinvest has beefed up its personnel. Where necessary, we will keep the company's general director on the company board. However, in virtually all cases the holding's representatives will staff the boards. Additionally, we plan to invite representatives of local government to sit on the boards, and this relationship will be formalized in a bilateral cooperation agreement. This way, local government representatives will be obligated to vote according to Svyazinvest's recommendations on the key issues. Without such an arrangement, local governments simply will not have access to telecom company boards.

Q: If the majority of regional telecom operator board members will be Moscow residents, how well will they be able to enact sound policies at their respective companies?

Of course, it is highly desirable that the chairman of a regional company's board of directors be a resident of that particular region. However, the regular members of the board could come out from Moscow for board meetings. We plan to create a special kind of representative, so-called "inter-regional" representatives. Those people will permanently reside in the regions. It is possible that each inter-regional representative will supervise the work of several regional operators. Several such representatives are working in the regions already. For example, former General Director of Elektrosvyaz (Khakassiya) Nikolay Pirogov will supervise not only Khakassiya, but also Krasnoyarsk, Kemerovo, and Omsk. Now we are looking for a candidate to be our inter-regional representative for St. Petersburg and the Russian North-West.

Q: How do regions react to such stern policies?

In 99 instances out of 100, they react normally. So far we have only been unable to reach an agreement with Yekaterinburg, but that is a topic for another conversation.

VOLGOGRAD PIPEMAKER WINS EXXON CONTRACT. One of the most modern enterprises of the Volgograd region - the Volzhskii Pipe Producing Plant (VTZ) - is rapidly increasing its presence on the world market. Recently, VTZ signed a deal with Exxon to supply pipes for Exxon's projects to extract oil and gas from the Sakhalin shelf in the Russian Far East. The deal is contingent on the firm certifying the quality of the pipes. The contract is Volzhskii's second with Exxon. Contracts for developing the Sakhalin deposits require investors to use 70 percent local products. Primorskii Krai enterprises, however, have been slow to take advantage of the nearby opportunities.

Winning a tender to supply 10,000 tons of pipes to the Japanese corporation Mitsui is one of the most impressive results of Volzhskii's foreign expansion this year. It has already supplied 4,000 tons of the pipes. Additionally, the plant has signed five minor pipe deals with Iran since the beginning of the year.

Volzhskii plans to increase its pipe exports from 23,000 tons in 1997 to 35,000 tons in 1998. However, its main client is Gazprom, which has already ordered 100,000 tons of pipes this year. Volzhskii officials believe the gas giant may order up to 300,000 tons. (*Delovoe Povolzhie*, #12, March 1998) - Ivan Kurilla in Volgograd

VODKA WARS RAGE IN BRYANSK. By supporting a law limiting vodka sales, Communist Bryansk Governor Yurii Lodkin and the Communist-dominated Bryansk Oblast Duma have launched a virtual war in the region. Parallel situations exist in Moscow and elsewhere in Russia. Under a new law, the oblast can require all alcoholic beverages imported into Bryansk to display a special stamp certifying they are of high quality and can grant special retail licenses for the sale of imported alcohol. About a month ago, a Local State Duma deputy

challenged the law's constitutionality in court from the ultra-nationalist Liberal Democratic Party of Russia, Gennadii Lemeshov. He maintained that the law seriously limited freedom of trade and enabled selected wholesale buyers to unfairly enrich themselves. The case has dragged on for two months, as the oblast Duma and the governor's office either refused to show up in court or tried to postpone the hearing indefinitely.

Originally, the oblast authorities granted an exclusive license to the Fiesta limited partnership, partially owned by Aleksandr Salov, who was also active in the Communist-supported Patriotic Bryansk movement and the Bryansk Wholesale Market, a company partially owned by the oblast. Additionally, sources claim that Salov has handsomely contributed to the governor's electoral campaign. Salov ran for an oblast Duma seat in January on the Patriotic Bryansk platform, but elections were declared invalid due to low voter turnout.

Fiesta is one of the more successful commercial organizations in the oblast, famous for its Empire of Goods trademark. It claimed to have paid \$330,000 in taxes in 1997.

The oblast Duma and the governor's administration justify the law by citing frequent cases of alcohol poisoning from imported, low-quality brands. They also claim that imported counterfeit alcohol contributes nothing to the oblast budget, while enriching buyers and sellers. Furthermore, the administration claims that the new system of controls will make it possible for the authorities to ensure that wholesalers are selling high-quality products. However, local retailers seriously doubt that will happen. Many believe the law was crafted to fit Salov's interests, partially in gratitude for campaign contributions and partially to allow corrupt oblast officials to skim profits from alcohol sales.

After coming to power, Lodkin, with the cooperation of the oblast Duma, has replaced the leadership of most law-enforcement agencies with his appointees. Most retailers thus hide their hostility to the new policy. Only one had the courage to speak out. Chairman of the Board of the Nash mir limited partnership Nikolay Vitkevich decided to keep imported bottles lacking the oblast's stamps on his store shelves even after the new law took effect on 23 February. On the same day, the authorities cited him as an offender and plan to fine him soon. Nash mir's courage might stem from the fact that it is registered in Kalmykiya's free economic zone. Other retailers have to bite the bullet and buy alcohol from Fiesta, which enjoys the benefits of a virtual monopoly.

The head of the local Council on Entrepreneurship Viktor Budaev suggests that retailers steer away from confrontation and try to negotiate with the oblast authorities. The oblast's attorneys claim other Russian regions have adopted similar laws. Indeed, a Moscow municipal court last week ruled that the city could require codes on locally sold wine and spirits as a proof of quality. The State Anti-Monopoly Committee had previously banned the bar codes as a breach of federal free trade laws. The committee said it had invalidated similar measures in 26 other regions and would appeal the Moscow court decision. (*Moscow Times*, 18 March) - Alexander Levinski in Bryansk

ULYANOVSK AIRCRAFT MAKERS PROTEST PLANS TO IMPORT PLANES.

The Ulyanovsk Oblast Legislative Assembly recently sent a letter to the president, the National Security Council, and the Federation Council petitioning the federal authorities to refrain from buying foreign-made aircraft. According to State Duma sources, Aeroflot, in conjunction with

the Federal Aviation Service, is about to lease 31 planes made by Boeing and Airbus Industries, as well as purchase parts and equipment from them. Ulyanovsk legislators believe that plan violates Russia's national interests and assert that it would be treasonous to buy foreign-made aircraft when the domestic aircraft industry is suffering a deep crisis induced by low demand.

The reason the duma sent this letter is clear. Ulyanovsk is home to Aviastar, the largest Russian aircraft manufacturer. Even though the company could be producing medium-sized TU-204 passenger aircraft, its facilities sit idle due to lack of demand. Aviastar's experts claim that the TU-204 model, equipped with a Rolls-Royce engine, conforms to all world standards and costs half the price of a comparable Boeing. The letter from the Ulyanovsk legislators states that two other locally produced models, TU-214 and IL-96, are equally good, and calls on other aircraft-producing regions of Russia to join in their protest.

Given the price tag on the Boeings that are about to be purchased, the deal would deny Russian aircraft-makers \$1.2 billion worth of business and cost the federal budget \$500 million worth of revenues. In 1996, Aeroflot tried to purchase Boeings for its international routes, but domestic aircraft producers sabotaged the deal. Ulyanovsk legislators feel history is now repeating itself, except the deal is much less publicized. In their letter, the legislators request an open list of those who are lobbying the Russian government on behalf of the controversial deal. - Sergei Gogin in Ulyanovsk

CHELYABINSK BUILDS NEW SUBWAY SYSTEM. Chelyabinsk Oblast Governor Petr Sumin on 23 March declared the construction of a subway system in the city of Chelyabinsk to be one of the most important construction projects in the region.

Four underground shafts have been completed and construction is under way at the sites of all five "first tier" stations. The project is being financed by the tax debt of construction companies to the federal, oblast, and local budgets. Subway construction workers have not been paid in seven months. Governor Sumin allowed the city of Chelyabinsk to purchase construction equipment under the auspices of an investment agreement between the oblast administration, the Steffens company, and the International Investment Union. Additionally, the oblast will transfer some residential buildings to the companies involved in the construction project.

Chelyabinsk's department of subway construction signed an agreement with the Canadian firm Lovat in 1997 for the production of \$11 million to \$12 million worth of tunnel-digging equipment. According to experts, Lovat's equipment is superior to the domestic equivalents and will cut the time required to build the system by one-and-a-half years.

Needless to say, the project is financed with federal subsidies. In 1995, the Economics Ministry allotted 43.9 billion old rubles (\$7.3 million) for the subway project, of which the Ministry of Finance paid out only 37 billion old rubles (\$6.2 million). A similar situation prevailed in 1996. In 1997, the oblast spent 420 billion rubles (\$70 million), or 25 percent of what was needed, for construction of the subway system. The remaining 75 percent, or 1,261 billion rubles (\$210 million), was earmarked to come from the federal purse. While the real investment figures for 1997 are not available, the experience of 1995 and 1996 suggest that the Feds only gave 30 percent to 50 percent of the funds allotted to the project. - Igor Stepanov in Chelyabinsk

REGIONAL LINKS

Gubernatorial Elections in Krasnoyarsk

(<http://www.krasnoyarsk.org/win/index.htm?ID=ELECTION>) The Krasnoyarsk Krai Administration's server provides information about the gubernatorial elections in the region set for 26 April. The site includes material from the local press, which naturally supports the governor. Challenger Aleksandr Lebed also has a site (<http://www.lebed.ru/>), but it has not been working for the past few days.

CORRECTION. Last week the RRR incorrectly reported that Leningrad Oblast is floating a \$30 million Eurobond issue. In fact the deal was for a \$30 million syndicated loan. The region is planning a \$100 million Eurobond issue scheduled for September.

REGIONAL PROFILE: KOMI REPUBLIC

Head of the Republic: Yurii Spiridonov

Yurii Spiridonov was re-elected head of the republic on 30 November 1997. He swept up 62 percent of the votes, while his main competitor, Communist State Duma member Rita Chistokhodova, won about 20 percent. Turnout was 48 percent. Before his re-election, Spiridonov had held the republic's top executive post since 1989.

Spiridonov was born in 1938 in Omsk Oblast. After graduating from the Sverdlovsk Mining Institute, he worked at the Gornyi gold mine in Magadan Oblast. He moved to Komi Republic in 1969, where he worked as an oil engineer in the city of Ukhta. In 1975, seven years after joining the Communist Party, he was recruited for full-time party work. Until 1981, Spiridonov headed the Ukhta city party committee industry and transport department. Then, he was elected first secretary of the Usinsk district party organization. In 1989, Spiridonov became second secretary of the republican Communist Party organization and, four years later, he became its first secretary.

In 1990, he was elected chairman of the republican Supreme Soviet. At his initiative, the soviet suspended a provision on buying and selling land in President Boris Yeltsin's decree on land reform. With the support of a wide range of political parties, Spiridonov was elected Federation Council member in December 1993 and head of the republic in May 1994.

While not always supporting Yeltsin's policies, Spiridonov sees no alternative to the current president. He is persistent in advocating more freedom from the federal center for the regions. He also believes all federation subjects should enjoy equal rights, particularly with regard to economics.

Other Local Leaders

Chairman of the State Council -- Vladimir Torlopov, elected in February 1995

Brief Overview

Komi Republic is located on the northeast Russian Plain and borders Arkhangelsk, Tyumen, Sverdlovsk, Perm, and Kirov oblasts. Over half of the population is Russian, while indigenous people, the Komi, make up less than one quarter of its citizens.

About two-thirds of the republic's territory is covered with woods, which make up about half of the country's north European forestry resources. The republic ranks 20th among Russia's 89 regions in terms of raw material deposits. It has reserves of gas, oil, coal, peat, ferrous, non-ferrous, and precious metals, and diamonds.

Fuel is the republic's largest industry, producing about 50 percent of the regional GDP, followed by forestry, timber working, and pulp and paper manufacturing (16.4 percent of GDP), and the energy industry (16.2 percent). The mining industry is concentrated in the Pechora coal basin, which is unique for its coking coal. The Timano-Pechora basin is the center of the region's oil and gas industries.

Oil is the major export (63 percent of total exports), followed by coal (11 percent), paper (9 percent), processed timber (6 percent), and plywood (1 percent). Komi has trade partners in over 40 foreign countries. The republic's main customers include Germany, Hungary, the Czech Republic, Latvia, Italy, Poland, Belarus, and Ukraine. Major foreign investors come from Germany, the US, Austria, Switzerland, Italy, and Great Britain. The largest joint ventures are: KomiArcticOil, NobelOil, and Parmaneft, which produce 25 percent of the entire republic's oil.

In January 1995, the republican legislature passed a law on investment that created favorable conditions for both foreign and domestic investors. *Ekspert* magazine ranked the republic 15th in terms of legislation for Russian investors and 18th for foreign investors. While investment risks have increased by 12 points over the last year, *Ekspert* deemed the republic over-invested in both capital investment and foreign investment.

Basic Facts

Population (as of 1 Jan. 1997): 1,173,600 (0.80% of Russian total)

Urban population (1989 census): 74.9% (Russia overall: 73.0%)

Student population (1996): 116 per 10,000 (Russia overall: 171/10,000)

Pensioner population (1996): 22.42% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 8.9% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 28.1% (Russian average: 29.9%);

Agriculture: 5.8% (12.8%); Trade: 10.0% (9.1%); Culture: 12.4% (13.6%); Management: 2.01% (2.3%)

Average monthly personal income in 1996: 887,000 rubles (Russian average: 764,000 rubles)

Average monthly personal expenses in 1996: 522,000 rubles (Russian average: 753,000 rubles)

Average monthly subsistence requirement in 1996: 477,500 rubles (Russian average: 369,400 rubles)

Consumer price index (as of Dec. 1996): 100.25 (Russia overall = 100)

Industrial production as percentage of all Russian production (1996): 0.88%

Proportion of loss-making enterprises (1996): 59% (Russia overall: 56%)

Number of enterprises with wage arrears (1996): 373 (2.39% of total number of regional enterprises)
Agricultural production as percentage of all Russian production (1996): 0.45%
Number of private farms (as of 1 Jan. 1997): 652 (0.23% of Russian total)
Capital investment (1996): 5,010,600 rubles (Russia overall: 370 trillion rubles)
Sources of investment (1996): federal budget: 9.9% (Russian average: 9.2%); regional budget: 13.8% (9.6%); enterprises: 71.1% (66.3%)
Number of joint ventures (as of 1 Jan. 1997): 50 (0.31% of Russian total)
Fixed capital investment in joint ventures and foreign companies (1995): 276,999 million rubles
Number of small businesses (as of 1 Jan. 1997): 3,878 (0.46% of Russian total)
Number of enterprises privatized in 1996: 38 (0.76% of Russian total), including former municipal property: 73.7% (Russian average: 67.1%); regional property: 26.3% (14.3%); federal property: 0% (18.6%)
Number of telephones per 100 families (1996): in cities: 53.4 (Russian average: 48.7); in villages: 40.2 (19.7)

According to a 1997 *Ekspert* magazine survey, the oblast ranks 49th among Russia's 89 regions in terms of investment potential and 77th in terms of investment risks. A 1995 survey by Bank Austria ranked the oblast 65th in terms of investment climate.

Electoral History

1996 Presidential Election

Yeltsin: 40.48%/64.36% (first round/second round)
Lebed: 18.17%
Zyuganov: 16.32%/28.03%
Zhirinovskiy: 9.82%
Yavlinskii: 9.44%
Turnout: 62.50%/60.48% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Elections

Liberal Democratic Party of Russia: 17.51%
Communist Party of the Russian Federation: 13.05%
Our Home Is Russia: 12.86%
Yabloko: 5.55%
Women of Russia: 7.64%
Russia's Democratic Choice: 4.71%
Congress of Russian Communities: 3.87%
Party of Workers' Self-Government: 3.66%
In a single-member district: 1 independent
Turnout: 55.95% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 62.13% "No" -- 37.87%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 24.31%

Russia's Choice: 21.83%

Women of Russia: 12.18%

Party of Russian Unity and Concord: 7.22%

Yabloko: 7.09%

Communist Party of the Russian Federation: 7.05%

Agrarian Party of Russia: 5.57%

Democratic Party of Russia: 5.26%

In single-mandate districts: 2 independent

From electoral associations: 1 Women of Russia

Turnout: 47.27% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 47.62%

Ryzhkov: 24.61%

Zhirinovskiy: 8.78%

Tuleev: 6.95%

Bakatin: 4.88%

Makashov: 2.83%

Turnout: 68.82% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95 [Russian regions on the eve of 1995 elections]*, Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam [Results of the 17 December 1995 elections, regional breakdown]*, Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995 [State Duma elections 1995]*, Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii [Governors of Russia]*, Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regionni Rossii*, Moscow, 1997.

attached please see a MS Word 7.0 for Windows map of Komi Republic

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The Institute for EastWest Studies (IEWS) is a transnational nonprofit organization founded in 1981 to challenge, bridge and transform the security, economic and social situation in Central Europe and Eurasia.

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BREAKING NEWS

KRASNOYARSK ELECTION UPDATE. Incumbent Krasnoyarsk Governor Valerii Zubov is winning 37 percent of the vote while his main challenger, former Security Council Secretary Aleksandr Lebed, has only 19 percent, according to polls cited in *Kommersant Daily* on 2 April. Communist Duma Member Petr Romanov is a distant third with 7 percent. According to the paper, Lebed's supporters in the regional branch of Honor and Motherland are internally divided, reducing the general's chances for success.

To shore up his support, Zubov reduced the price for electricity by 20 percent and also slightly reduced bread prices. Tickets on Krasnoyarsk Airlines for flights within the krai also were cut 10 percent to 15 percent. Price cuts are scheduled for fares on suburban trains and telephone installation fees. Of course, the discounts will only be offered for the second quarter of the year and then prices will return to their previous level after the elections. (*Izvestiya*, 8 April)

On 3 April the Krasnoyarsk Aluminum Factory elected Lebed-supporter Anatolii Bykov as its director. Although Bykov owns only 10 percent of the stock at the plant, he has long been seen as the most powerful person there. Bykov is also a vice president of Rossiiskii Kredit bank. The law enforcement agencies in the region consider him a powerful member of the criminal world. He was elected to the krai's legislature in December 1997 and now heads the Committee on Industry. According to *Kommersant Daily* (4 April), the plant will eventually seek a strategic foreign partner who can invest \$150 million.

ST. PETERSBURG LEGISLATURE DUMPS SPEAKER. The St. Petersburg Legislative Assembly voted on 2 April to remove Speaker Yurii Kravtsov, a move that will likely deprive him of a seat in the Federation Council. Governor Vladimir Yakovlev began his efforts to oust the speaker in January, after the legislature adopted a new city charter strengthening the power of the legislature at the governor's expense (see *IEWS Russian Regional Report*, 5 February 1998). On 1 April, an alliance of Communists and pro-governor deputies approved a measure changing the procedure for removing the speaker. Under the old system, two-thirds of the deputies had to be present for a vote to be valid. Although a majority of the legislature members wanted to remove Kravtsov, his allies blocked his exit by preventing a quorum. The new procedure says only a simple majority need be present. Vice Governor Vyacheslav Shcherbakov, in the absence of Governor Yakovlev, signed the measure immediately, clearing the way for the ouster.

The next legislative elections in the city are scheduled for December. Until then, Sergei Mironov, who handled all economic issues in the assembly, will serve as speaker. Kravtsov claimed he was removed illegally and plans to participate in the upcoming session of the Federation Council, undoubtedly provoking another scandal. The Federation Council will have to decide separately whether to revoke Kravtsov's membership. (*Izvestiya*, 2 and 4 April) Earlier, the Federation Council refused to lift Kravtsov's immunity for prosecution on charges of spending 350 million rubles (\$60,000) from the city budget to refurbish his apartment, but the case may resurface if he now loses his deputy's protection. (*Kommersant Daily*, 7 April)

AYATSKOV STAYS IN NDR. Immediately after Yeltsin fired Prime Minister Viktor Chernomyrdin, Saratov Governor Dmitrii Ayatskov was highly skeptical of Chernomyrdin's chances of winning the next presidential elections and the ability of his party, Our Home is Russia, to play a major role in Russian politics. However, Ayatskov told *Kommersant Daily* on 3 April that he remains a member of the party's political council. He said he hoped the party would use his criticisms to improve its work. He believes the party has not achieved its full potential because many of its leaders spent too much time sitting in their offices during the last elections. He thinks Chernomyrdin could build a strong organization if he concentrates on developing the resources the party has in

the regions. Ayatskov even suggested that Saratov could provide the base for a strong political party in Russia. He also sees his work in Saratov as a model for the country. He believes his success is based on his record of generating social agreement in the region and thereby encouraging good relations between the executive and legislative branches of the regional government; assembling an effective team of leaders; and enacting a strong legislative base.

KIRIENKO GIVES CHANNEL 5 TO ST. PETERSBURG. Acting Prime Minister Sergei Kirienko ordered the federal government to transfer the Petersburg-Channel Five State Television and Radio Company to the city of St. Petersburg. Within four months, a new company will be set up. St. Petersburg will own a 38 percent share in that company; Leningrad Oblast will have 13 percent; the station's employees will get 5 percent; and 44 percent, valued at 200 million rubles (\$33.3 million), will be sold. Seven investors are reportedly interested in the shares, but their identities are undisclosed. The buyer will have to pay for his share of the company and provide annual financial support for the station. Yeltsin recently revoked the station's national broadcasting rights to create the Kultura channel. Now, St. Petersburg and Leningrad Oblast want to restore that nationwide role, an ambition that will cost investors dearly. (*Kommersant Daily*, 4 April)

RAKHIMOV STRESSES A FEDERAL STRUCTURE THAT TAKES REGIONS INTO GREATER ACCOUNT. In an interview with *Izvestiya* (8 April), Bashkortostan President Murtaza Rakhimov said federal relations are changing and that the new Russia should take greater account of the regions. He argued that the high percentage of local laws that contradict federal legislation reflects the federal legislation's lack of recognition of the experience of the regions. "The result is that we are 'separatists' and they are the caretakers of Russia." Rakhimov stressed that his gradual approach to agricultural reform has paid off well. He claimed that many of his colleagues believe privatization has deprived them of tax revenue and caused all sorts of other problems. He argued that the regions where the state maintains a strong role in the economy delivered the best results. However, he admitted that foreigners' inability to buy land limits outside investment and pushed for further consideration of that issue.

TULEEV INTRODUCES DIRECT GOVERNOR'S RULE IN CITY. On 7 April Kemerovo Oblast Governor Aman Tuleev introduced direct government rule in the city of Prokopevsk, an unprecedented action in Russia. Protesters in the city have been calling for Tuleev to take action for more than six months. Wages arrears in the region have mounted to 340.2 million new rubles (\$56.7 million), while a 130 million debt (\$21.7 million) to the local utilities resulted in the cutoff of heat and hot water to apartments, enterprises, and offices. Locals faulted the democratically elected Mayor Yevgenii Golubev for an inability to resolve the city's problems. Tuleev has now transferred responsibility for resolving the city's problems to oblast administration officials. Golubev has not protested. Tuleev's decree seeks to clean up the situation within two months. (*Kommersant Daily*, 8 April)

GOVERNORS CALL FOR BOYCOTT OF LATVIA. Yaroslavl Governor Anatolii Lisitsyn on 7 April asked oblast residents to boycott Latvian goods in response to Latvian

authorities' break-up of a demonstration by Russian-speaking pensioners in Riga on 3 March. Few Latvian products are available locally, however: imports last year reached only \$3 million. Yaroslavl, now exports tens of millions of dollars worth of oil to Latvia but is not planning to cut off that supply. Lisitsyn's opponents say he is scoring points before next year's election by presenting himself as a defender of the interests of ethnic Russians. The boycott could be more effective if other regions join – a possible scenario because Lisitsyn is the chairman of the Central Russia inter-regional economic association. (*Kommersant Daily*, 8 April) Other regional leaders calling for measures against Latvia include Moscow Mayor Yurii Luzhkov and Saratov Governor Dmitrii Ayatskov.

ECONOMICS

ROSSIISKII KREDIT SIGNS AGREEMENT WITH LIPETSK, WORKING IN OTHER REGIONS. Seeking to expand its reach into the regions, the Moscow bank Rossiiskii Kredit signed a deal with Lipetsk Oblast on issuing the region's second round of domestic bonds, valued at 100 million rubles (\$16.7 million). Lipetsk leaders boast that the region contributes to the federal budget; constantly increases its output; collected 88 percent of its taxes; offers free public transportation; adopted a budget of 3.04 trillion rubles (\$500 million); and by the end of the year will be entirely hooked up to the gas network. The bank is making the regions, particularly those that are doing well, a priority for its investment activities. In Orel, Rossiiskii Kredit is organizing both domestic bond and Eurobond issues, the latter of which are tentatively set for October. (*Russkii Telegraf*, 1 April)

IRKUTSK PREPARES SUKHOI LOG TENDER. The Irkutsk Oblast administration has sent a list of conditions for selling the rights to mine the Sukhoi Log gold deposit, Russia's largest, to the Ministry of Natural Resources for final approval. Participating in the competition and buying the preliminary geological data costs \$50,000. The oblast will own 5 percent of the company set up to do the actual mining. The company must pay Lenzoloto, the former owner of the rights, \$50 million for work it has already done; 3 percent of what it mines for the right to work the deposit; and 7.8 percent of sales for further exploitation of the raw material base. UNEXIMbank, Rossiiskii Kredit, MENATEP, Evrozoloto, Alrosa, Canada's Barrick Gold, and Australia's Star Technology are expected to compete. Observers consider the price high because the gold content in the region is only 2.5 grams per ton of ore, reports of platinum deposits are unconfirmed, and the world market price of gold is relatively low. UNEXIMbank already controls the oblast's large Kovyktinsk gas deposit. If it gains control of Sukhoi Log, it would have considerable power over the oblast administration. (*Kommersant Daily*, 3 April)

AUDIT CHAMBER BLOCKS ROSSEL'S BANK. In a major defeat for Sverdlovsk Governor Eduard Rossel in his struggle with the federal government, the federal Audit Chamber has ruled that the State Investment Corporation should not invest in Inkor-bank, which Rossel had planned to set up as an oblast bank. The federal government understood that Rossel was essentially trying to create his own bank with federal funds. Moscow bankers were also upset about Rossel's attempts to set up a bank in opposition to

them. According to local observers, Rossel intended to follow the example of Bashkortostan, creating his own banking system and then ousting the Moscow banks.

Rossel has suffered a number of setbacks lately. Sverdlovsk Oblast lost a considerable sum when Yeltsin relocated his summit with the French and German leaders from Yekaterinburg to Moscow. The federal government also decided to bury the remains of the last czar in St. Petersburg, the former imperial capital, rather than in Sverdlovsk, where the czar and his family were executed. (St. Petersburg hotels are already reporting increased demand for the period around the 17 July burial, *The Moscow Times* reported on 4 April.) Also on 31 March, a Moscow court reinstated Vladimir Kostousov as chairman of the state-run television network in Sverdlovsk Oblast. Rossel had tried to remove him on two separate occasions. Head of the State Tax Service Aleksandr Pochinok has complained about the low level of tax collection in the oblast. Moreover, Yekaterinburg Mayor Aleksandr Chernetskii, an opponent of Rossel, and his supporters in the "Our Home -- Our City" movement may win a majority of the seats in the oblast's legislative elections set for 12 April. (*Kommersant Daily*, 4 April)

TRADERS FIGHT ON IN KIROV. In January, after police bulldozed many street kiosks in the Communist-controlled city of Kirov, street traders simply continued selling their wares on the sites of their former stands. Now, the authorities can't figure out what to do. Governor Vladimir Sergeenkov has offered lukewarm support to the traders, saying, "I am for order, but it is also necessary to listen to the people's opinion." Mayor Vasilii Kiselev has made ambiguous statements but seems intent on continuing the crackdown. Some see the measures as a way to increase city revenue from corrupt business practices: *Nezavisimaya gazeta* (3 April) reported that the bribe to buy a license to sell in the central market rose from 1,000 rubles (\$170) to 5,000 rubles (\$830) in recent months. The mayor said the crackdown was prompted by citizen complaints about the litter left by the traders.

MOSCOW JOINS IN SAKHALIN DEVELOPMENT. The Central Fuel Company (TsTK), owned by the Moscow City government, and the Sakhalin Oblast administration on 3 April co-founded a company to develop the resources of the Sakhalin shelf. Moscow Mayor Yurii Luzhkov sees the move as a step in the direction of making TsTK a real oil company with deposits, processing plants, and sales. The Moscow company will provide financing while Sakhalin will provide rights to the hydrocarbon deposits. The new company may also participate in future development projects such as Sakhalin-3, Sakhalin-4, Sakhalin-5, and Sakhalin-6. Now the only Russian firm involved is Rosneft, which owns the local Sakhalinmorneftegaz. The fate of Rosneft, scheduled for privatization in late May, is uncertain. (*Russkii Telegraf*, 4 April)

FEDERATION COUNCIL ATTACKS INDEPENDENCE OF CENTRAL BANK. Last week the Federation Council initiated a bill that would dramatically reduce the independence of Russia's Central Bank (<http://www.cbr.ru/>), effectively placing it under the control of the government and Duma. The bill now goes to the Duma for consideration. Under the bill, the Duma could appoint the bank's leaders, approve its budget, and organize audits. According to *Izvestiya* (7 April), the bill violates the constitution, which secures the independence of the bank. The governors seek control

over the bank to gain access to easy credits, which the independent bank will not provide. *Izvestiya* claims that Sergei Glazev, the head of the Federation Council's Analytical Department, was among the key authors of the bill. Samara Governor Konstantin Titov has spoken out against the measure. If the Duma approves the bill, the president is very likely to veto it.

ELF AQUITAINE OUTLINES PLANS IN RUSSIA. On 6 April, Yuksi and France's Elf Aquitaine signed an agreement furthering Elf's announced \$528 million acquisition of a 5 percent share in Yuksi. Their first project will be the development of the Sugmut deposit in the north of Tyumen Oblast. Investment in that project will be \$1.5 billion, with production of 200,000 barrels a day beginning in 2002. Elf is also working with KomiTEK to develop the Timan-Pechora basin, but on a much smaller scale. Elf tried to launch a project in Volgograd Oblast in the early 1990s, but the project failed because the region lacked the necessary legal, tax, and economic conditions. From that venture, Elf learned the necessity of working with a Russian partner. (*Kommersant Daily*, 7 April)

BUSINESS BRIEFS

-- Switzerland's **NESTLE** signed a deal with **SAMARA'S SAMVEN** to provide packing materials for the chocolates it manufactures in the oblast. Samven may also provide packaging for Nestle products made in Eastern Europe. Traditionally, western manufacturers working in Russia have packed their products in imported wrappers. In addition to the Rossiya and Konditer plants in Samara, Nestle owns production facilities in Barnaul and Perm. (*Kommersant Daily*, 1 April)

-- Kareliyan Governor Viktor Stepanov has signed a \$10 million contract with the Danish firm **WIND WELD** to buy five plants that will generate electricity from wind. The stations should eventually supply 10 percent of the republic's energy. Currently, **KARELIYA** has no energy sources of its own and must buy power from **MURMANSK OBLAST'S** Kola Nuclear Power Plant or from other regions. The stations are expected to pay for themselves in six years and have a 30-year lifespan. Kareliya hopes the use of clean energy will boost its international image. (*Kommersant Daily*, 1 April)

-- **ST. PETERSBURG**, Helsinki, and Stockholm signed an agreement last week on protecting water resources and reducing pollution in the Baltic Sea. The Neva is the main source of Baltic Sea pollution, with St. Petersburg dumping 1.2 million tons of untreated waste into it daily. A comprehensive solution would cost \$1 billion, including \$50 million to \$70 million for expanding sewage works in southwest St. Petersburg. With financing organized by the European Bank of Reconstruction and Development (**EBRD**), St. Petersburg should be able to complete construction of the sewage plant by 2000. (*Segodnya*, 2 April)

-- **MURMANSK OBLAST** is planning to issue \$100 million worth of Eurobonds in February 1999. It must gain a credit rating before doing so. (*Severo-Zapad*)

-- Sweden's **PHARMADULE AB** is planning to open a representation in **ST.**

PETERSBURG and **MOSCOW**. The firm makes turn-key plants and laboratories for pharmaceutical production. Entire plants, including all laboratory equipment, utility systems, and ventilation systems are manufactured in heavy duty and transportable steel structures. The plants are fully tested prior to delivery, according to company literature (<http://www.swecare.com/offers/build.htm/>). The company's process allows for rapid project implementation. Russia wants domestically produced goods to meet 70 percent of its pharmaceutical needs.

-- **MOSINZHSTROI** and **INGEOKOM** have won a \$77.9 million contract from the city of Moscow to build the central core of the Moscow International Business Center "Moscow City" project, currently the most prestigious construction project in the capital. (*Kommersant Daily*, 2 April)

-- Last week **UNEXIMBANK** consolidated its control over **KRASNOYARSK'S NORILSK NIKEL** by increasing its holdings to 54 percent of the factory's shares. (*Kommersant Daily*, 2 April)

-- **TATARSTAN'S KAMAZ** will not resume production at least until 15 April. It has been shut since late last year. At the beginning of the year, the republican government allotted the firm \$50 million and the first half of that transfer is expected soon. It will be used to buy parts to produce trucks. (*Finansovye izvestiya*, 2 April)

-- Tatarstan's oil company **TATNEFT** became the third Russian firm selling ADRs on the New York Stock Exchange on 30 March. (*Finansovye Izvestiya*, 2 April)

-- **ALMAZY ROSSII - SAKHA (ALROSA)** has bought a 10 percent stake in **SEVERALMAZ**, which has the right to work the Lomonosov diamond deposit in **ARKHANGELSK OBLAST**. Together with the Russian firm **SOGLASIE**, South Africa's **DE BEERS** owns a 53 percent stake in Severalmaz. Alrosa claimed it was interested in buying the stake to protect the "interests of Russian capital" in developing the deposit. The site could hold up to 25 percent of the diamonds in Sakha. (*Finansovye izvestiya*, 7 April)

-- **BOSCH-SIEMENS** has invested DM3 million in a plant based in Chernogolovka, near Moscow, that will next year have the capacity to produce 100,000 gas stoves annually. This year it will produce 50,000. The firm's 1997 Russian sales were DM370 million. This year it hopes to raise that figure to DM500 million. (*Finansovye izvestiya*, 7 April)

-- The rating agency **STANDARD & POOR'S** will open a **MOSCOW** office in May, its first in Eastern Europe. The office will help provide more detailed information on regional and corporate ratings. Cynthia Stone, a banker and consultant who has worked in Moscow since 1994, will head the office. (<http://www.ratings.com/news/moscow.htm/>)

-- South Korea's **SAMSUNG ELECTRONICS** last week opened a factory in **MOSCOW** to produce SDX-100 telephone stations. The company has already invested

\$5 million and expects to invest another \$15 million. The factory should this year produce stations with the capacity to handle 100,000 telephone lines, with initial sales to Dagestan and Khabarovsk. (*Russkii Telegraf*, 3 April)

-- **ALROSA** plans to sue the government for \$60 million to recover damages for delays in issuing quotas on diamonds exports. (*Segodnya*, 4 April) The quota ruling was scheduled for December 1997 but did not appear until March.

SPECIAL RESEARCH REPORT

KALININGRAD--RUSSIA'S EXCLAVE ON THE BALTIC SEA

by Lyndelle D. Fairlie, Ph.D., associate professor of political science,
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Russia's Kaliningrad Oblast is located on the Baltic Sea between Poland and Lithuania. With the dissolution of the Soviet Union, it became the only Russian region not attached to the rest of the country. Kaliningrad is about half the size of Belgium and has a population of approximately 960,000, most of whom are ethnic Russians. During the Soviet period it was known primarily as the home port of the Baltic Fleet, but it also belonged to the Baltic Economic Zone with Estonia, Latvia, and Lithuania. It was closed to foreigners and many Soviets.

In the early post-Soviet period, there were concerns about whether the oblast would be viable as an exclave cut off from the rest of Russia. Once the Baltic states gained their independence, Kaliningraders needed visas to enter Estonia and Latvia. The end of the ruble zone in the former Soviet Union meant Kaliningraders could no longer use Russian currency to purchase goods from the Baltics. Moreover, as part of the legacy of the Soviet period, the air traffic control approach to Kaliningrad is still run from Vilnius, and Lithuania supplies most of the region's energy needs. Simply arranging transportation, including military transit, from mainland Russia was difficult because the main roads and rail lines go through Lithuania and Belarus or Latvia.

In addition to increased transaction costs for Kaliningraders in what had previously been a borderless Baltic Economic Zone, Russian officials feared others would make territorial claims against the oblast. Kaliningrad was once part of Poland and Lithuania, and later served as the East Prussian capital of Königsberg. Some feared re-Germanization as ethnic Germans moved to Kaliningrad from elsewhere in the former Soviet Union. As time passed, however, transit arrangements were worked out between Russia and Lithuania. While there are still border bottlenecks and occasionally individual Lithuanian politicians raise territorial questions about Kaliningrad, the governments of Germany, Poland, and Lithuania have explicitly accepted the oblast as a permanent part of Russia.

In the early 1990s, Kaliningrad won increased attention partly because some of the troops withdrawing from East Germany, Poland, and the Baltic states were stationed there. Although the military build-up was in compliance with the Conventional Forces in Europe treaty, neighbors advocated demilitarization of Kaliningrad. Since then, the Russian military presence has shrunk. In 1997, Yeltsin offered to reduce forces

throughout northwest Russia and promised other confidence-building measures to the Baltic states. Also in 1997, the military in Kaliningrad was re-organized, bringing the 11th Guards Army and air defense forces under the direction of Admiral Vladimir Yegorov, who commands the Baltic Fleet. The admiral has been quoted as saying that, in essence, the change improves efficiency as well as defense. Since 1994, the Baltic Fleet has participated with NATO and other fleets in regional exercises.

The oblast and city governments have also changed over time. In the city of Kaliningrad, Mayor Koshyrmurdin died in late March 1998 and local observers think it will take time to put in place new personnel and policies. At the oblast regional administration level, Yeltsin appointed Yurii Matochkin governor in 1991. However, Leonid Gorbenko, who had the reputation of being a good manager of the fishing port, replaced him after scoring a victory in the region's first-ever gubernatorial election in October 1996. Kaliningraders do not agree on the causes of Matochkin's defeat. One possibility is that Matochkin supporters were over-confident and stayed away from the polls during nice weather. Some asserted that Gorbenko had done a better job of organizing his supporters to get them to the polls. Beyond the conduct of the campaign, many were unhappy with Matochkin because they thought he should have done more to improve the average standard of living, finding ways to fill potholes, ensure the prompt payment of military salaries, and solve problems facing the amber mine. Kaliningrad experts estimated that the oblast is the source of 90 percent of the world's amber. In the post-Soviet period, there have been allegations of smuggling, mine privatization was disputed in court, and mine bankruptcy became an election issue.

After Kaliningrad was opened to foreigners in 1990, Russia sought to turn the region into an economic gateway. It benefits from both Russian- and European-gauge railroads and an ice-free port, although the region's only deep water port is for navy use and commercial ports are relatively shallow. A free economic zone was put in place in 1991 but discontinued in 1995. There are various interpretations of why the free economic zone (FEZ) ended, ranging from IMF pressure on Yeltsin to insufficient effort in Kaliningrad. In 1996, a special economic zone (SEZ) was started. Some observers think that ending the FEZ and starting the SEZ sent a signal to potential investors that Kaliningrad did not yet have a stable investment environment. In 1997, Russia adopted a Federal Program for the Implementation of the Special Economic Zone in Kaliningrad. The government is planning, on paper at least, to invest over \$4 billion on infrastructure needs and to set aside approximately \$2 billion for federal transfers and tax credits. Although complete funding of those programs is unlikely, some people in Kaliningrad believe the plan's passage through 24 ministries, 11 federal committees, and the prime minister's office to ultimately gain President Yeltsin's signature proves that Moscow recognizes Kaliningrad's needs.

Kaliningrad's economy was formerly focused on the military and primary product processing industries such as fishing, timber, and metal. Now those traditional industries have declined and the military lacks money even to pay its utility bills. Korea's Kia Motors recently launched a car assembly line in the area, but it is struggling. During the post-Soviet period, smuggling of raw materials, cars, weapons, drugs, and refugees presented major challenges, although Kaliningrad officials work with foreign counterparts to reduce organized crime and illegal migration. In 1998, there are new inflationary pressures. The cost of a ride on the city's public transportation system rose

50 percent in January and fees for household utilities jumped 30 percent and more in February. Border problems forced an approximately 5 percent surge in prices in January and new import quotas may cause shortages and further price increases if local production is inadequate.

Kaliningrad today is significantly affected by its regional context because it relies on cross-border trade for many of its food and basic consumer products. The presidents of Russia and Lithuania signed a border treaty in 1997, but the ratification process may be contentious in both countries. In January 1998, Poland began requiring additional documents for Kaliningraders traveling to Poland. Border delays and costs resulted in protests by both Kaliningraders and Poles. Both Poland and Lithuania want to join NATO and the European Union (EU). As a potential EU member, Poland will be focusing on the need for re-admission agreements and well-regulated borders compatible with the EU Schengen plans. The EU efforts to create a single market including free movement of labor, capital, and goods among all of its members creates a desire to have a tight external border around the outside of the EU to keep out illegal aliens and foreign goods. The Schengen agreements aim to have no internal EU border but a defensible external border against non-member states. That requires well-regulated identification of people crossing borders. If Poland or Poland and Lithuania become EU members, they would be under pressure from the EU to have tight borders with Kaliningrad. The EU is trying to get re-admission agreements with all neighboring countries so that if illegal immigrants are caught in an EU country they can be returned to the country from which they came. In Poland's case, it would mean that if illegal immigrants entered Poland from Kaliningrad, they could be returned to Kaliningrad. In summary, if Poland and Lithuania tighten their borders with Kaliningrad, there could be a disadvantage of disrupting the cross-border trade that has developed across those borders.

Former Prime Minister Viktor Chernomyrdin's recognition of the need for cross-border trade between Russia and EU candidates was reflected in his recent suggestion for a Baltic Schengen. From a Kaliningrad perspective, that would restore some of the advantages Kaliningrad enjoyed in the Soviet-era Baltic Economic Zone, such as free movement of people across borders. However, such a plan might conflict with EU goals that may require well-controlled borders between Kaliningrad and its neighbors. Some experts believe cooperation would become easier if Russia would adopt the Council of Europe's Outline Convention on Transfrontier Cooperation.

Although the European Union wants well-regulated borders, it also tries to encourage cross-border cooperation. Several changes affecting Kaliningrad have occurred to promote coordination. For example, the EU is trying to link its own (INTERREG) regional aid programs with its aid program for the Commonwealth of Independent States (TACIS) and its program for Central and Eastern Europe (PHARE) to produce a coherent plan for the Baltic area, which includes EU members, applicants, and non-members such as Russia. As a result, Kaliningrad and St. Petersburg now both sit as full members on the EU's Baltic Coordinating Committee and can, in principle, make proposals that could be funded from their share of TACIS money. Previously, Kaliningrad was made a priority area within the EU TACIS program. In addition, Kaliningrad has joined the Baltic Euroregion and has been invited to join the Niemen Euroregion. There are Polish and Lithuanian consulates in Kaliningrad.

The challenge for both Russia and the EU will be to encourage the good aspects of

cross-border activity and to discourage the bad aspects. Although Kaliningrad gets assistance from the EU, Poland and Lithuania will get much more aid because they are potential EU members. In addition, the neighbors will increasingly be expected to approximate western standards. The risk is that Kaliningrad and nearby Belarus will become increasingly marginalized. Rather than becoming the Hong Kong of the Baltic as some had hoped, Kaliningrad could become specialized in the negative features of transit economies such as crime and illegal immigration, particularly as those activities are diverted away from the neighboring EU candidates. However, Kaliningrad can also benefit from the type of cross-border activity that exists when Austrians cross the Czech border and Finns cross the Russian border. In those cases, Czech and Russian border areas benefit as local tourists from the EU purchase cheap fuel and other consumer products abroad. Poles and Lithuanians have visited Kaliningrad for such purchases in the past, although import quotas and new regulations may restrict that trade. If the development of the US-Mexican border serves as one model partly applicable to the Kaliningrad case, issues will continue to be complex, solutions will evolve slowly, and goals such as a non-porous border around the outside of an enlarged EU may be elusive.

To learn more about Kaliningrad, please see the forthcoming book edited by Pertti Joenniemi and Jan Prawitz tentatively titled *Kaliningrad: A European Amber Region* (Ashgate Publishing Limited: Hampshire, England). The author appreciates the perspectives of western experts and the data and viewpoints of Kaliningraders, which were collected there in March 1998 by Stephen Dewar of the EU TACIS program.

PATTERNS OF REGIONAL DEVELOPMENT

CONTROVERSY MOUNTS OVER NIZHNIY MAYORAL ELECTION. On 2 April the authorities arrested the victorious Andrei Klimentiev after declaring the Nizhniy Novgorod elections he had just won invalid (see *IEWS Russian Regional Report*, 2 April). Klimentiev is on trial for charges of embezzlement and was arrested for violating conditions of his bail. Following his arrest, a crowd of protesters began to gather in front of the courthouse. Among the protesters were people who voted for Klimentiev as well as other candidates, but now they were united by their belief that the authorities had blatantly and arbitrarily violated the voters' rights. One of Klimentiev's attorneys told journalists that his client's defense team sharply disapproves of any mass shows of support. He also said that the court is most likely to convict Klimentiev, not because the latter is guilty, but rather to satisfy the authorities. It is possible, the attorney said, that the Supreme Court would uphold the oblast court's decision, in case of an appeal, to prevent Klimentiev from running in the next mayoral race. If that happens, Klimentiev's defense team is prepared to appeal to the European Court of Justice in Strasbourg.

Nizhniy Novgorod Oblast Governor Ivan Sklyarov addressed city residents calling on them to remain calm. He explained the scandal by citing the imperfections of Russian electoral laws, which do not screen candidates for previous criminal convictions. Sklyarov also stated that the popular support for Klimentiev reflects public discontent with the fast pace of social and economic reforms. Furthermore, the authorities' actions against Klimentiev were in agreement with the new federal law on elections, which applies a higher standard to electoral procedures. Finally, he said that Klimentiev's arrest

was decided independently by the court, and came as a complete surprise to the oblast government as well as to the general public.

This episode is not the first time that Moscow has meddled in the elections of Nizhnii Novgorod's mayor. Sklyarov, the former city mayor and current oblast governor, had never been elected to the mayoral position. When it became clear on the eve of the city's first mayoral elections in 1994 that incumbent Dmitrii Bednyakov had a good chance of defeating challenger Yevgenii Krestyaninov, then Governor Boris Nemtsov, who backed Krestyaninov, had Krestyaninov resign from the race. The elections had to be canceled when Krestyaninov withdrew his candidacy because Bednyakov was then the only candidate left in the race. Elections with only one candidate are illegal under Russian law. Nemtsov then went to Moscow and returned with a presidential decree which removed Bednyakov from office and installed Sklyarov in his place.

In their official statement on the outcome of mayoral elections in Nizhnii Novgorod, the leaders of the oblast Communist Party said that the removal of an elected mayor was not only illegal and a violation of civil rights, but demonstrated that the authorities employed double-standards. They chose to enforce strict rules this time around, when it was most convenient for them, even though they had completely ignored numerous violations in last year's gubernatorial campaign, the Communists charged. The Communists' representative on the oblast electoral commission was the only one to vote against annulling the mayoral elections.

Yeltsin's representative in the region, Yurii Lebedev, resigned following the cancellation of the elections, because the pro-administration candidates were defeated. Additionally, the head of Nizhnii Novgorod's Sovetskiy raion, where Andrei Klimentiev received the most votes, also resigned.

On top of the region's other problems, Moody's and Standard & Poor's may reduce Nizhnii Novgorod's credit rating, currently the same as Russia's, because of its budget situation. The oblast budget foresees income of 4.2 billion rubles (\$700 million) with a 13.5% deficit. The oblast's overall debts are one quarter of its income. Since the beginning of the year, the oblast has not paid 150 million rubles (\$25 million) to state-sector employees. (*Russkii Telegraf*, 27 March) - Yurii Rodygin in Nizhnii Novgorod

NIZHNI PARTY OF POWER SCORES QUALIFIED VICTORY IN ASSEMBLY ELECTIONS. While the mayoral elections in Nizhnii Novgorod were declared invalid, the oblast legislative elections held the same day are still in force, although they have been generally overlooked in the brouhaha surrounding the cancellation of the mayoral elections. Out of the 45 newly elected assembly members, 29 are government bureaucrats and industrial managers, largely loyal to the governor because of their positions. Specifically, 15 assembly members are industrial middle managers, 9 are local government leaders, 5 are civil servants, 5 are in private business, 4 are lower level legislators, 2 represent public organizations, 2 represent the media, 2 are bankers, and 1 represents academia.

By and large, candidates backed by political parties lost. As the head of the regional branch of the Liberal Democratic Party Aleksandr Kurdyumov said on TV, "There are 2,000 members of our party in Nizhnii Novgorod, but I only got 800 votes." The Communist deputy Vladimir Kirienco, who like Kurdyumov ran for both an assembly seat and for mayor, also lost. Such an overall drop in the trust for political

parties will be important in the upcoming State Duma elections, where half of membership is elected from party lists.

Many candidates in this campaign focused on direct financial appeals to the electorate. In one district, an incumbent deputy with a good track record of legislative initiatives and a reputation for professionalism lost to a bread-making entrepreneur, whose wealth allowed him to disburse more funds for campaign propaganda. However, in most cases incumbent assembly members retained their seats, mostly because of their positions in the power structures, not because of their personal qualities. The majority rarely attend to their parliamentary responsibilities, and have been in various legislative positions since Brezhnev's times.

One of the victorious candidates in the assembly race was former Nizhnii Novgorod mayor Dmitry Bednyakov, who had lost the recent mayoral campaign and who now has a good chance of becoming the assembly's speaker. Both his father and his brother have been convicted on criminal charges.

The majority of enterprise directors and high ranking officials won in the oblast periphery since their standing in urban areas was much shakier. Dzerzhinsk Mayor Aleksandr Romanov decisively lost the assembly race in his own home district. Perhaps the fatal blow to Romanov's campaign came from the open support for his candidacy from oblast Governor Ivan Sklyarov, which is symptomatic of the overall collapse of the "party of power" in the region. "Many of our good people did not make it," commented Governor Sklyarov. - Yurii Rodygin in Nizhnii Novgorod

ROSTOV OBLAST ELECTS ASSEMBLY AMIDST NUCLEAR PLANT

DISPUTE. Directors of industrial and agricultural enterprises representing the "pro-governor party of power" took a strong majority -- about 30 of the 45 seats -- in the 29 March elections to the Rostov Oblast legislature. The Communists won only ten seats despite a visit by party leader Gennadii Zyuganov, and Yabloko won two seats. Vladimir Zhirinovskiy's Liberal Democratic Party and the Cossacks did not gain any representation. Overall, 37 percent of registered voters participated, well above the minimum 25 percent requirement.

The Rostov Nuclear Power Station became the trump-card in the campaign. In the Volgodonsk district, the "pro-nuclear" incumbent assembly member Valentin Miroshnikov lost to a staunch opponent of the station, local newspaper editor Viktor Cherkasov.

The elections took place in the shadow of a mounting oblast budget deficit. Rostov Oblast was once self-sufficient, but today it ranks 86th among the 89 Russian regions in terms of economic conditions. All the candidates discussed that dire situation at length.

In this election, candidates were nominated by public organizations as well as political parties and groups of voters. Organizations participating in the campaign included several Cossack associations, the environmental group For a Nuclear-Free Don, and the regional movement For Social and Economic Progress and Civic Accord, which includes some 50 pro-democracy groups such as Russia's Democratic Choice; People's Home; Forward, Russia!; Yabloko; Union of Don Women; and associations of Chernobyl survivors and Afghanistan war veterans. Professional unions also participated in the campaign, including associations representing enterprise directors and specific industries, such as the railways. Throughout the campaign, groups often bribed voters with money

and produce to sign nominating petitions or support a candidate.

In by-elections for the Volgodonsk City Duma, held the same day, voters elected two businessmen, most likely with hopes of improving the economic situation. On 6 April, the 15 members of the Volgodonsk City Duma voted unanimously to approve the launch of the Rostov Nuclear Power Station. It is unclear whether the oblast legislators will support that decision. In August 1992, the then oblast soviet voted to end construction of the plant, but the federal authorities now want to revive the project (see *IEWS Russian Regional Report*, 4 December 1997).

At its first session, the oblast legislature re-elected A. Popov as chairman. Popov has close ties to Rostov Governor Vladimir Chub. Protests were filed in ten districts and the apparent victors from those areas have yet to be confirmed as legislature members. Accordingly, they were not allowed to participate in the election of the chairman. Some deputies proposed putting off the election until all members were validated. Six of the seven seated Communists left the hall in protest. (*Vecherniy Volgodonsk, Volgodonskaya pravda, AiF-na-Donu*) - Milana Slinko in Volgodonsk

IRKUTSK OBLAST VOTERS OUST MOST MAYORS. In the 29 mayoral races contested in Irkutsk Oblast on 29 March, only seven incumbents held on to their jobs although all 29 mayors stood for reelection. The large number of incumbents suffered defeat because they failed to perform their duties. Early in 1998, it became clear that wage arrears in the region were mounting due to municipal mismanagement of federal and regional subsidies. Even though the federal and regional governments sent money to pay wages, the mayors used the funds for other purposes. The mayors also tended not to use their own budgetary funds to pay public sector employee salaries. Irkutsk Governor Boris Govorin warned municipal authorities several times that such policies would come back to haunt them at the polls, which is indeed what happened on 29 March.

The latest round of elections showed that voters in the city of Irkutsk are more politically apathetic than voters in the rest of the region. On average, 51 percent of the oblast voters participated in the elections, but only 25 percent of Irkutsk city residents turned out to elect their mayor. Similarly, by-elections for a vacant seat in the city duma on 22 March were declared invalid because only 22 percent of the voters showed up at the polls.

The election results are final and not likely to be contested, as no serious election rules violations took place. According to the chairman of the oblast electoral commission, Viktor Ignatenko, the elections went smoothly despite a brand new and untested electoral law. However, Ignatenko believes the law could be improved. For instance, some provisions must be made for voting by unconvicted prison inmates, who still enjoy voting rights. - Galina Solonina (Teleinform) in Irkutsk

BRYANSK OPPOSITION UNITES AGAINST COMMUNIST GOVERNOR

by Alex Levinsky

BRYANSK--Bryansk Governor Yurii Lodkin's received an unpleasant surprise for his 60th birthday. At first, all seemed to be going smoothly at the celebration attended by such dignitaries as Federation Council Speaker and Orel Governor Yegor Stroev. The governor was receiving guests and numerous congratulations sitting on a throne -like

chair with a red carpet rolled out from under his feet. However, retired military officers who were left without housing began demonstrating right outside the administration building. They were joined by members of two housing cooperatives who also lost their promised apartments. For the first time since Lodkin was elected, protesters on the streets were not calling for Yeltsin or the government to resign, but instead channeled their frustrations against the so-called "people's defenders"--the governor and Bryansk Mayor Nikolai Sarviro.

The protests took place because money allocated for building housing for retired military personnel was either mismanaged or simply stolen. The regional authorities even admit that the retired servicemen were cheated out of 240 apartments. And members of the two housing cooperatives cannot move into their units because the city has not allocated promised inflation-compensation subsidies.

Yurii Lodkin's second term (he was deposed by Boris Yeltsin in 1993 for openly supporting the rebellious Russian parliament) has been marked more by failure than success. Rising industrial production in Bryansk Oblast, experts say, should be attributed not to the efforts of the regional government, but to the general stabilization of the Russian economy. In fact, the oblast lacks any resources to support the region's industry. In agriculture, there has been a drop in production, despite good weather conditions. (In contrast, under the previous "democratic" governor, Aleksandr Semernev, Bryansk farmers actually produced 1% more than the previous year.) Unemployment in the oblast has gone up, as the volume of trade has decreased.

Fortunately, dire predictions that the hard-line Communist Lodkin would not get along with Moscow did not come true. Playing up the "Chernobyl card," since Bryansk Oblast is the region of Russia that suffered most from the disaster, the governor succeeded in securing federal subsidies. However, the governor's team has failed to go beyond rhetoric about Bryansk's "special path."

By now, the Communist-dominated oblast дума and the executive branch are united: after a series of Moscow-appointed "democratic" governors, both the governor and the parliament are from the same party. The pro-Communist movement Patriotic Bryansk scored a decisive victory in the recent elections to the raion assemblies and governments. However, the Communists have failed to produce any coherent action program. General economic conditions and the quality of life remain far behind even those of the neighboring Communist-dominated "red belt" oblasts.

As it turned out, it is easier to criticize Moscow than run the economy in the interests of the people. When labor unions strike on 9 April as a part of the national protest action day, the pro-Communist local union bosses will have a difficult time blaming all the oblast's economic problems on Moscow. Just recently one of the local union leaders criticized Moscow for Bryansk's 12% unemployment level and for the lack of funds at the oblast-financed hospitals and schools.

At the same time, as in the old days of political confrontation with the Moscow-appointed governors, Bryansk's diverse political spectrum is uniting in a common front. At the housing rally organized by retired military officers, members of Gaidar's Russia's Democratic Choice spoke alongside Zhirinovskiy's Liberal Democrats. The former claimed that the actions of the Communist administration hamper the oblast economy. The latter called on all the political forces to unite against the Communists.

CENTER-PERIPHERY RELATIONS

VOLGOGRAD COMPLAINS ABOUT LACK OF FEDERAL SUPPORT. The financial department of the Volgograd Oblast administration has prepared a report complaining about transfers the region receives from the federal Finance Ministry. These transfers are the money that the federal government sends to the regions in order to finance federal laws and programs. The amount of money various regions receive differs considerably and there is no transparency in the actual distribution of the funds. The sums included in the budget are higher than the amount of money really available. As a result, some bureaucrat may decide who will receive money first, and how close the total sum of money actually distributed will be to what was originally budgeted (ie whether it is 100% of what is in the budget, or, say, 80%). The head of the Volgograd regional finance department, Sergei Sazonov, reported at a recent meeting of the Finance Ministry that: "In 1997 Volgograd Oblast received 62.3 thousand rubles per resident, when Saratov received 259.4 thousand roubles (4.2 times as much as Volgograd), Astrakhan -- 525.1 (8.4 times as much), Kalmykia -- 805.6 (12.9 times as much), Voronezh -- 221.3 (3.6 times as much), and Rostov -- 214.2 thousand roubles per resident (3.4 times as much as Volgograd)". Those figures suggest that there is no logic in the division of transfers, according to the Volgograd officials. There is not even a political rationale for the distribution, he asserted. Volgograd received less money than its neighbors long before Communist Governor Nikolai Maksuta won the elections in 1996.

1998 transfers illustrate the same tendency. According to the 1998 federal budget, twenty eight regions will receive about 50% of all federal transfers, while the other fifty three regions will receive the other half. Duma deputies from Volgograd are afraid that such practices could endanger federal relations in Russia. - Ivan Kurilla in Volgograd

KOMI REPUBLIC CONCERNED OVER RUSSIAN GOVERNMENT

RESHUFFLE. While the opposition welcomed President Yeltsin's reasonably predictable decision to fire Prime Minister Viktor Chernomyrdin, the regions have reasons to be concerned about its possible consequences. Speaking on 24 March, Komi Republic chief executive Yurii Spiridonov said, "Now the republican government must develop relationships in Moscow anew, establish new contacts, remind the new people in power of the projects and agreements that had been in place before." (*Gorodskiy vedomosti*, 28 March) The Moscow events boosted political activity in Komi Republic. For instance, on 27 March Spiridonov and heads of various public movements, parties, and organizations signed a joint statement on forming a consultative body with representatives of all groups. The only major regional organization that refused to sign the statement was the local branch of the Communist Party, whose leader said he must first get the national party's approval. (*Respublika*, 31 March) The relative unity among the diverse political groups shows that regional interests override differences in political views and party platforms. The new body's main goal will be to better coordinate the actions of local parties with their representatives in the State Duma for more effective joint lobbying on behalf of the region in Moscow.

Another consequence of the reshuffle is jockeying by regional leaders to place their allies in positions of power in the federal government. For example, Spiridonov said that together with the leaders of Yamal-Nenets and Nenets autonomous okrugs he plans to

petition acting Prime Minister Sergei Kirienko to keep Ramazan Abdulatipov in charge of the Russian Far North. (*Respublika*, 31 March) Abdulatipov is from Dagestan but he has worked in the North and had to address the problems of northern minorities as deputy prime minister in charge of ethnic minorities in the old government. In the past, Moscow often neglected the problems of the indigenous peoples of the Russian Far North, a sore issue for the leaders of northern regions. Of course, other regional leaders also have their preferences on the composition of the new federal government, which is why the Federation Council actively supported the State Duma's initiative to hold a parliamentary round-table to discuss the government reshuffle. - Yurii Shabaev in Syktyvkar

ECONOMIC ISSUES

PERM LAUNCHES NEW PLANT WITH FOREIGN INVESTMENT. A grand opening for a "new" enterprise, the Perm Motors Plant, took place on 24 March. The venture is only nominally new, as it will be located on the premises of the old motors plant and will employ 5,300 of its workers. In fact, the old plant was simply reorganized into the new venture. With charter capital of 750 million rubles (\$125 million), the company was founded by Perm Motors (holding 49% of the shares), Interros and Interros-Avia (26%), and the US-based Pratt & Whitney (25%). The company's main products will be PS-90A jet engines and industrial gas-powered turbines. Pratt & Whitney has already begun transferring some of its \$15 million investment. The same amount will come from UNEXIMbank. Recently, the International Aviation Committee approved the new plant's production line for the engines.

According to the leadership of Perm Motors Plant, the reliability of the PS-90A model currently lags behind its Western equivalents. However, the company is constantly improving its product, and reliability can only be boosted through serial production. Supporting such output requires many wealthy clients. According to Chairman of the Board Valentin Stepankov, as a result of investments from Pratt & Whitney and UNEXIMbank, the plant will be able to increase its engine production 1.5 times. The investment plans of Pratt & Whitney significantly exceed the \$15 million mark. Western partners are prepared to give more money in order to make the plant profitable within the next three years. (*Permskiye novosti*, 27 March; *Zvezda*, 28 March) - Andrei Suslov in Perm

CHELYABINSK TO FORM JOINT VENTURES WITH BULGARIA. The agreement recently signed by Chelyabinsk Oblast and Bulgaria's Plovdiv region carries economic significance not only for the two regions involved, but also for the process of reestablishing the severed economic links between the countries of the former socialist camp. Following Moscow Mayor Yurii Luzhkov, the head of the Chelyabinsk Oblast government, Vladimir Utkin, visited Plovdiv to push cooperation between the two regions to a new level.

Utkin believes that integration of the economies of the former socialist bloc countries is a necessary process. With the collapse of Communism and of the USSR itself, Russia lost the valuable Eastern European markets. And like the rest of Eastern Europe, Bulgaria lost the large Russian market as well. This collapse caused only economic decline for both sides. Last year the volume of trade between Chelyabinsk

Oblast and Bulgaria was a mere \$2 million, of which Chelyabinsk-produced exports to Bulgaria accounted for \$1.5 million. However, in the not so recent past, Bulgaria used to consistently supply the Urals with high quality products which enjoyed high demand.

Joint venture formation is the optimal form of cooperation between the two regions, Vladimir Utkin believes. Thus, he signed a 10-year agreement to create a loading machine building joint venture with Balkanrekord, part of the Balkankar holding group which produces forklift equipment. Under the joint venture, Chelyabinsk will produce multi-purpose loading transports, designed to carry packaged cargo. At first the product will be assembled from kits supplied by Balkanrekord, but in the future parts will be produced locally. The venture plans to produce 300 machines in the first year. Additionally, it will provide technical support for its products in the whole Urals area. Currently, talks are under way to create a Russian-Bulgarian Business Center in Chelyabinsk, which would act as a dealer for the venture.

Another joint venture will be a Russian-Bulgarian tobacco factory in Chelyabinsk, capable of processing 5,000 tons of tobacco a year. People in the Urals and beyond still remember the high quality Bulgarian cigarettes they used to smoke. Two months before Utkin's trip, Moscow Mayor Yuri Luzhkov came to Plovdiv to get an agreement to produce 10,000 tons of Bulgarian tobacco products at Moscow's Yava factory. The only contentious issue is the upcoming privatization of many of Bulgaria's state-owned enterprises, including in the tobacco industry. Even though both sides agreed to carry out the terms of the contract regardless of ownership, reality sometimes does not match intentions. It would be ideal for Chelyabinsk to participate in the Bulgarian privatization process, but the region lacks its own funds or expertise in lending money from banks for such financial transactions.

There are good prospects for Chelyabinsk and Plovdiv to cooperate in the area of producing public telephones, refrigerators, and other consumer electronics. Under the new agreement Bulgarian firms will gain access to the Urals market for tobacco, wines, clothing, shoes and cosmetics. Additionally, there are plans to transport wholesale shipments of Bulgarian goods directly to Chelyabinsk, bypassing Moscow warehouses. Such direct links would dramatically increase the volume of trade between Plovdiv and Chelyabinsk. All in all, these new venues of cooperation will prove beneficial for both sides by reestablishing the severed economic ties of the past under the new economic conditions. - Igor Stepanov in Chelyabinsk

REGIONAL PROFILE: NENETS AUTONOMOUS OKRUG

Governor: Vladimir Butov

Vladimir Butov was elected okrug governor in December 1996. In the 13 December run-off, he beat incumbent Vladimir Khabarov by 10 points, receiving 49% of the vote. In the first round with a total of seven candidates, Khabarov finished first with 43%, while Butov received 22% of votes.

Butov was born in 1958 in Novosibirsk. He moved to Nenets in 1979 where he worked mainly as a laborer. He set up a kooperativ in 1988, during the era of Gorbachev's more liberal economic policies. He then founded his own production and trading firm, called Ser-Vark, in 1992. He earned degrees in economics and management

in 1994 and 1996 respectively. Before being elected governor, Butov had been a member of the okrug legislative assembly. In 1995, he was elected member of the Supreme Council of the Russian United Industrial Party (ROPP).

Other Local Leaders

Chairman of the Deputies Assembly -- Vyacheslav Vyucheiskii, elected in late 1996

Brief Overview

Nenets AO is situated in the farthest north-eastern section of the European part of the country and shares borders with Komi Republic in the south and Arkhangelsk Oblast in the south-east. Seventy five different ethnic groups reside in the okrug, including Russians (66% of the total population), Nenets (12%), and Komi (9.5%). Most of the okrug's territory lies above the Arctic Circle.

The okrug is rich in raw materials. It has the third largest reserve of oil resources in the country. Major industries are: fuel and energy, timber-working, and food-processing. Most of the industry is concentrated in the okrug's main city, Naryan-Mar. Agriculture is mostly traditional: hunting, fishery, reindeer-breeding.

According to *Ekspert* magazine, the okrug had the largest growth in industrial output in 1996 -- 111% compared to 1995 and 121.3% compared to 1991. It is among the first 30 Russian regions with the most favorable legislative conditions for foreign investors, while underinvested by domestic businesses.

Basic Facts

Population (as of Jan. 1, 1997): 47,300 (0.03% of Russian total)

Urban population (1989 census): 60.0% (Russia overall: 73.0%)

Student population (1996): 0 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 19.90% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 8.9% (Russia overall: 11.3%)

Industrial production as percentage of all Russian production (1996): 0.12%

Proportion of loss-making enterprises (1996): 58% (Russia overall: 56%)

Number of enterprises which have wage arrears (1996): 17

Agricultural production as percentage of all Russian production (1996): 0.02%

Number of private farms (as of Jan. 1, 1997): 14 (0.01% of Russian total)

Capital investment (1996): 164,900 rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): federal budget: 10.6% (Russian average: 9.2%); regional budget: 15.0% (9.6%); enterprises: 32.0% (66.3%)

Number of joint ventures (as of Jan. 1, 1997): 5 (0.03% of Russian total)

Number of telephones per 100 families (1993): in cities: 14.1 (Russian average: 41.5); in villages: 29.1 (17.2)

According to a 1997 survey by *Ekspert* magazine, the oblast is ranked 86th among Russia's 89 regions in terms of investment potential and 32nd in terms of investment risks. A 1995 survey by Bank Austria ranked the oblast 77 in terms of investment climate.

Electoral History

1996 Presidential Election

Yeltsin: 42.64%/61.54% (first round/second round)

Zyuganov: 18.37%/28.89%

Lebed: 11.98%

Zhirinovsky: 9.93%

Yavlinskii: 7.64%

Turnout: 72.80%/67.71% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Liberal Democratic Party of Russia: 16.83%

Communist Party of the Russian Federation: 11.42%

Ivan Rybkin's Block: 10.45%

Women of Russia: 8.64%

Our Home Is Russia: 7.58%

Agrarian Party of Russia: 5.20%

Party of Workers' Self-Government: 4.47%

Yabloko: 4.08%

In a single-member district: 1 Ivan Rybkin's Block

Turnout: 74.73% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 68.00% "No" -- 32.00%

1993 Parliamentary Elections

Russia's Choice: 19.84%

Liberal Democratic Party of Russia: 19.15%

Women of Russia: 10.88%

Party of Russian Unity and Concord: 9.62%

Democratic Party of Russia: 7.36%

Yabloko: 6.65%

Communist Party of the Russian Federation: 6.48%

Agrarian Party of Russia: 3.19%

In single-mandate districts: 1 "Obnovlenie" Union

Turnout: 63.00% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 46.08%

Ryzhkov: 26.42%

Zhirinovsky: 8.51%

Bakatin: 8.04%

Tuleev: 4.25%

Makashov: 2.42%

Turnout: 76.47% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [*Russian regions on the eve of 1995 elections*], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vybo rov 17 dekabrya 1995 goda po regionam* [*Results of the 17 December 1995 elections, regional breakdown*], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [*State Duma elections 1995*], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [*Governors of Russia*], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regionni Rossii*, Moscow, 1997.

ROUNDTABLE DISCUSSION

RUSSIAN FEDERALISM: THE VIEW FROM PERM

On 3 April, Oksana Oracheva, an associate professor at Perm State University who is currently a Fulbright Scholar at Yale University, visited IEWS's New York office to participate in a roundtable discussion on federalism, democratization, and regionalism. Below is an edited transcript of her remarks and the discussion they provoked.

OKSANA ORACHEVA: In this talk I would like to consider the question of whether federalism as a system of government makes any difference for democratization. Does federalism facilitate a country's cohesion or does it contribute to its disintegration? When considering that question, we can agree that the federal solution works for countries containing diverse ethnic and cultural groups. On the other hand, the federal structure can be one of the reasons why regionalism, and ethnic regionalism in particular, is developing and growing in Russia. Russian federalism, like its Soviet predecessor, institutionalizes ethnicity, therefore defining nations in both political and ethno-cultural terms, which in the long term may provoke an identity conflict.

The relationship between the regions and the federal Center has changed considerably during the last few years. Two problems are emerging. The Center's power is decreasing and it does not have enough resources for policy implementation, especially in the sovereign ethnic republics. Thus, the power of regions is increasing. At the same time, most financial resources are still concentrated in the Center, and the regions lack the resources to implement their own policies. So, there is a real contradiction.

That contradiction has several causes, beginning with the legal system. Regional charters, and especially the constitutions of ethnic republics, often contradict the federal constitution. Recently, Tatarstan discussed a draft of its own citizenship law, which allows one to be a citizen of Tatarstan without being a Russian citizen. That presents a problem not only for the Center but for the neighboring regions as well. Perm Oblast, for example, has a significant Tatar minority whose members would be eligible for Tatarstani citizenship under that new draft law. Every regional law must be examined for its constitutionality vis-a-vis federal legislation. However, very often regions adopt laws that are intentionally inconsistent with federal norms, just to irritate the Center and thus get more short-term subsidies from Moscow.

In the economic sphere, too, there are plenty of problems and contradictions between the Center and the regions, especially given the Center's tendency to concentrate

all financial resources in Moscow but pass responsibility for implementing and paying for social programs to the regions. Although the regions must set social policies, they lack financial resources to adequately address such issues. Even the "donor regions" (net contributors to the federal budget) do not have enough resources to pay public sector salaries on time.

Another economic problem is that federal transfers to the regions are often correlated to the region's political behavior. And the interesting thing is that the Center favors with its subsidies not the democratic, loyal regions, as one would think, but the troublemakers. In a way, the Center bribes the troublemakers to keep them quiet. So, it is wiser for the regions to stir the waters and cause problems for the Center in order to get more subsidies. A good example of that is the separatist rhetoric, not backed by real political intentions, of Sverdlovsk Oblast Governor Eduard Rossel when he speaks of the proposed Urals Republic. Consequently, those regions that are stable and not Communist receive fewer subsidies from the Center.

One of the main issues in Center-periphery relations is the development of democracy on the regional level. Close examination reveals that not all regions are democratic and different types of regimes exist throughout Russia. There are, for example, numerous human rights violations in the southern regions. Moscow is standing in the same row with its famous residency permits. Since individuals cannot easily move around Russia for a variety of economic and legal reasons, they cannot freely choose their place of residence. That constraint limits their ability to pursue job opportunities. In Tatarstan, for example, when one company was looking to fill a position, the advertised qualifications included being an ethnic Tatar with good Moscow connections. That disqualified the non-Tatar half of the republic's population. The problem is that the Center is unable to protect people from human rights violations in all 89 regions. So Russia as a whole cannot become a truly democratic country while such things go on in its constituent parts.

The last problem I would like to discuss is the issue of state cohesion: whether or not the Center will be able to keep the country together. The Center's current policies of asymmetrical federalism could prove effective in preserving Russian unity for a while. But the asymmetrical structure cannot endure in the long run, as it only creates more problems. At the dawn of modern Russian federalism, ethnic republics grabbed considerable power with their declarations of sovereignty and their constitutions. Non-ethnic regions followed by adopting their own charters, also asserting a kind of regional sovereignty.

However, nobody is fully satisfied with the current state of affairs. Republics resist claims to more power by the ordinary regions, on the basis that republics have a special status and are thus entitled to more rights than the rest of the federation. At the same time, non-ethnic regions want more power. When I interviewed Perm assembly members, many of them noted that some regions' privileged positions gave them different economic positions and interests. So, there is a growing, if tacit, disagreement developing between ethnic republics and ordinary regions.

More and more regions are trying to obtain the same benefits and power held by the republics. You can not have one part of the country governed as a federal state and another part of the country governed as a unitary state. In the long term, such arrangements are not sustainable, especially when it makes the creation of a common

Russian identity more problematic. Today, Russians in the regions identify more and more with their locality, not with the distant federal state. When you look at newspapers in the regions, you see that most regions are less concerned with national politics than their own economic performance and ability to provide their residents with good living conditions and timely salaries. In the beginning of the reform period, most people watched Moscow TV channels and read central newspapers. Today, on the contrary, more and more people focus on local politics, which is much more interesting to them. Moscow is becoming like a "foreign country" in Russia. For Vladivostok, for example, the US or Japan are much closer. There is little chance that Russia will disintegrate the way the USSR did. However, if the Center gives little attention to the regions, it will face problems in the future. Regions today are more and more powerful and prone to confrontation with Moscow. That will create greater problems for Russia's state cohesion.

QUESTIONS AND ANSWERS

Steve Solnick (Columbia University): *I wanted to follow up on your comment about the practice of rewarding troublemakers and denying subsidies to loyalist regions, a practice you suggested will undermine stability. I would like to challenge you on that and give you the opportunity to expand on the issue. When you talk about subsidy policies, you refer to inter-budgetary transfers, based on the formula by which poorer regions should get more transfers. Thus, we should not be surprised that poorer regions get more transfers and also happen to be the ones least happy with the Center. But, there are many other financial flows going on within the federal budget, including salary payments, government orders to regional plants, things that are de facto transfers but do not show up in official transfer figures. Tariffs and custom duties are also usually excluded from those calculations. One study argues that if you include those de facto transfers, the number of real donors to the budget is not ten but around 36. So, I am wondering whether supporters of the Center are getting their rewards through less obvious channels.*

Oracheva: My sources for research on budget transfers are World Bank reports that traced the connection between financial aid received by the regions and such political acts as early sovereignty declarations, strikes, or presidential elections results quite clearly. And it is not necessarily so that the troublemakers are the poorest ones while loyal regions are more or less well off. However, to calculate the indirect transfers you mentioned would be more difficult, if not nearly impossible. Therefore, it is difficult to draw general conclusions. Nevertheless, there are illustrations that loyalty is not always rewarded. Consider Perm, for example. We have consistently supported Yeltsin and reforms in general. Yet, we still have wage arrears to public sector workers. Or, consider another example, Sverdlovsk Oblast, which happens to be pro-Yeltsin but against the Center for its own reason. It also suffers from wage arrears.

Heyward Isham (Institute for EastWest Studies): *How would you describe the general mood in Perm not only vis-a-vis Moscow but also with regard to the regional authorities? Also, has there been any effort made to attract more foreign investment, and to what*

effect?

Oracheva: Perm is a politically moderate region, considered to be consistently pro-reform and pro-Yeltsin. Additionally, it is a very stable region and one can clearly trace continuity in its politics, which is good for business. At the outset of reforms, attracting foreign investment was one of the important items on the domestic agenda. One of the new committees created in the reformed regional legislature was a committee on international economic relations and regional politics, headed by a very experienced person. Perm's first foreign contacts were with Great Britain, largely in the area of cultural exchange. Eventually, contacts expanded to other countries and economic issues as well.

More and more companies are opening offices in Perm, including those already represented in Yekaterinburg. They like the region's stability as well as its well-educated human capital. Perm is not too far from Moscow, yet far enough to be independent. There is a special tax program for attracting foreign investment, including some tax holidays, reasonable leasing arrangements, etc. At the same time, the region is careful not to sell out its domestic industries, as in the case of the jet engine production plant Permskie Motori, where a "cooperative arrangement" with foreign investors like Pratt & Whitney was chosen instead of just selling the plant's shares to them. Foreign investment in Perm is steadily growing, although probably not by leaps and bounds as in some other regions, such as Novgorod.

Solnick: *In your talk you mentioned the southern regions of Russia as "non-democratic" and consistently violating human rights, which sounds much like the Southern United States well into this century. Also, you described the resentment caused by the asymmetrical federal system, yet Canada's asymmetrical system with Quebec and Spain's asymmetrical system with the Basque region come to mind. Can you elaborate on the extent to which Russia's asymmetries in federal relations and democratization processes should be particularly troubling?*

Oracheva: The difference in Russia is that the constitution claims symmetry in federal relations, proclaiming all its subjects to be equal. The Spanish constitution does not state that regions are equal, there are "historical communities" and ordinary regions and each is allotted different kinds of powers. So, Russia must either institutionalize the asymmetry, as well as explain why republics should have more power than ordinary regions, or it should set up another type of federal relations. You can not have both a federal and a unitary state in the same country. If we look at the relationship between Tatarstan and the Center, we see a kind of confederation, at least from the republic's point of view. When you look at the Center's relations with most other regions, especially the economically weak and resource-poor ones, you observe a unitary state. That is why I think non-institutionalized asymmetrical federalism is a transitional state: Russia might either move toward proper federalism with some asymmetrical arrangements made in special cases, or it might move to a looser federation or even to confederation.

Solnick: *I agree with you that asymmetry is problematic in so far as it causes conflict. But I question your point on the asymmetrical arrangement being temporary. Yes, the*

constitution claims that all subjects of the federation are equal, but it is a very ambiguous statement. As far as Moscow is concerned, there is room for some bilateral treaties for which there are provisions in the constitution. Much of the difference on the source of asymmetry has to do with the Center's willingness to enforce federal laws against regions that violate them. There is no dispute that regions violate federal laws, but the real question is where the federal government chooses to crack down on the violators, which is the key source of asymmetry. This looks not so much like the Spanish case, where the asymmetry is legally defined, but like the American case where states violated constitutional rights of whole groups of citizens based on ethnicity in geographically defined regions but were often ignored by the federal government for political reasons. And that persisted for a long period of time.

Oracheva: I agree that asymmetrical relations, especially in the human rights area, could survive for a long time for purely political reasons. But it is more important that they exist in interbudgetary relations. How about taxation? When it comes to federal taxation, regions can negotiate how much they will pay in taxes, which complicates federal relations. When ethnic republics like Tatarstan negotiate favorable tax treatments, it causes ordinary regions to ask: Why do they get the benefits? Some ethnic republics, moreover, have very few members of their titular ethnic minority living on their territory. Why should they have tax privileges simply because they happen to be named after an ethnic group? In fact, asymmetrical federalism and the adopted practice of interbudgetary relations could re-enforce the already existing disparity between rich and poor regions.

Robert Orttung (Institute for EastWest Studies): *Can you share possible scenarios on how the federation will evolve in the future? Is there an optimistic or a pessimistic scenario?*

Oracheva: There are possibilities of cooperation between republics and regions in the form of special agreements. Perm, for instance, has a kind of agreement with Tatarstan, given its large Tatar minority. Also, regions and republics readily cooperate in inter-regional associations, especially when they can form a united front against the Center. But the asymmetry of federal relations hinders those forms of cooperation. If there were some kind of clear federal law that would outline the position of different regions within the federation, especially in the area of taxation, everybody would be much happier.

Natan Shklyar (Institute for EastWest Studies): *I am wondering whether or not the fact that ordinary regions get upset over special privileges granted to the ethnic republics will be fatal to the federation. It seems to me that when ordinary regions see special benefits negotiated by ethnic republics out of the Center, this should be an impetus for them to negotiate similar arrangements as well, and many of them have done just that. It seems that republics do not so much push their ethnic "specialness" but rather manage to act as pragmatic negotiators. So, the pragmatic regions should be following their example, instead of complaining about the benefits that ethnic republics are getting. And that is the key to this asymmetric federation's long-term survival: the fact that Moscow is open to negotiate both with ethnic republics like Tatarstan and ordinary regions like*

Sverdlovsk Oblast.

Oracheva: I agree that the more powerful and pragmatic regions are, the better treaties they will have with the Center, and Sverdlovsk Oblast is arguably one of the most powerful ones. However, leaders of ethnic republics, like Tatarstan President Mintimer Shaimiev for example, are not fully satisfied with the ordinary regions getting the same degree of power. They want to keep the republics' special status in the federation despite the constitutionally proclaimed equality principle. Asymmetrical relations are good for the transition period, when everybody is trying to grab as much power as possible. But for the long term, it should somehow be institutionalized in the constitution and federal laws. Otherwise, when a new president or new governors come to power, the negotiation process will begin again.

Radoslav Pektov (Institute for EastWest Studies): *To what extent can regions compensate for the shortages in tax collection by the Center?*

Oracheva: About two-thirds of regional budgets come from taxation shared between Moscow and the regions, while one-third comes from purely regional taxes. Therefore, regional budgetary resources are rather limited. However, regions try to compensate for the budgetary shortages by creating special non-budgetary funds (education funds, food funds, agricultural funds, road funds, etc.). That works better in donor regions than in recipient regions. Either way, budgetary shortages due to payment arrears from the federal budget pull resources away from other economic and social priorities. That is one of the reasons regions seek direct foreign investment: to have additional income.

Orttung: *Looking forward to the future Duma and presidential elections, do you see much support in the regions for somebody like Moscow Mayor Yuriy Luzhkov?*

Oracheva: Luzhkov is rather popular in Perm. During the last mayoral elections, he gave his support to the incumbent, who nevertheless lost. People like him for what he did for Moscow, and of course everybody would want the same thing for their own region. However, I am not sure people will necessarily vote for him because he does not know the regional situation very well and Moscow is always considered a different case. Candidates with more experience in regional governance might get more support.

Orttung: *Can you comment on the development of political parties in Perm? Do you see strong parties emerging in the region?*

Oracheva: Not really, even though we do have branches of large parties, like the Communists, Russia's Democratic Choice, Our Home is Russia, etc. The Liberal Democrats have ceased to exist in Perm due to some scandals, and all the leaders have migrated to General Lebed's movement. Also, almost all of the offices of our political parties are located in one building owned by the regional administration. So, they all sit next door to each other. What was most interesting, when I interviewed leaders of our political parties, is that they would criticize federal and regional policies but everybody would say almost in unison that the governor is good for the region.

Orttung: *Do you think it is dangerous that political parties are not developing in Russia?*

Oracheva: I don't think it's dangerous, it's just a different type of politics. It also illustrates that traditional party competition associated with democracy has not developed in Russia yet. Especially on the regional level, politics are personality driven. When we have assembly elections in Perm, for example, most candidates run as independents and not party representatives.

Anya Schmemann (Institute for EastWest Studies): *Can you comment on the demographic changes in Perm? Do young and educated people tend to leave?*

Oracheva: Perm is an educational and cultural center, so young people tend to stay and many of them find business opportunities as well. Sometimes they enter politics on various levels. There was a migration to Germany some time ago, when many of our ethnic Germans left, but the peak of out-migration has definitely passed.

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BREAKING NEWS

POLITICS

INCUMBENT GOVERNORS LOSE IN LIPETSK... In the 12 April gubernatorial election, Lipetsk Governor Mikhail Narolin, 64, lost his post after winning only 14 percent of the vote. Chairman of the oblast legislature Oleg Korolev, a generation younger than the incumbent, won 79 percent of the vote. The victory was a major surprise for the numerous bankers who backed Narolin, not least because Lipetsk is a relatively wealthy region that boasts free transportation and relatively high salaries. In the Federation Council, Korolev is deputy chairman in charge of the power ministries.

During the campaign, Narolin stressed that he did not want to live as "a Communist or as a capitalist, but as a human." Korolev is hard to define politically. During his campaign, he expressed support for hard- and soft-line Communists, Grigori Yavlinskii's Yabloko, and even former First Deputy Prime Minister Anatolii Chubais. He also boasted of strong contacts in Moscow and of his youth. The Communist дума member from the region, Vladimir Toporkov, withdrew from the race at the party's urging in support of Korolev. Federation Council Chairman Yegor Stroev had good relations with both candidates and the local business community was divided between them. No major policy changes are expected from the new governor. (*Izvestiya*, 11 April)

... AND IN PENZA. Governor Anatolii Kovlyagin won only 13 percent of the vote in Penza, losing to the "strong manager" and raion head Vasilii Bochkarev, who took 58 percent of the vote. Enemies describe Bochkarev as the "local Klimentev," the Nizhnii Novgorod candidate with a criminal past who won the recent mayoral elections there and is currently in jail. Bochkarev is obviously rich, according to *Russkii Telegraf* (10 April). During the campaign he controlled one of two local TV stations and had the support of several newspapers. In a region where \$2 million is the normal campaign expenditure, his campaign cost an estimated \$5 million to \$6 million. He is rumored to own property in Portugal.

However, Moscow views him as a dynamic ruler who has stimulated the growth of small- and medium-size enterprises. All of his relatives, including his wife, are involved in business, but because they conduct business outside his district, the procurator found no conflicts of interest. Businessmen backed his candidacy, hoping he could spread his success throughout the oblast. However, as governor and a member of the Federation Council, some conflicts of interest between his need to rule impartially and his family's business interests seem possible.

The incumbent Kovlyagin ran a very modest campaign. Yeltsin's surprise decision to sack the government particularly hurt him, depriving him of the opportunity to stress his good connections in Moscow. He is on the Political Council of Viktor Chernomyrdin's Our Home is Russia and had been entirely loyal to Yeltsin during his tenure.

Izvestiya (14 April) argued that the new governors had no ideas that distinguished them from their predecessors. Yeltsin's administration was pleased by the results and even claimed to have told the incumbents not to run. (*Russkii Telegraf*, 14 April)

ROSSEL'S SUPPORTERS LOSE IN SVERDLOVSK OBLAST. With voter turnout at 37 percent, Sverdlovsk Oblast voters on 12 April elected a legislature that displeases Governor Eduard Rossel. Our Home-Our City, the party of Rossel-rival Yekaterinburg Mayor Arkadii Chernetskii, won 21 percent of the votes in the party-list balloting for the lower chamber of the

bicameral legislature. The Communists and Agarians won 11 percent, while Rossel's Transformation of the Urals won only 9 percent. Fourteen percent of the voters chose "none of the above" on the ballot. The 15 April *Nezavisimaya gazeta* charged that voters sent a strong message of protest to Rossel because many wages have remained unpaid while the governor spent large sums rebuilding his residence and preparing for the Russian-German-French summit, which Yeltsin relocated to Moscow at the last minute. Additionally, despite Rossel's rhetoric, the power-sharing treaty he signed with Moscow did not give him full control over the region's resources, forcing him to share much of the income with the federal government. In recent months, it became clear that Rossel depended on money from Moscow Mayor Yurii Luzhkov's supporters, a connection that did not boost the popularity of Transformation of the Urals in Sverdlovsk. (*Nezavisimaya gazeta*, 14 April)

Most of the deputies elected to the upper house also oppose Rossel, according to RFE/RL's *Newsline*. Among the losers were Aleksandr Shaposhnikov, the speaker of the legislature's upper house and chairman of Rossel's Transformation of the Urals party.

KONDRATENKO EXPELS AMERICAN TRAINERS FROM KRASNODAR. Two employees of the US National Democratic Institute (NDI - <http://www.ndi.org/>) left Krasnodar Krai in late March after being harassed there. They were holding seminars on party building for members of the local branches of Yabloko, Our Home is Russia, and Russia's Democratic Choice and conducting advocacy training for members of 25 local civic groups. Armed police broke up one of the seminars on charges that NDI employees had violated their visas. Those allegations were groundless, however, because the visas were valid and included a notation for Krasnodar. In a radio broadcast shortly before the incident, Krasnodar Governor Nikolai Kondratenko claimed the lecturers were foreign intelligence agents. Kondratenko has gained increased notoriety for his numerous anti-Semitic statements. Krasnodar will hold legislative elections this fall. After the incident, the trainers held a fourth seminar, according to NDI officials. The organization hopes to continue working in the region. (*Kommersant Daily*, 1 April and *Moscow Times*, 2 April)

DEMOCRATIC PARTY OF RUSSIA LIKELY TO BACK STROEV. The Democratic Party of Russia (DPR), now informally led by Sergei Glazev, the head of the Federation Council's Analytical Department, is likely to back Federation Council Chairman and Orel Governor Yegor StroeV as its main political sponsor. Glazev has close ties to StroeV and is supporting Orel party leader Vladimir Zyabkin as the party leader at the next congress. In the early 1990s, the DPR was one of the largest parties in Russia and even crossed the 5 percent barrier in the 1993 Duma elections. Its founder, Nikolai Travkin, has since left, as has filmmaker Stanislav Govorukhin, who with Glazev split the party in 1995. The party still has a relatively strong regional network and could provide an organizational base for a presidential bid by StroeV. The party could also build a pro-governor faction in the next state duma. Currently, many governors are unhappy with the role the lower house plays in Russian politics and they hope to build support there. The Russian Regions faction has no ties to the governors and tends to act in concert with the pro-government Our Home is Russia. (*Nezavisimaya gazeta*, 10 April)

GOVERNMENT CRACKS DOWN ON GOVERNORS. At a meeting on 9 April, the government declared its anger at seven or eight unnamed regions that have not paid their workers. The feds sent 700 million rubles (\$120 million) to those regions but fear the funds will not end up in the hands of doctors, teachers, and the other public sector employees for whom they are intended. The governors have more powerful creditors than those voters. One unnamed governor of a northern region claimed he had to take a loan from a Moscow bank to meet pressing needs, using his federal transfer as collateral. Now the money intended for the region does not even leave Moscow, going instead straight to the bank. (*Russkii Telegraf*, 10 April)

ZHIRINOVSKY'S MAN WINS IN TYVA. According to preliminary data, Aleksandr Kashin, a member of Vladimir Zhirinovskiy's Liberal Democratic Party, won the mayoral elections in Kyzyl, the capital of Tyva. The LDPR has elected only one governor, Yevgenii Mikhailov in Pskov Oblast. (*Segodnya*, 7 April)

NAZDRATENKO BACKS KIRIENKO... At an 8 April news conference, the Primorskii Krai Governor expressed support for the confirmation of acting Prime Minister Sergei Kirienko. Nazdratenko said the "young pragmatist" was capable of separating politics and economics and that if the ideas they had discussed were implemented, Primorskii Krai would not be on the verge of another energy crisis. The governor expressed concern over last week's explosions on the krai's military bases because in contrast to past cases, working material rather than stockpiled and unused munitions exploded. The governor's arch rival, Vladivostok Mayor Viktor Cherepkov, will have a chance to seek a second term in elections set for July. Nazdratenko has already announced his intention to seek another term in 1999. (*Vladivostok*, 9 April)

...AS DO TULEEV AND MAKSYUTA. Hoping to convince the дума to confirm acting Prime Minister Sergei Kirienko on 17 April and avoid prolonging the government crisis, Kemerovo Governor Aman Tuleev and Volgograd Governor Nikoai Maksyuta published an open letter to Communist leader Gennadii Zyuganov asking him to back Kirienko's confirmation in the 16 April edition of *Izvestiya*. The regional leaders cited the need to preserve stability in the country and warned that disbanding the дума would only serve the interests of the banking oligarchs who want instability. They described Kirienko as a compromise candidate under the circumstances. Both governors have strong ties to the Communist Party, although Tuleev also served in former Prime Minister Chernomyrdin's cabinet.

CHUBAIS CRITICAL OF YAKOVLEV. Former First Deputy Prime Minister Anatolii Chubais heavily criticized St. Petersburg Governor Aleksandr Yakovlev in an article published in the St. Petersburg paper *Nevskoe vremya*. Chubais praised Leningrad Oblast Governor Vadim Gustov for his efforts to build a port at Ust Luga and secure an agreement from Ford to assemble cars in the oblast, noting that he had seen nothing similar from Yakovlev. Chubais supported the former speaker of the St. Petersburg Legislative Assembly, Yurii Kravstev, in his

losing battle with Yakovlev. Chubais said he might consider running for governor of the city and scored Yakovlev for his attacks on the media. According to the *St. Petersburg Times* (13-19 April), Yakovlev has been accused of searching journalists' homes, arranging for a critical newspaper (*MK in Pitere*) to be bought by a friendly bank, and trying to shut down the city's Channel 5 TV station.

YAKOVLEV DEMANDS MORE SUPPORT FROM CENTER FOR ST.

PETERSBURG DEFENSE INDUSTRY. On 10 April St. Petersburg Governor Aleksandr Yakovlev led a meeting of defense enterprise directors at Smolny, demanding the as yet unformed government pay local defense enterprises for completed state orders. *Kommersant Daily* (11 April) noted that the tone of Yakovlev's statements was much more forceful than during the first two years of his tenure. Part of the change could stem from the fact that Yakovlev's old enemy Chubais is no longer in office. According to statements at the session, Moscow debts to the city's defense plants are more than 1 billion rubles (\$170 million). (*Kommersant Daily*, 11 April)

YELTSIN NAMES FSB MAN AS REPRESENTATIVE IN KARELIYA. President Boris Yeltsin named a former Federal Security Service (FSB) colonel, Vladimir Zlobin, as his personal representative in the republic of Kareliya on 8 April. Unlike Viktor Kondratov, who is simultaneously Yeltsin's representative in Primorskii Krai and the head of the regional FSB there, Zlobin resigned from the security agency before taking his new job. Yeltsin is concerned about the recent departure of Swedish paper producer AssiDoman's from the republic after it failed to launch a profitable venture at the Segezha Paper Mill. Executive elections will be held in the republic on 26 April and Yeltsin wants to ensure that his interests will be represented in border republic regardless of the outcome. Ushakov is the first presidential representative to be named to Kareliya. Now only Bashkortostan, Tatarstan, and Sakha lack a presidential envoy. (*Nezavisimaya gazeta*, 15 April)

LEBED LIKELY TO LOSE IN KRASNOYARSK. Observers of the Krasnoyarsk elections increasingly agree that challenger Aleksandr Lebed is likely to lose his attempt to unseat incumbent Valerii Zubov (*Russkii Telegraf*, 14 April). Several party leaders (including the local Communists, Zhirinovskites, and Congress of Russian Communities) in Tula, the region that elected Lebed to the дума in 1995, have warned Krasnoyarsk voters not to support him because he allegedly sold out their interests and did nothing to help the region. (*Kommersant Daily*, 15 April)

ECONOMICS

RUSSIA, EUROPEAN UNION DROP TEXTILE QUOTAS. From 1 May, Russia and the European Union (EU) will drop quotas on textile imports. Between 1993 and 1996, the EU limited Russian imports to \$140 million a year and Russia limited EU imports to \$750 million. When that three-year agreement ended, Russia offered to gradually remove all quotas by 2005, but the EU refused and introduced its own quotas in 1997. When Russia threatened to retaliate

beginning 1 May 1998, the EU agreed to drop all quotas. The deal should help major textile producing regions such as Ivanovo Oblast. (*Ekspert*, 6 April)

SMALL BUSINESS IN RUSSIA. Russia's 850,000 small businesses employ 6 million people, less than 10 percent of the working population, and produce about 10 percent of GDP. In western countries, between 50 percent and 75 percent of the population works in small businesses, producing between 50 percent and 67 percent of the GDP. The federal government professes support for the sector but little has been done to back that support. (*Finansovye izvestiya*, 9 April)

MOSCOW FINES PROCTER AND GAMBLE, MCDONALD'S. Moscow's Interdepartmental Commission on Foreign Workers has fined Procter and Gamble 83,490 rubles (\$14,000) for employing ten workers without permits and McDonald's 33,396 rubles (\$5,600) for employing four undocumented workers. That is the first use of the law on responsibility for violations of laws on foreign workers, which was adopted last year. According to *Kommersant Daily* (9 April), the law may be illegal because it violates federal legislation and the two firms could probably have the fees overturned if they appeal to the courts. Procter and Gamble has also run into trouble for allegedly improper use of children in its advertisements

ST. PETERSBURG CONFERENCE TO ATTRACT NATIONAL, REGIONAL ELITE. President Yeltsin recommended that national and regional politicians and businessmen participate in the second annual CIS Economic Forum, scheduled for St. Petersburg on 17-20 June. The forum will be held under the auspices of the CIS Interparliamentary Assembly, which is chaired by Federation Council Chairman Yegor Stroeve. Stroeve said a majority of the country's regional leaders plan to participate, as do International Monetary Fund Director Michel Camdessus and United Nations General Secretary Kofi Annan. Last year, the first conference did not attract any Russian government members and the expected dialogue between the center and the regions did not occur. The Kremlin may now regard the forum as a way to let the regions release steam far from Moscow in the pleasant atmosphere of St. Petersburg's White Nights. (*Kommersant Daily*, 9 April)

OIL INVESTMENT COULD REACH \$65 BILLION. Foreign investment in the oil industry could reach \$65 billion if Russia passes legislation supporting production-sharing agreements, according to Russian Bank for Reconstruction and Vice President Nikolai Drozdov. The Duma is scheduled to discuss the stalled legislation on 26 April, but the government shakeup may disrupt those plans. (*Moscow Times*, 10 April)

TRANS-SIBERIAN RAILROAD TO DEMONSTRATE ITS SPEED IN SHIPPING. Beginning on 16 April, the Transsiberian Railroad will demonstrate that in just nine days it can transport 20-foot containers from Nakhodka, in the Russian Far East, to Brest, Belarus. During its heyday, the railroad carried 140,000 such containers, but following deteriorating relations with Japan in the 1980s that traffic dropped to 20,000. Boat shipments from the far east to Europe take 35 days. Russia hopes to attract business from companies that currently using

routes through China. The trial run will carry electronics, small appliances, and automobile spare parts valued at \$2.5 million from Japan and South Korea. (*Izvestiya*, 15 April)

KALININGRAD'S KIA-BALTICA ON VERGE OF COLLAPSE. The Kia automobile assembly project set up in Kaliningrad Oblast last year is near collapse after the tax police seized the property of the Kia-Baltika and Avtotor-1 plants for chronic failure to pay federal and regional taxes. Kia-Baltika owes 2.28 million rubles (\$380,000) to the federal government alone. (*Kommersant Daily*, 15 April) The plants, both subsidiaries of Avtotor, were supposed to assemble Kia light automobiles. The Avtotor-1 plant has been idle for the last several months, apparently because of the economic problems of its partner, South Korea's Kia Group. The Kia-Baltika plant only worked at 5 percent capacity until February, when it shut down completely. Some production has resumed, but it is not expected to last. It is unclear whether Kia's new owners will want to continue the Kaliningrad project. If the debts are not paid by the 15 May deadline, the plants will likely be declared bankrupt. According to *Kommersant Daily* (11 April), Germany's BMW and Japan's Isuzu may be interested in using them.

ST. PETERSBURG SUFFERS BUT LENINGRAD OBLAST BENEFITS FROM POTENTIAL LATVIA SANCTIONS. St. Petersburg would be one of the most adversely affected regions if Russia follows through on its threats to implement economic measures against Latvia, but Governor Aleksandr Yakovlev has remained silent on the issue. Last year trade between Petersburg and Latvia was \$234 million, with exports from the city totaling \$160 million. In an interview with the local press, Leonid Dmitrichenko, an employee of the city committee on foreign ties, said sanctions "would not be profitable to anyone" but he refused to repeat the comment to a *Kommersant Daily* (15 April) correspondent. In contrast, Leningrad Oblast Governor Leonid Gorbenko fully supports the anti-Latvian measures. His region would benefit greatly if Russian oil were exported from as yet unconstructed Leningrad ports rather than Latvian ones. However, Moscow does not seem ready to increase subsidies for port construction. Leningrad has little trade with Latvia, and cheap products from the country undercut the more expensive local goods. (*Kommersant Daily*, 15 April)

BUSINESS BRIEFS

-- **YUGRANEFT** announced that on 7 April the Scottish **SIBIR ENERGY** (a subsidiary of Pentex Energy) won a tender to develop the southern portion of the Priob oil deposit in the **KHANTY MANSII AUTONOMOUS OKRUG**. The company is expected to invest more than \$1.2 billion over the next ten years. **AMOCO** originally won rights to the deposit in 1993, but the okrug administration decided to revoke them last December after Amoco failed to begin development work on the project. Amoco wanted to develop the site on the basis of a production-sharing agreement but was unable to secure such an arrangement. Yugraneft found a new partner before Amoco's rights were withdrawn. (*Russkii Telegraf*, 8 April)

-- The package delivery service **DHL** plans to invest \$5 million to build up infrastructure and increase its local partnerships with airlines in Russia this year. The company plans to open 20

agencies and eight representative offices throughout Russia, including Krasnoyarsk, Samara, Voronezh, Irkutsk, and Kaliningrad. In addition to its international sorting and customs facilities in Moscow and St. Petersburg, it will open hubs in the airports of Samara, Novosibirsk, Yekaterinburg, and Vladivostok. (*Russkii Telegraf*, 8 April) The company began working in Russia in 1984. (*Kommersant Daily*, 11 April)

-- The **SAMARA OPTICAL CABLE COMPANY** (51 percent) and **CORNING INC.** (49 percent) opened a joint venture in Samara to produce optical cable. To date, only the first production line, capable of producing more than 7,500 km of cable annually, has been opened. The plant already has orders from Svyazinvest and the Ministry of Fuel and Energy. (*Kommersant Daily*, 10 April)

-- A delegation from **UDMURTIYA**, led by Government Chairman Pavel Vershinin, returned from South Korea last week but did not progress in extending the strategic automobile assembly partnership between **IZHMASH** and **HYUNDAI** for a third year. Hyundai is focused on its own problems caused by Korean economic crises and its efforts to take over the bankrupt Kia Motors. Izhmash hopes Hyundai will agree to invest \$250 million in an assembly project to produce 170,000 cars a year. Last year, however, plant production was only 8.6 percent of what it was in 1991. A newly appointed director, Takhir Dautov, resigned after only 14 hours, declaring that the firm's leadership was still working at the "level of 1985." (*Kommersant Daily*, 9 April and *Izvestiya*, 15 April)

-- The Swedish **ELECTROLUX** is likely to invest \$30 million to \$50 million in a factory to produce refrigerators in a Russian region, according to *Russkii Telegraf* on 10 April. The company, which has been debating whether to enter the Russian market for three years, has not yet made a definite decision. The competition is meanwhile surging ahead. Italy's **MERLONI ELECTRODOMESTICI** had turnover of \$300 million in 1997. The firm produces electric stoves and washing machines in Fryazino (**MOSCOW OBLAST**). **BOSCH-SIEMENS HAUSGERATE GMBH** sold DM370 million worth of products in Russia last year and is making gas stoves in Chernogolovek (Moscow Oblast). (*Russkii Telegraf*, 10 April)

-- **LEMAN BANKHAUS**, the German branch of the American investment bank Lehman Brothers, lent **YAMAL-NENETS AUTONOMOUS OKRUG** \$100 million for a year at 12.25 percent interest. Further loans are possible once the region obtains a credit rating. It is planning a \$450 million Eurobond issue. (*Segodnya*, 11 April)

-- **PIONEER FIRST** will begin selling its mutual funds in **YEKATERINBURG** and **ST. PETERSBURG** this month. (*Segodnya*, 10 April)

-- The **SAKHALIN-1** consortium announced it will invest \$200 million in exploratory work this year, considerably less than previously planned. The consortium includes Exxon, Japan's Sakhalin Oil and Gas Development Company, and Rosneft. (*Segodnya*, 10 April) Last September, the group planned to invest between \$600 million and \$900 million (see *IEWS*

Russian Regional Report, 18 September 1997). Plans may be delayed over uncertainty about the privatization of Rosneft.

-- The **VERKHNESALDINSKOE TITANIUM WORKS** near Yekaterinburg (**SVERDLOVSK OBLAST**) produces 10 percent of the world's titanium, used in aircraft manufacturing. Its customers last year included Boeing, Airbus Industries, General Electric, and Pratt & Whitney and 45 percent of its output was exported. Boeing recently placed a five-year, \$175 million order. Output is expected to be 11,500 metric tons in 1998, up 15 percent. A share issue planned for May or June is expected to raise about \$210 million. (*Moscow Times*, 7 April)

-- **PERM'S SOLIKAMSK MAGNESIUM PLANT** last year signed a deal to sell \$90 million worth of magnesium alloys to General Motors. Now it is negotiating with Ford, Mercedes-Benz, and Volkswagen. The plant expects \$3 million in profits this year because it is switching the bulk of its production from magnesium to more expensive magnesium alloys. It has also developed technologies to extract magnesium cheaply from asbestos mined in Sverdlovsk, and has stopped producing unprofitable rare earth metals. Magnesium could be a serious competitor to aluminum in the future. (*Moscow Times*, 7 April)

-- **CONTINENTAL**, Europe's second largest tire manufacturer, has offered to create a DM300 million joint venture with the **MOSCOW TIRE FACTORY**. At home Continental is working with Daimler-Benz and hopes the AZLK-Renault, GAZ-Fiat, and VAZ-Opel joint ventures will use its Russian-produced tires. The Germans are prepared to invest DM150 million in the project. The plant could eventually produce 4 million tires yearly. The contract could be signed by July and production launched in early 1999. (*Kommersant Daily*, 11 April)

-- **CADBURY** is launching a drive to expand its chocolate sales in the Russian regions. Its representatives will visit 13 Russian cities to find new distributors. Now Cadbury has 50 major distributors and more than 5,000 trade partners. Cadbury has production facilities in **NOVGOROD OBLAST** and its main foreign competitors on the Russian market are Mars, Nestle, and Stollwerck. (*Kommersant Daily*, 15 April)

PATTERNS OF REGIONAL DEVELOPMENT

TVER LEGISLATORS OPPOSE REFERENDUM ON LAND RIGHTS. Tver's Legislative Assembly held hearings on land property rights on 8 April. Lack of procedural experience with parliamentary hearings made the agenda and the discussion vague. Participants were often uncertain of which topic was on the table: drafts of the federal Land Code, the right to buy and sell land, or the dire situation of the oblast's agricultural sector. High-level officials such as Governor Vladimir Platov, Yeltsin's representative in the region Tamara Karyakina, and Tver's State Duma deputies attended the hearings from the Communist Party, Tatyana Astrakhankina and Vladimir Bayunov.

With the support of Karyakina and the speaker of the Legislative Assembly Vyacheslav

Mironov, Governor Platov proposed an oblast referendum on the right to buy and sell land. However, other participants spoke sharply against that initiative, fearing a negative outcome. According to a March 1998 survey by the oblast statistical agency, 68 percent of Tver Oblast residents were against the right to buy and sell land, 22 percent supported the idea, and the rest had no opinion. The poll reflects a prolonged crisis in the agricultural sector and the concomitant lower living standards for the farmers. The conservative attitude of Tver Oblast residents toward land rights reflect the general public's attitude toward reforms, which have failed to produce positive results for much of the population. At the close of the hearings, the participants adopted a resolution denouncing the right to buy and sell land and called on the State Duma to speed up its work on the Land Code. - Boris Goubman in Tver

NIZHNIi GOVERNOR WINS OBEDIENT LEGISLATURE. Judging from the first session of the new Nizhnii Novgorod Oblast Legislative Assembly, neither the oblast parliament nor its speaker will be a viable political counter-balance to the regional administration. Deputies peacefully re-elected incumbent speaker Anatoly Kozeradsky and his deputy Aleksandr Listkov. Governor Ivan Sklyarov, who was present at the meeting, expressed satisfaction at the body's choice, which he said should insure continuous stability. Sklyarov also said he plans to ask the state duma to adopt a law preventing convicted criminals from seeking public office, referring to the recent scandal surrounding the election of Andrei Klimentiev as mayor of Nizhnii Novgorod (see *IEWS Russian Regional Report*, 2 April). It is clear even now that the Legislative Assembly will rarely oppose the governor's policies. However, a small opposition faction could form around Dmitry Bednyakov -- a former Nizhnii mayor and one of the losers in the 29 March mayoral elections -- who gained the support of nine deputies for the speaker's job. It is unclear which groups will most actively lobby the new parliament, but the number of industrial managers in the assembly increased two-fold, to a total of 19. The nine heads of raion administrations represented in the assembly could form another pressure group. Whether the oblast authorities can overcome the damage done by the mayoral election scandal to Nizhnii's reputation as a bastion of reform is uncertain. - Yurii Rodygin in Nizhnii Novgorod

ULYANOVSK ADOPTS UNIFIED CITY BUDGET. For the first time in its recent history the city of Ulyanovsk will have a consolidated budget. Approved unanimously by the city duma, the 1998 budget will cover expenses for the four raions that comprise the city. Previously, each raion had a separate budget in addition to the overall municipal budget. The mayor's office is confident the unified budget will make municipal financial management easier and allow city leaders to balance uneven development throughout the city. Ulyanovsk inherited the old separate-budget system from the Soviet era, but the city managed to break down the last remnant of the old system only now.

Ulyanovsk's new mayor, Vitaly Marusin, deserves credit for the initiative, which he pursued for several reasons. First, unlike in the old Soviet system, the city raions are not considered municipal formations and thus are not entitled to their own budget under the federal law on local government. Second, given the mounting budget deficit, only a centralization of the funds would allow the city to finance salaries and protected social programs. Third, five budgets in one city bred uncoordinated and often contradictory financial policies, with the city

and the raions stepping on each others' toes. Fourth, because corporate entities were the main contributors to the local budgets, raions hosting large industrial enterprises enjoyed higher revenues and better conditions, leading to uneven rates of development in the city. Finally, the raions share a unified municipal infrastructure, which must be financed and managed from one source.

Ulyanovsk legislators looked to Samara's successful experience with a consolidated budget in adopting the new system. After prolonged debates, raion administration heads acquiesced to the дума's decision. However, they must now adapt to the new system and turn to the city for every expense. According to the city's chief financial officer, Vladimir Fedoseev, raion-level financial controllers will help draft the expense portion of the city budget to ensure that their districts are represented. Overall, Fedoseev feels the consolidated budget is the only way the city can regroup its resources and patch-up financial holes.

The city's 1998 budget provides for 496 million rubles (\$83 million) in revenues and 708 million rubles (\$118 million) in expenses. Given the 31 million rubles (\$5 million) federal subsidy for social programs, the budget deficit will amount to 25 percent. Healthcare and public education comprise the largest expense lines in the budget, 25.2% percent and 22.9 percent respectively. Social programs will receive more funds than in 1997, accounting for 15.6 percent of the budget. War veterans and invalids will receive subsidies for free public transportation. About 20 percent of the budget will cover the residential housing complex, even though that amount is much lower than what is required. For instance, the city allocated a mere 78 million rubles (\$13 million) for heating, while one heating season usually costs 400 million rubles (\$67 million). - Sergey Gogin in Ulyanovsk

CENTER-PERIPHERY RELATIONS

NATIONWIDE PROTEST ACTION PROVES DISAPPOINTING FAILURE. The 9 April protest action staged by the country's independent labor unions proved a major disappointment to its organizers. The walkout's main goal was the immediate payment of wage arrears owed to public sector employees by federal, regional, and local governments. Total wage arrears now amount to 58 billion new rubles (\$1 billion). (*Nezavisimaya Gazeta*, 10 April) Union leaders expected several million people to take part in the national protest action, but barely 1 million participated, according to some sources. (*St. Petersburg Times*, 13-19 April) The Ministry of the Interior claimed that no more than 109,000 people participated in 137 large protest actions across Russia. (*Kommersant Daily*, 10 April)

Protests were poorly attended in all major cities. St. Petersburg saw the largest turnout with 60,000 demonstrators, while Moscow's rallies attracted no more than 12,500 participants. (*St. Petersburg Times*, 13-19 April) In Vladivostok, union leaders claimed that 3,000 people from around Primorskiy Krai turned up, and many enterprises stopped work for two hours. (*Vladivostok*, 10 April) Almost 60,000 people demonstrated in the Kuzbas coal mining region, making both economic and political demands, including Yeltsin's resignation. (*Nezavisimaya Gazeta*, 10 April) Yet *Izvestiya* reported on 10 April that most coal mines continued to work and only 7,000 public sector employees and retired people demonstrated in the regional capital of Kemerovo. In Nizhnii Novgorod union leaders canceled mass protest

actions, in part because public sector employees received some of the money owed to them the night before the scheduled protests. (*Izvestiya*, 10 April) Small-scale demonstrations occurred in many major urban centers, but nothing out of the ordinary took place. People randomly surveyed on Moscow streets knew little about the protests. The media gave the event only moderate coverage. (*Nezavisimaya Gazeta*, 10 April)

There are several possible causes for the lack of public interest. First, overall stabilization of the Russian economy since last year has contributed to general satisfaction with living conditions and ordinary Russians have found ways to cope with wage arrears, usually in the shadow economy. Second, numerous protest campaigns over the past year, beginning with the 27 March 1997 nation-wide walkout, have made the government accustomed and unresponsive to rallies: protest actions are now a mundane part of Russian political life. Also, the walkout was poorly organized, with unions and the Communist opposition often working separately. Another cause of the poor turnout is that authorities not only helped run protest actions but also paid some back wages and pensions on 8 April, somewhat mollifying public discontent. Finally, the government shakedown in Moscow removed the protestors' main target. Yeltsin had sent the unpopular Chernomyrdin cabinet into retirement and there was no new government to serve as a target of discontent. Additionally, the day before the walkout, Mikhail Shmakov, the leader of the Federation of Independent Trade Unions of Russia, the main engine behind the event, met with Acting Prime Minister Sergei Kirienko and threw his support behind the leader who has yet to win the state duma's approval. The unions' 9 April fiasco is a good example of the weakness of Russian civil society, which is incapable of efficient mass mobilization and articulating its interests and is therefore largely inconsequential in the political process. - Natan Shklyar

PROTESTERS CRITICIZE MOSCOW, COMMUNIST GOVERNOR

by Alex Levinsky

BRYANSK--Despite pleas to the regional labor union's leadership not to stage protest actions against the oblast administration, Bryansk Governor Yuri Lodkin endured his share of criticism at the 9 April protest rally. About 9,000 people joined the demonstration, according to police sources. When many speakers began criticizing the regional government, Lodkin took the podium to denounce his opponents as "Gaidar's lackeys." However, representatives of Bryansk's large industrial enterprises accused the governor of breaching his campaign promise to make social protection issues a priority. Lodkin then promised to pay all back wages to public sector employees by 20 April.

The only group to carry Russia's national tricolor flag in the sea of red banners was the local movement of retired military officers. That non-conformist gesture provoked attacks from pro-Communist rally participants. The local Liberal Democratic Party backed out of participating in the rally after discovering that the Communist oblast administration would run the event.

The oblast federation of trade unions staged a well-organized protest march, even though, to accommodate the governor, the event was held on Karl Marx Square rather than in front of the oblast administration building. While most banners and slogans demanded an international trial for Yeltsin in the Hague, some placards suggested the need for new leadership

in Bryansk. The governor's critics demanded he be held responsible for his policies.

More than a few industrial workers stayed away from the protest. Union members at the Bryansk Milk Processing Combine expressed moral support but did not participate in the rally, arguing that similar actions had not been constructive. The union leader at the Bryansk Machine-Building Plant (BMZ), the region's largest enterprise, said oblast authorities do a poor job lobbying Moscow on behalf of local businesses. While they focus on milking the center for federal subsidies, BMZ's competitors from other regions gain production orders and can hire new personnel. Bryansk Oblast ranks 76th out of 89 regions in terms of direct investment in industry, and 62nd in terms of living standards.

The rally concluded when State Duma member Vasily Shandybin received a petition for Yeltsin's resignation signed by 30,000 Bryansk Oblast residents. Rally participants also suggested expressing no confidence in the leader of the Russian Federation of Independent Labor Unions Mikhail Shmakov because he supported the reforms of Acting Prime Minister Sergei Kirienko.

REGIONAL LEADERS PROPOSE WAY OUT OF ECONOMIC CRISIS. Several Siberian leaders met in Novosibirsk late last month to develop a program to overcome Russia's economic crisis. Attendees included Novosibirsk Governor Vitaly Mukha, Altai Krai Governor Aleksandr Surikov, and Tomsk Governor Viktor Kress, as well as the speaker of the Novosibirsk legislature, Viktor Leonov, and the speaker of the Altay assembly, Aleksandr Nazarchuk. Following the meeting, Governor Mukha, who also chairs the inter-regional association Siberian Accord, delivered the summit's recommendations to Acting Prime Minister Sergey Kirienko.

Anti-crisis measures included:

- introducing a zero tariff on rail transportation of basic cargo, such as coal, oil, construction materials, ores, timber, fertilizer, etc. within Russia's borders;
- providing for maximum employment through a large-scale program of constructing affordable public housing;
- expanding road construction;
- vigorously pursuing anti-monopoly policies;
- insuring regional government participation in the management of companies based in their regions which are crucial to the region's economic health;
- developing protectionist trade policies in the interests of domestic producers;
- lowering spending on government bureaucracy, creating regional banks on the model of the Russian Savings Bank, establishing a more orderly system of social payments, and transferring portions of customs duties to the budgets of regions where those duties are levied;
- and, strengthening government regulation of the foodstuffs market.

The proposal also suggests adopting several federal laws, including laws on railroad tariffs, arbitrary pricing policies, and the integrity of the vertical power axis in the executive branch of government. Additionally, the document calls for revoking the government's order on suspending electricity supplies to organizations already in debt to the energy sector, as well as suspending the president's edict on additional measures for better federal tax collection. -

Konstantin Kanterov in Novosibirsk

INTER-REGIONAL COOPERATION

URALS ASSOCIATION STRIVES TO BOOST ITS COHESION, INFLUENCE

by Igor Stepanov, *Delovoi Ural*

CHEL'YABINSK--Early in April the Association for Economic Cooperation of Urals Oblasts and Republics (the Greater Urals Association) met to review last year's accomplishments and develop an action plan for 1998 and the first quarter of 1999. Preliminary reports show that participating governors lodged plenty of criticisms against Sverdlovsk Governor Eduard Rossel, the association's president. They also called for closer cooperation among member regions and for greater association involvement in federal governance issues.

The Urals region is not autarkic, but an integral part of Russia and susceptible to the macroeconomic changes affecting the whole country. Positive economic developments in the Urals are largely attributable to Russia's decreased inflation, lower interest rates, and a halt in the decline of industrial production. Industrial production in 1997 remained consistent with the previous year. Regions like the Republic of Udmurtiya and Orenburg, Perm, Tyumen, and Chelyabinsk oblasts increased production levels from 1996. Bashkortostan's gross domestic product rose because of higher productivity in such sectors as agriculture, consumer goods, and services. On the negative side, investments declined, payment arrears rose, and loss-making enterprises increased. Urals leaders believe the region's positive trends can only be sustained with federal-level government industry regulation.

In an interview, a summit delegate from Chelyabinsk and an aide to the head of the Chelyabinsk Oblast government, Igor Lashmanov, said the strongest sentiment at the meeting was concern for the association's future. Created six years ago and composed of nine oblasts and republics, the association combines considerable economic potential and political clout: eighteen senators represent it in the upper chamber of the Russian parliament. Yet it faces powerful challenges, such as lower world prices for oil and gas, that affect natural resource exports and, thus, tax revenues for both federal and regional budgets. Nobody needs an association that is a toothless discussion forum. An effective working body that could help regions with budgetary problems is needed. That could be achieved through closer cooperation among members.

Greater Urals Association members are still poorly informed about each others' affairs, and the association has been unable to coordinate them, often with frustrating consequences. For example, Chelyabinsk Governor Petr Sumin complained that Sverdlovsk plans to produce tramway cars, competing with a Chelyabinsk company. Last year Bashkortostan bought 300 buses from a firm outside the Urals region, when neighboring Kurgan Oblast could have supplied the vehicles. The moral of the story is that the association's goal should not solely be joint lobbying in Moscow, but also helping member regions resolve local problems and promoting economic cooperation and a rational division of labor within the Urals.

Russia has eight inter-regional associations. Like the Great Urals Association, they all lobby for member regions. The Great Urals Association can take credit for some changes in the

latest tax code draft, which is currently being considered by the state дума. The association also created a coordinating council to deal with problems faced by the pharmaceutical industry (the American ICN Pharmaceuticals is currently building a factory in Chelyabinsk). The association placed the issue on the discussion agenda of the Russian cabinet of ministers back in February.

The latest issue on the association's agenda is the land code, currently under consideration in the state дума. One of the proposals submitted by the Greater Urals Association is that a State Land Bank conduct all commercial transactions concerning agricultural land. Additionally, the association believes that only agricultural cooperatives, not individual shareholders, should be able to sell land. It also believes the federal land code should allow regional land codes, which could eventually sanction private ownership of land.

ECONOMIC ISSUES

SATELLITE TV COMPANY SEEKS SUBSCRIBERS IN REGIONS. Russia's first commercial satellite TV company, NTV Plus, has opened a St. Petersburg regional office, which joins branches in Nizhnii Novgorod and Kazan. In the next two months the company plans to open offices in Yekaterinburg, Samara, Saratov, and Rostov-on-Don. The main goal of the regional offices is "to bring NTV Plus closer to viewers," said the company's Executive Director Yevgenii Yakovich. In reality, the most likely goal is to position NTV Plus better for conquering regional markets.

Out of 100,000 NTV Plus subscribers, St. Petersburg residents account for only 4,000, with another 3,000 in Leningrad Oblast. The vast majority of NTV Plus viewers are Muscovites. That situation seems peculiar given the company's unified pricing policy: regardless of the region, a viewer pays the same price for the satellite hardware (\$199) and the same monthly fee of about \$15. However, in Moscow both the company and its authorized dealers can install the hardware, while in the regions only the 3,000 dealers can do that.

A recent market survey revealed that the dealers' practices account for the slow rate of satellite TV penetration into the regions, Yakovich said. In most regions the total expense of subscribing to NTV Plus is much higher than in Moscow. The regular installation package assumes certain "standard conditions" in the viewer's household. If they are not met, which is often the case, additional installation procedures and charges apply. Dealers in the regions tend to charge exorbitant prices for additional installation services, thus making NTV Plus prohibitively expensive for many potential customers.

To counter the dealers' ruinous practices, NTV Plus now works directly in the regional markets. Today the St. Petersburg office competes with local authorized dealers to offer installation services. NTV Plus management, however, believes the market is large enough to accommodate everybody. According to the head of NTV Plus in St. Petersburg, five installation crews already work out of the office in Russia's northern capital. - Yurii Bryukvin (*Delo*) in St. Petersburg

IMPORTANCE OF OIL (AND IRAQ) GROWING FOR VOLGOGRAD. Anatolii Novikov, president of the largest oil company in Volgograd, Nizhnevolzhskneft (a branch of

LUKoil), believes oil will be increasingly important for the south Russian region. "In 1997 Nizhnevolzhskneft extracted 3.7 million tons of oil," he told *Delovoe Povolzhie* (April, #14). Additionally, Saratovneftegaz (Sidanko) extracted 600,000 tons of oil in the Volgograd region. By 2010 oil production in the region will be about 8 million tons per year, Novikov predicted.

Volgograd oil is of very high quality. And, most importantly, it is the cheapest to produce in Russia. Although extracting oil elsewhere in Russia is increasingly expensive due to the Siberian cold of Khanty-Mansii or the need for underwater drilling in Sakhalin, the cost of producing Volgograd oil in 1996-1997 remained stable, at 214,000 to 220,000 rubles (about \$35) a ton. Even with the slump in world oil prices, the low production costs keep Volgograd oil profitable.

Oil production is very important to the oblast because, according to Novikov's estimates, Nizhnevolzhskneft provides about 15 percent of Volgograd's regional budget.

The firm has big plans for developing Iraqi resources as well. Nizhnevolzhskneft won a competition within LUKoil to develop the technology for exploiting Iraq's Western Kurna field, one of the world's largest. After economic sanctions against Iraq are lifted, Volgograd may become the leading Russian city for Russian-Iraqi oil projects. - Ivan Kurilla in Volgograd

IRKUTSK OBLAST SPARS WITH BANK OVER COAL COMPANY. The Irkutsk Oblast administration petitioned the Ministry of Fuel and Energy to strip Promtorgbank of its right to manage the state share in the Vostsibugol Coal Company. Allegations made by Governor Boris Govorin suggest that the bank failed to fulfill its end of the bargain: so far, the coal miners' tax debt is growing, people are being laid off, and wage arrears are mounting.

Promtorgbank won the right to hold the government's share in Vostsibugol in trust at the 22 August 1997 tender. Its main competitor was Irkutsk-based Central Company East Siberian FPG, which already owned 16 percent of the company's stake. However, the special commission awarded the prize to the bankers, impressed by their sound business proposal. The tender was a first step in the overall reform of the Russian coal mining sector. As former Deputy Minister of Fuel and Energy Aleksandr Yevtushenko admitted, organizers of the tender left some rules ambiguous, causing the Irkutsk Oblast administration to question the auction's validity.

The bank became the legal trustee of the 41.49 percent share on 6 November 1997, paying a guaranteed deposit of 2 billion old rubles (\$333,000). The trust agreement, signed on 18 September, made Promtorgbank the trustee of the government's share in Vostsibugol for three years from the time its representatives entered the company's board. The agreement also stipulated an annual service fee of 90 million old rubles (\$15,000) to be transferred to the bank for the next three years.

Prior to the tender, Promtorgbank experts developed a detailed reform program for Vostsibugol, based on direct investment of real capital. In the first half of last year Vostsibugol made 491 billion old rubles (\$82 million) in profit, but after taxes and fines were deducted, the company posted a net loss of 271 billion old rubles (\$45.2 million). In its pitch, Promtorgbank promised to make Vostsibugol more attractive to investors by increasing its share price to 200 new rubles or 300 new rubles; insuring social stability; securing a steady resource and financial flow; providing for the firm's long-term sustainability and viability; insuring profit on capital; and

decreasing dependency on government subsidies from 241.5 billion (\$40 million) to 100 billion old rubles (\$17 million).

Speaking to the shareholders for the first time, Promtorgbank Chairman of the Board Mikhail Morgutov said the bank does not intend to invest its own resources in Vostsibugol. According to him, the main goal of the relationship is to bring order into the company's financial flows and develop new markets, not meddle with production processes or personnel policies.

Created in 1992, Promtorgbank is a part of Bioprocess-NIPEK industrial group and is headed by Kakha Bendukidze, who also chairs the board of Uralmash. Promtorgbank performs a wide variety of banking operations, involving stocks, bonds, and currency. - Natalia Michurina (Teleinform) in Irkutsk

TRANSAERO PUSHES LOCAL CARRIER FROM IRKUTSK MARKET. Moscow-based Transaero airlines began expanding into East Siberia back in 1995 by offering Moscow-Irkutsk flights three times weekly. Today, that route is offered daily. Two years ago Transaero opened three additional offices, including offices in Irkutsk and Angarsk. Initially only those offices could sell Transaero tickets, but today various agencies are authorized to sell tickets. Transaero has a sales agency in Ulan-Ude and Chita is next on the list.

Different cities enjoy different qualities of Transaero service, however, with cities hosting Transaero offices receiving the broadest range of services. For example, a bus transports passengers from the city of Angarsk to the Irkutsk airport. If the bus breaks down en route, Transaero can delay the flight for up to 45 minutes. Other cities do not enjoy this kind of service.

Transaero's sound economic policy has made the company one of Russia's leading airlines. Other local airlines, such as Baikal, often have difficulty competing and barely make ends meet. Transaero, on the other hand, invests in new planes and has just enlarged its fleet of 14 aircraft with six new Boeing 737-700. However, Transaero's successful expansion could become problematic for Irkutsk Oblast customers. Baikal airlines currently flies to the oblast periphery. Should it go out of business due to stiff competition from Transaero, people who live far from Irkutsk could only reach the oblast capital by rail. And some areas in the region cannot even be reached by rail. - Galina Solonina (Teleinform) in Irkutsk

FOREIGN TIES

PERM TO INCREASE POTASH EXPORTS TO SOUTH AMERICA. A high-level delegation of executives from Perm Oblast's potash fertilizer industry, headed by First Deputy Governor Gennady Tushnolobov, recently returned from a trip to South America. The South American market holds great potential for Perm Oblast producers. Last year Perm exported 500,000 tons of fertilizer to Argentina, 1,200,000 tons to Brazil, and 600,000 tons to Colombia. Perm Oblast accounts for 14 percent of world exports of potash fertilizers to South America. During the delegation's visit, Argentina agreed to more than double fertilizer imports from Perm. Moreover, Colombian officials were interested in temporary supplies of potash from Perm while their usual Canadian supplier is experiencing troubles in its mines. (*Permskiye novosti*, 10 April; *Kapital*, 8 April) - Andrey Suslov in Perm

GERMAN JOINT VENTURE MIGHT EXIT NIZHNI MARKET. A joint venture in Dzerzhinsk between the Russian firm Avangard and the German manufacturer of plaster-based building materials, Knauff, has showcased German investment in Nizhnii Novgorod Oblast. Avangard-Knauff, however, has had its share of difficulties, particularly high transportation costs. The company's products had no demand on the local market and had to be transported to Moscow, St. Petersburg, or Germany. Raw materials were also transported into the region over long distances. To deal with that problem the joint venture was prepared to invest in mining gypsum from a nearby deposit in Pavlovo.

Now, though, the company faces a new set of obstacles. During an audit, the tax police found that the joint venture was registered improperly and demanded that Avangard-Knauff pay DM18.5 million, more than the company's three-year turnover. Knauff's total investment in the venture amounts to only DM 8.5 million. Given the impossible conditions imposed by the tax police, the firm petitioned Governor Ivan Sklyarov for support. The joint venture either had to win relief from the tax police or leave the market. The governor ordered an investigation into the matter, hoping to find a compromise. He also encouraged the company to remain in Nizhnii, especially because the oblast is expecting a construction boom sparked by a new program to make home mortgages more easily available. - Yurii Rodygin in Nizhnii Novgorod

REGIONAL PROFILE: MOSCOW OBLAST

Governor: Anatolii Tyazhlov

Anatolii Tyazhlov was elected governor on 30 December 1995, receiving 70.7 percent of the runoff vote. Tyazhlov opposed the free purchase and sale of land in the region, but Our Home Is Russia and then-Prime Minister Viktor Chernomyrdin strongly supported him nevertheless.

Tyazhlov was born in 1942 in Chelyabinsk Oblast. He graduated from Chelyabinsk Polytechnic Institute and worked as a construction engineer for various companies in Chelyabinsk, Orenburg, and Moscow oblasts until 1990, when he was elected chairman of the executive committee of Moscow Oblast. In October 1991, President Boris Yeltsin appointed Tyazhlov governor. In six months, he was elected chairman of the Union of Russian Governors, an assembly for regional executive leaders. In December 1993, he was elected a member of the Federation Council, where he joined the committee on regional policy. In January 1996, he joined President Yeltsin's re-election effort. He is considered to be on good terms with Moscow Mayor Yurii Luzhkov.

Brief Overview

Moscow Oblast surrounds the capital and is located in the basins of the Moscow and Oka rivers and shares borders with Kaluga, Smolensk, Tver, Yaroslavl, Vladimir, and Ryazan oblasts.

The oblast's defining feature is its close integration with the City of Moscow, as well as a high level of industrialization. In 1996, it was the fourth largest region according to contribution

to the country's GDP -- 3.64 percent -- and the third according to its own budgetary revenues - - 10.8 trillion rubles (\$1.8 billion). During the Soviet period, the oblast was one of the country's military industry centers. Now, its GDP comes from machine-building (30 percent of overall production), consumer goods production (24 percent), building materials manufacturing (16 percent), power generation (11 percent), and production of chemicals (8 percent). Some of the country's largest enterprises are located in the oblast, such as Energiya (aerospace), Energomash (machine-building), and Elektrostal (steel).

The oblast houses over 20 percent of Russia's research institutions, which produce about a quarter of all research studies. Those facilities are largely a legacy of the region's military complex.

The region has legislation favorable for both domestic and foreign investment. Given its proximity to Moscow, the oblast is home to numerous joint ventures, including partnerships with firms such as the US's Mars, Italy's Merloni, and Germany's Bosch-Siemens. McDonald's also has an outlet in the region.

Basic Facts

Population (as of 1 Jan. 1997): 6,579,400 (4.46% of Russian total)

Urban population (1989 census): 79.7% (Russia overall: 73.0%)

Student population (1996): 116 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 27.30% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 14.8% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 34.9% (Russian average: 29.9%);

Agriculture: 7.3% (12.8%); Trade: 6.9% (9.1%); Culture: 17.9% (13.6%); Management: 2.2% (2.3%)

Average monthly personal income in 1996: 485,000 rubles (Russian average: 764,000 rubles)

Average monthly personal expenses in 1996: 555,000 rubles (Russian average: 753,000 rubles)

Average monthly subsistence requirement in 1996: 339,600 rubles (Russian average: 369,400 rubles)

Consumer price index (as of Dec. 1996): 97.37 (Russia overall = 100)

Industrial production as percentage of all Russian production (1996): 2.48%

Proportion of loss-making enterprises (1996): 41% (Russia overall: 56%)

Number of enterprises which have wage arrears (1996): 989 (1.11% of total number of regional enterprises)

Agricultural production as percentage of all Russian production (1996): 3.36%

Number of private farms (as of 1 Jan. 1997): 6,589 (2.37% of Russian total)

Capital investment (1996): 10,663,500 rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): Federal budget: 13.5% (Russian average: 9.2%); Regional budget: 8.1% (9.6%); Enterprises: 64.0% (66.3%)

Number of joint ventures (as of 1 Jan. 1997): 117 (0.73% of Russian total)

Fixed capital investment in joint ventures and foreign companies (1995): 683,304 million rubles

Number of small businesses (as of 1 Jan. 1997): 29,630 (3.52% of Russian total)

Number of enterprises privatized in 1996: 176 (3.52% of Russian total), including those which

used to be municipal property: 48.3% (Russian average: 67.1%); regional property: 19.9% (14.3%); federal property: 31.8% (18.6%)

Number of telephones per 100 families (1996): in cities: 49.6 (Russian average: 48.7); in villages: 18.8 (19.7)

According to a 1997 survey by *Ekspert* magazine, the oblast is ranked third among Russia's 89 regions in terms of investment potential and 28th in terms of investment risks. A 1995 survey by Bank Austria ranked the oblast seventh in terms of investment climate.

Electoral History

1996 Presidential Election

Yeltsin: 44.15%/64.20% (first round/second round)

Zyuganov: 24.05%/29.89%

Lebed: 15.07%

Yavlinskii: 7.87%

Zhirinovskiy: 3.00%

Turnout: 70.46%/70.79% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Elections

Communist Party of the Russian Federation: 22.16%

Our Home Is Russia: 13.79%

Yabloko: 10.99%

Congress of Russian Communities: 6.82%

Liberal Democratic Party of Russia: 5.20%

Russia's Democratic Choice: 5.19%

Women of Russia: 4.31%

In single-member districts: 4 Communist Party of the Russian Federation, 2 Yabloko, 1 Russia's Democratic Choice, 1 Ivan Rybkin's Bloc, 1 Power to People, 2 independent

Turnout: 63.16% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 58.49% "No" -- 41.51%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 26.64%

Russia's Choice: 19.82%

Communist Party of the Russian Federation: 10.82%

Yabloko: 9.75%

Party of Russian Unity and Concord: 7.20%

Women of Russia: 6.69%

Democratic Party of Russia: 5.92%

Agrarian Party of Russia: 3.99%

In single-mandate districts: 2 Yabloko, 1 Russian Party of Free Labor, 1 Liberal Democratic Party of Russia, 6 independent

From electoral associations: 4 Liberal Democratic Party of Russia, 2 Agrarian Party of Russia, 1 Democratic Party of Russia

Turnout: 54.77% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 62.47%

Ryzhkov: 13.54%

Zhirinovskiy: 6.45%

Tuleev: 4.92%

Makashov: 3.87%

Bakatin: 3.45%

Turnout: 75.44% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regionni Rossii*, Moscow, 1997.

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BREAKING NEWS

POLITICS

MAYOR, BUSINESSMEN WIN LOCAL ELECTIONS IN IZHEVSK.

Izhevsk Mayor Anatolii Saltykov won a strong victory in the 12 April mayoral elections, defeating challenger Valerii Zagainov by taking 44 percent of the votes to Zagainov's 25 percent. Zagainov is an ally of Udmurtiya State Council Chairman Aleksandr Volkov, who in 1996 tried to directly subordinate the mayor

to the republican government. The presidential administration and the Russian Constitutional Court ultimately stepped in to defend the independence of the mayor (see *Russian Regional Report*, 5 February 1997).

On the same day, representatives of large business concerns won 20 of 30 seats in the Izhevsk City Duma. The new members of the legislature control two of the largest banks in the city, all the private TV stations, 90 percent of the private newspapers, two-thirds of the market for oil products, all three large construction companies, and the two trading companies that control produce sales in the city. Among the winners was the chairman of Udmurtneft, which extracts 80 percent of the oil in the region. No political party member was elected. Given the makeup of the city duma, the republican government will not be in a position to circumscribe its powers. The old rivals now have new challenges: Volkov is preparing for the republic's presidential elections, while Saltykov must work to ensure good relations with the city duma. The political battles are raging at the same time as some of the region's major enterprises, such as Izhmash, are facing numerous economic challenges. (*Russkii Telegraf*, 16 April and *Nezavisimaya gazeta*, 22 April)

KRASNOYARSK ELECTIONS WIND UP. With first-round elections set for 26 April, the gubernatorial campaign in Krasnoyarsk is drawing to a close. The winner will undoubtedly have considerable work. The federal government just announced it will cancel the lucrative tax holidays enjoyed by Russia's aluminum manufacturers at the beginning of 1999 (the benefits are known as "tolling"). (*Izvestiya*, 22 April) The Krasnoyarsk Aluminum Factory is one of the country's largest producers of aluminum and depends on tolling for much of its profits.

Incumbent Valerii Zubov hopes support from the Kremlin will help him win. On 18 March, then Prime Minister Viktor Chernomyrdin agreed to provide government guarantees for the deals signed during his recent trip to Japan (see *IEWS Russian Regional Report*, 5 March 1998) and the payment of federal wage arrears. The government even made a 50 million ruble (\$8.3 million) payment then, but the krai is still waiting for more money. (*Ruskii Telegraf*, 22 April)

On 18 April, *Nezavisimaya gazeta*, owned by Boris Berezovsky, who supports challenger Aleksandr Lebed, argued that Zubov is essentially the puppet of the presidential administration and Moscow Mayor Yurii Luzhkov, both of whom want to prevent a Lebed victory at any cost. Knocking out Lebed now would make it difficult for him to launch a credible presidential campaign in 2000. The paper also blasted Berezovsky rival Uneximbank, which it claims "feels at home in Krasnoyarsk" with Zubov. Uneximbank controls Noril Nickel, the other major enterprise in the krai along with the Krasnoyarsk Aluminum Factory. The paper stressed that Lebed's enemies sought to use his activities in Chechnya against him by transforming his victory in ending the war into a "sell out" of the country's interests.

Additionally, on 16 April the Krasnoyarsk Legislative Assembly adopted in the first reading amendments to the krai charter that would dramatically weaken the power of the governor, rescinding his ability to manage the budget and state property. The measure has the backing of Lebed's allies, Krasnoyarsk

Aluminum Factory Director Anatolii Bykov, who is a legislator, and Rossiiskii kredit bank. The assembly hopes to pass the amendments before the newly elected governor is inaugurated as insurance against a Lebed loss.

During the last week of campaigning, several heavy hitters have shown up in the krai to support their candidates. Communist Party leader Gennadii Zyuganov and LDPR leader Vladimir Zhirinovskiy came to support Communist Petr Romanov, although he has little chance of entering the runoff. There were also rumors that French actor Alain Delon would travel to Krasnoyarsk to stump for Lebed, who met and impressed Delon in Paris in February. Delon is extremely popular among Russians for his films of several decades ago, and could boost the candidate's image.

NORILSK MAYOR ARRESTED. Police arrested Norilsk Mayor Vasiliy Tkachev on 16 April on suspicion of taking bribes. He is a candidate in the Krasnoyarsk Krai gubernatorial elections. (Norilsk is located in the northern part of the krai.) The mayor's lawyer blamed the arrest on Governor Zubov, who allegedly wanted to get him out of the way to increase his support in the campaign. (*Kommersant Daily*, 17 April) At the time of his arrest, he was on his way to see Viktoriya Mitina, who heads the presidential administration's relations with the regions.

POLICE USE VIOLENCE AGAINST STUDENTS IN YEKATERINBURG. On 14 April the police in Yekaterinburg used violence to break up a student demonstration in front of the governor's office. Both acting Prime Minister Sergei Kirienko and the state duma demanded investigations of the events. In a rapid response, acting Interior Minister Sergei Stepashin blamed the violence on "the incompetent actions" of the local police force. Stepashin also criticized the local authorities for not meeting with the students to hear their demands. Stepashin's remarks suggest that a major reorganization of the Interior Ministry is in the works. (*Russkii Telegraf*, 18 April)

The head of the oblast's Department of Internal Affairs Valerii Kraev took responsibility for issuing the order for the attack. Deputy Chairman of the Oblast Government Anatolii Gaida resigned following the incident because he was unable to deal with the situation that led to the dispersal of the students. (*Nezavisimaya gazeta*, 17 April) According to Governor Rossel, one OMON officer was hospitalized and four police were wounded, but none of the students were injured. Rossel did not attend a meeting of the oblast government to discuss the incident, apparently trying to distance himself from this scandal. (*Kommersant Daily*, 17 April) Rossel's political stature has been greatly diminished by this skirmish, Yeltsin's decision to move the French-German-Russian summit from Yekaterinburg to Moscow, and the failure of his allies to maintain their majority in the oblast legislature during the recent elections.

The violence in front of the oblast administration building erupted from a planned student rally. The students and trade unions originally organized a demonstration in front of the local Youth Palace. However, after that rally of approximately 3,000, a group of about 1,500 broke off and headed toward the

governor's office. Student organizers described that procession as a provocation led by unknown youths carrying a black flag. According to *Kommersant Daily*, they were shouting, "Today we have placards, tomorrow we will have machine guns." The students threw snow into administration building windows and negotiated with Gaida, who has now resigned. During the negotiations, about 250 special troops arrived and used their batons against the students to open more space in front of the administration building. The head of the local police, Nikolai Ovchinnikov, said the crowd was out of control and the police had to push it back from the governor's office. (*Izvestiya*, 17 April, and *Kommersant Daily*, 16 April)

The on-going investigation revealed that the mayor's office did not notify the oblast authorities of the planned student demonstration. Yekaterinburg Mayor Arkadii Chernetskii and Rossel are locked in a political battle in the run-up to next year's gubernatorial elections.

TATARSTAN ADOPTS CONTROVERSIAL LAW ON CITIZENSHIP.

The Tatarstan State Council approved on 16 April a law in the first reading that would allow residents of the republic to be citizens of Tatarstan without being citizens of Russia. Moscow-based papers such as *Kommersant Daily* described the law as "separatist" and claimed that it undermined the very foundations of Russian federalism. President Minitimer Shaimiev had delayed an earlier attempt to adopt the law last February. Chairman of the State Council Vasilii Likhachev criticized the bill, while Shaimiev remained silent. The bill also includes provisions for issuing Tatarstani passports. Leaders of the ethnic republics protested last year when Russia decided to exclude all mention of nationality from Russian passports. (*Kommersant Daily*, 17 April)

KALININGRAD GOVERNOR BACKS SANCTIONS AGAINST LATVIA.

Kaliningrad Governor Leonid Gorbenko sent a letter to acting Prime Minister Sergei Kirienko asking him to impose economic sanctions against Latvia. The governor argued that 20 percent of Latvia's GDP comes from cargo shipments through its ports. Its ports handle 50.7 million tons of cargo a year, 90 percent of which is from Russia. Gorbenko wants to redirect that traffic through ports in St. Petersburg, Murmansk, and Kaliningrad. (RIA Oreanda, 17 March)

ECONOMICS

REGIONS INTERESTED IN INNOVATION CENTERS. Twenty-six regional governments and ten federal agencies met on 14 April in Kazan, Tatarstan to discuss the creation of a national system to spur technological innovation and the development of new commercial products. The centerpiece of the project is technology-innovation centers that specialize in turning new ideas into commercially viable products. The centers unite a variety of small enterprises under one roof. The federal and regional governments provide buildings for the enterprises to establish themselves while paying relatively low amounts of rent (\$100 to \$150 per square meter annually). The project spent \$50 million in 1997, and such centers are already located in eight regions, including

Moscow, St. Petersburg, Kazan, Yekaterinburg, and Novosibirsk. Dozens of firms are working in the 16,000 square meters of space in the existing centers, generating sales of 120 million rubles (\$20 million) while employing nearly 5,000 people. Products include medical apparatuses, microelectronics, optics, biotechnology, laser systems, software, and new materials. Usually the centers are established within existing technology parks. At least 18 other regions have applied to join the program. (*Finansovie izvestiya*, 16 April)

JAPANESE INVEST IN NIZHNII NOVGOROD SMALL BUSINESS. With guarantees provided by the federal government (acting First Deputy Prime Minister Boris Nemtsov and Committee to Support Small Business Chairwoman Irina Khakamada), the Japanese Ex-Im Bank has agreed to provide a five-year \$50 million credit for small business programs in Nizhnii Novgorod Oblast. The interest rate for the deal has yet to be determined. The Japanese side requires the businesses to spend 85 percent of the money on Japanese products and to encourage Japanese firms to form joint ventures in the region. So far, Japanese sources have invested \$611 million in the oblast: Mitsui invested \$150 million in the Kstov Pharmaceutical Complex, Asahi offered an \$111 million credit to the Bor Glass Works, and Marubeni agreed to invest \$350 million in the reconstruction of the local atomic energy station. (*Russkii Telegraf*, 14 April)

BATTLE RAGES OVER BELGOROD'S LEBEDINSKII ORE MINING AND CONCENTRATION COMBINE. The Lebedinskii Ore Mining and Concentration Combine is the world's largest enterprise for extracting iron ore and producing high quality raw materials for ferrous metallurgy. Its major shareholders include plant workers (33.8 percent), Rossiiskii kredit and its allies (36.3 percent), Belgorod Oblast (14.6 percent), and others (14.1 percent). On 2 November 1997, the oblast leadership and the bank joined forces to name Deputy Governor Nikolai Kalinin as the plant director. The new director then raised the price of the plant's output leading the Novolipetsk Metallurgical Combine, one of the plant's main customers, to stop buying its product. Now the Rossiiskii kredit bank is trying to gain a controlling stake, but so far has failed. The battle continues... (*Finansovie izvestiya*, 14 April)

TATARSTAN LEGISLATURE ADOPTS LAND LAW. The Tatarstani legislature on 15 April adopted a land law that allows the sale and purchase of land in the republic. Tatarstani President Mintimer Shaimiev strongly backs the measure, arguing that the future tax policy of the state depends on it. The bill goes beyond recent measures to sell land adopted by Saratov Oblast, because it also allows foreigners to buy land. Sales to foreigners will be limited to purchases from the state, which has 1 million hectares that could be sold. Foreigners thus won't be able to buy land from rural dwellers whose land is held in common and not by the state. Shaimiev proudly boasted that his republic now leads all other regions of Russia in land sales. (*Kommersant Daily*, 17 April)

SAMARA DROPS AUTHORIZED BANKS. Following similar moves at the

federal level, Samara Oblast ended its practice of maintaining ten authorized banks in which it kept oblast deposits. The regional administration will now hold open competitions for all banking services. When the competitions are announced, the banks, like all other financial institutions, will likely seek a good relationship with Samara Governor Konstantin Titov to ensure that their bids are well received. (*Russkii Telegraf*, 16 April)

ROSVOORUZHENIE OPENS TENTH REGIONAL OFFICE IN ST.

PETERSBURG. St. Petersburg Governor Vladimir Yakovlev and Rosvooruzhenie General Director Yevgenii Orlov signed an agreement on 20 April opening the arm export firm's tenth regional office in the city. The firm will handle exports of Kilo and Amur class submarines, destroyers, and rocket and patrol boats. The new management of Rosvooruzhenie hopes the new regional offices will increase sales from \$2.5 billion to \$3 billion. Rosvooruzhenie hopes that its offices will make it easier for regional defense plants to sell their products abroad. (*Nezavisimaya gazeta*, 21 April) Recently, the firm opened offices in Vladivostok, Tatarstan, Nizhnii Novgorod, and Udmurtiya (see *IEWS Russian Regional Report*, 26 March)

ALTAI PLANS FREE ECONOMIC ZONE. First Deputy Chairman of the Altai Republic Yurii Antaradonov announced that the region is planning to a tariff free zone. The republic borders Mongolia, Kazakhstan, and China. Last year's trade was a meager \$8 million, but that figure is six times higher than two year earlier. Japan and South Korea also have some links to the region. Altai hopes to buy equipment to process medicinal grasses and dairy and meat products. (*Russkii Telegraph*, 22 April)

BUSINESS BRIEFS

-- The American cigarette maker **LIGGETT** will move the Dukat tobacco factory from central **MOSCOW** to the edge of the city and build additional office complexes on the original site. The overall project will cost \$400 million. Among the companies already renting land on the site are **CITIBANK, MORGAN STANLEY-DEAN WHITTER, MOTOROLA,** and **LUKOIL-ARCO.** Building western-standard offices in downtown Moscow is extremely profitable now. The new cigarette factory will produce high-quality cigarettes to compete with brands produced in Russia by BAT and R.J. Reynolds. (*Finansovye izvestiya*, 16 April and *Kommersant Daily*, 21 April)

-- Acting Prime Minister Sergei Kirienko won points with **MOSCOW** Mayor Yurii Luzhkov by transferring a controlling stake in the **MOSKVICH** plant to the Moscow city government. Luzhkov paid 56 million rubles (\$9.3 million) for the stock, but must make good on the plant's 630 million ruble (\$105 million) debt to the federal government over the next four years. Over ten years, Moscow must also pay 750 million rubles (\$125 million) in accumulated fines. The plant also has an \$600 million credit from the Soviet era that must be paid back. While

the federal government can now look forward to repayment of the debts by the Moscow government, it is not clear what the Moscow government will get from the deal. **RENAULT** is planning to assemble cars at the plant and will jointly produce engines with Moskvich. (*Izvestiya*, 17 April)

-- **ROSTSELMASH**, the largest producer of agricultural combines in the CIS, will shut down its production line until 12 May. The plant lacks the cash to buy new parts because the federal government has not paid it for its products. (*Russkii Telegraf*, 17 April)

-- **SAMARA OBLAST, POSESTBANK, and PRICE WATERHOUSE CORPORATE FINANCE** signed an agreement on 14 April to win a three-year \$100 million credit for the region. Price Waterhouse has already performed similar services for Moscow and Leningrad oblasts. The money will ultimately go to the region's giant automaker, AvtoVAZ, local aerospace companies, and the Samara International Airport. (*Russkii Telegraf*, 17 April)

-- Former Federation Council Chairman Vladimir Shumeiko was appointed head of the **EVIKHON** company, which is working with **SHELL** to develop the Salyam oil deposits in the **KHANTY-MANSII AUTONOMOUS OKRUG**. (*Russkii Telegraf*, 22 April)

-- Last week, Switzerland's **NESTLE** and the **KAMA CONFECTIONERY FACTORY** discussed how to use a planned \$10 million investment by Nestle. Nestle apparently bought the plant in January, purchasing a 54 percent stake. The purchase came after an additional stock issue diluted a 70 percent stake held by the British **SUN GROUP** to 22 percent. However, the actual situation remains unclear. Most of the money will likely be used to purchase new equipment for the factory. (*Russkii Telegraf*, 18 April)

SPECIAL RESEARCH REPORT

PERM: BUSINESSMEN, POLITICIANS WORK TOGETHER TO PROMOTE GRADUAL REFORM

by Oksana Oracheva, Perm State University and Yale University

Along with the Sverdlovsk and Chelyabinsk oblasts, the Perm region is one of the most developed and economically successful in the western Urals Mountains. Perm, the capital city of the region, was closed to foreigners before 1989 but was recognized for its defense industry, political prisons (Perm-35), and ballet theater. The Soviet era, however, obscured the region's extensive history of commerce. Perm's geographical position has long made it one of the major trading posts between European Russia, Siberia, and the Far East, a position it retains today. Building on the region's strength as a commercial hub, business and political elites in Perm have worked closely to foster much of the success the

region has achieved.

The region's high industrial development has created a complex manufacturing infrastructure that includes oil refining, petrochemicals, heavy engineering, coking coal production, and ferrous and nonferrous metallurgy. The region is rich in forestry and timber resources and has some gold and diamond deposits. Diamonds were a hotly debated topic in the power-sharing negotiations between Moscow and the region, but on 31 May 1996 Perm ultimately won the right to keep a fixed percentage of the diamonds mined in the region. Consequently, local entrepreneurs founded a new diamond cutting enterprise.

Perm also boasts extraordinary human resources. The city hosts the oldest University in the Urals, Perm State University, as well as a variety of other research and educational centers. Currently, the Perm region is one of the few donors to the federal budget. However, the region has the same problems as the Russian Federation as a whole, including tax arrears, increasing unemployment, and difficulty converting defense enterprises to civilian production.

Despite the problems, political stability and moderation define the local political climate. The regional political elite favor a consensual approach to policy-making. Even though Perm maintains relatively strong support for President Yeltsin, who is often considered a 'native son' because he spent part of his life in the region's second largest city, Berezniki, Perm has never been among the leaders of economic reform. However, the region has never been an outsider either. Perm generally cultivates a moderately pro-reform image while avoiding extremes of any kind. The regional political elite are largely pragmatic, defining their main job as promoting economic reform while improving overall living standards. While the region and the federal government have some disagreements (especially over money and defense industry management), political leaders seek to avoid open conflict as much as possible.

Conflict avoidance is also the name of the game in relations between Governor Gennadii Igumnov and the regional assembly. The local authorities likewise maintain good working relations with almost all political parties in the region, from Yegor Gaidar's Russia's Democratic Choice to the Communist Party of the Russian Federation. The December 1997 regional assembly elections illustrated that pragmatic approach. In some districts, communists and democrats jointly backed the same candidates. During the elections for the speaker of the new assembly, Governor Igumnov asserted his willingness to work with either Evgenii Sapiro (the former leader) or with Yuri Medvedev (the director of the Goznak factory), stressing that while personalities were important, regional interests should come first. Ultimately, Medvedev, who stood as an independent candidate, won a majority of the votes.

Perm is politically stable at the mass as well as the elite level. With some exceptions, such as worker violence on 9 April, Perm witnesses relatively few strikes and rallies. Despite extensive turnover among the region's political and managerial elites, reforms have progressed gradually and continuously, without any zigzags.

The regional authorities strongly support business and industrial development and the governor's administration has cultivated strong links with

the new business and managerial elites. For its part, the business elite actively engage in regional politics, with representatives in both the regional assembly and the city duma as well as in the governor's and mayor's offices. Perm's mayor, Yurii Trutnev, is a former president of one of the most successful companies in the region, the EKS International Trading Company, which is heavily involved in food supply and import operations.

Politicians and businesspeople have agreed to work together to solve the problems facing business and preventing economic growth. For example, in 1994 the then newly elected regional assembly, with strong representation from the business sector, made reducing the profit tax from 22 percent (the maximum allowed by federal law) to 17.5 percent one of its first moves. During the 1997 gubernatorial elections, the regional business elite strongly backed the incumbent Igumnov in recognition of his popular authority and political management skills. Igumnov reciprocated by including people with a strong economic or business background on his new team, who, in combination with experienced but more conservative civil servants, provide a good balance between continuity and change. As assembly member Andrei Klimov (who also has a strong business background) stressed in an interview, regional business people are one of the primary sources of political and social stability in the area. He believes they are farsighted enough to be concerned not only with maximizing their own profits but with minimizing the risk of social protest, decreasing the level of crime, and providing better educational and cultural facilities. Although Moscow-based financial groups and banks (Uniksimbank, Inkombank, Menatep, etc.) are expanding in the region, local businessmen are again using negotiations to protect their own interests.

The region has strong potential to develop its international links and increase foreign investment. The regional authorities try to attract foreign investment by giving companies tax privileges, inexpensive leases, and guarantees on some investments. Recently, for example, the regional administration signed a trade credit agreement with Germany to finance telecommunications projects in coordination with Alcatel. Perm is actively developing its already good telecommunications base and the local Uralsvyazinform has become Russia's second largest regional telecom in absolute terms.

The number of foreign companies and banks interested in the region has risen steadily. The Enterprise Support Center (established in 1995 with support from TACIS) provides consultation support to both domestic and foreign companies. In response to increasing demand, Lufthansa introduced a direct flight to Perm from Frankfurt. Perm's main partners include Germany, the UK, Denmark, and the USA. Direct investors range from the SUN Brewing group (in the beer industry) to Pratt and Whitney (aircraft jet engines production). A Lukoil-Permnefteorgsintez program unites 25 American and European companies for a variety of tasks, including design work and equipment provision. Among those involved are Foster Wheeler, Stratco, Texaco (USA), Comprismo (Netherlands), Haldor Topsoc (Denmark), Chemtech and Fisher Rosemount (Switzerland), and UOP Limited (UK). Perm is also developing new international

ties in the fields of education (Oxford, Louisville), social issues, and environmental protection.

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CENTER-PERIPHERY RELATIONS

OUR HOME IS RUSSIA: REFORM OR COLLAPSE? On 13 April, the Tver branch of the Our Home is Russia (NDR) movement held its fourth conference in order to discuss challenges stemming from the dismissal of the movement's founder, Viktor Chernomyrdin, as Russia's prime minister. The head of Tver's NDR branch and state дума Deputy Aleksandr Tyagunov said in his key-note address that the movement has failed to create a democratically oriented centrist party, due to its top-down organizational approach. NDR began in 1995 when Viktor Chernomyrdin acted on the president's order to assemble influential members of the regional power elite in one movement. Today, the situation is different. Tyagunov himself admitted that he became involved in NDR accidentally, during the tenure of previous governor, Vladimir Suslov. NDR has managed to keep going, mostly through inertia, for the last several years and to maintain good relations with the new governor, Vladimir Platov.

Most troubling for Tyagunov was the apathy in the movement's ranks. Only 12 of 36 governors belonging to NDR's political council attended the body's meeting held shortly after Chernomyrdin's dismissal. That apathy can easily spread further in the regions. The movement's future will be decided at its fifth congress, tentatively planned for 25 April in Moscow. Tyagunov thinks all democratically oriented parties and organizations in the regions should unite around NDR in parliamentary and presidential elections. At the same time, the head of Tver's branch stressed the need to foster closer ties to the oblast and city administrations. Among the conference's presidium were such local notables as Deputy Governor Valerii Rumyantsev, Speaker of the Legislative Assembly Vyacheslav Mironov, and Chairman of the Tver City Duma Valery Pavlov. Some politicians in opposition to the governor were also present, however.

Overall, NDR's measures to move closer to the oblast government are a matter of necessity more than anything else. After all, without the administration's support the movement will be in a tough bind to counter such influential Communist politicians as state дума member Tatyana Astrakhankina. Tyagunov was not even sure that Chernomyrdin would "be allowed" to run in the next election, which would only hamper NDR's funding and, thus, the party-building process. The national political future of NDR's regional leaders is not clear either. The upcoming congress might change much in the movement's organization, even though it is bound to leave plenty of unanswered questions about the future of the alleged "party of power." - Boris Goubman in Tver

FORMER SECURITY OFFICER TO REPRESENT PRESIDENT IN KARELIYA.

On 8 April the Kareliya government chairman Viktor Stepanov and a member of the president's administration presented to the Kareliyan cabinet of ministers and the press corps President Yeltsin's new representative in Kareliya, Vyacheslav Ushakov (see *IEWS Russian Regional Report*, 16 April). Born in Kazakhstan, Ushakov is 47 and has worked

in the Komsomol, the KGB, and other security services, both in the government and in the private sector. Until his recent appointment, he served in the Federal Security Service (FSB) headquarters in Moscow.

Speaking to the Karelians, Ushakov noted that the appointment took him by surprise. In response to a question about whether his security service career influenced the president's decision, Ushakov said personnel choices are made in the presidential administration and that while some former FSB officers have been appointed to similar positions in other regions [such as Primorski Krai], it is not a trend across Russia. His appointment has nothing to do with the 26 April executive elections in Kareliya, he said. Ushakov promised to work diligently and constructively and stay in touch with all branches of the republican government. One of his main tasks will be coordinating the work of federal agencies in the republic. After the meeting, Ushakov met privately with the heads of the federal customs agency and the tax police in Kareliya, as well as with some other federal officials. - Boris Matveev in Petrozavodsk

SOCIAL ISSUES

PECHORA FACES ECONOMIC, SOCIAL CHALLENGES IN RUSSIAN NORTH. The recent visit by the deputy chairman of the Komi Republic's State Council (legislature) to the city of Pechora prompted the local media to reconsider the desperate plight of cities in the Russian Far North. Pechora's economy is tied to a small number of industries, such as electric power production and servicing railroad and river transport. Pechora hosts Komi's largest power station, the republic's largest river port, and a high-powered railway and repair service station. However, the sharp decline in industrial production has caused falling electric power production and lower volumes of transported cargo. Consequently, much of the capacity of the power station and the railroad depot is currently underutilized and employees are being laid off.

By assuming a central role in Russia's effort to modernize its diesel locomotive fleet, the city has somewhat alleviated its social and economic pressures. During the Soviet era, most of the country's diesel locomotives were produced in Ukraine. When the Soviet Union collapsed, Russian railroad operators decided to invest in modernizing their own fleet of engines instead of importing them from Ukraine. Another job-creating venture has been the construction of a highway network connecting Pechora with the oil-producing city of Usinsk, the coal-mining city of Vorkuta, and the rest of Russia via Komi's south.

Unfortunately, the republican government's efforts to stabilize the situation often run counter to federal agencies' agendas. For example, a recent decree by the Minister of Defense will disband several regiments of anti-aircraft defense forces stationed in Pechora. Thus, as of 1 May about 800 former military officers will become unemployed, joining the city's already extensive pool of jobless people. Additionally, the Ministry of Defense has failed to compensate the laid-off servicemen, potentially placing another social burden on the shoulders of local authorities. Moreover, the Ministry of the Interior has decided to close several penitentiaries located in Pechora, laying off their staff. The city must also absorb about 600 prison inmates freed by the recent amnesty. In order to find work for all those new job seekers, the city will require both republican and federal aid. (*Respublika*, 11 April)

In recent comments on cooperation agreements signed with Moscow and Orlov oblasts, Komi Republic's chief executive Yurii Spiridonov criticized the federal government for lacking a coherent regional policy. (*Panorama respubliki*, TV, 6 April) Pechora's example is a case in point. Many regional leaders are awaiting the new Russian cabinet, hoping it will pay more attention to their needs.- Yurii Shabaev in Syktyvkar

ECONOMIC ISSUES

TOLLING SUSPENSION HURTS IRKUTSK OBLAST, INDUSTRY. On 6 April acting Prime Minister Sergei Kirienko signed a government decree banning "internal tolling," thus raising grave concerns at the Irkutsk Aluminum Plant (IrkAZ) and in the oblast government.

The practice of external tolling emerged in Russia in the early 1990s, in response to the shrinking domestic aluminum market. When the Soviet Union collapsed, Russia was largely deprived of the raw materials to make aluminum because most bauxite deposits are in Kazakhstan and Ukraine. Thus, many Russian aluminum smelters decided to contract out their services to foreign partners, who would take responsibility for providing raw material (bauxite) from abroad and exporting the final product to foreign customers. (There was little domestic demand for aluminum.) Tolling freed the aluminum producers from paying tariffs on imported materials and the final exported product and from paying the Value Added Tax usually assessed on processed ore. In other words, the practice enabled Russian companies to stay in business, which is why it was endorsed by presidential decree in 1992.

Internal tolling emerged to compensate aluminum smelters that used domestic bauxite suppliers and thus paid higher taxes compared to competitors involved in external tolling. Companies practicing internal tolling generally export their final product just like the external tolling companies. Internal tolling makes up 40 percent of all tolling activities. It was first introduced as a temporary measure and extended for another year by a special government decree.

Irkutsk Oblast hosts two aluminum smelters, the Irkutsk Aluminum Factory (IrkAZ) and Bratsk Aluminum Factory, which are both very important for the regional economy. Thus Kirienko's decree was a very unpleasant surprise for the region. According to the governor's Deputy for External Economic Relations, Aleksey Sobol, the decision seems strange given Kirienko's earlier proclaimed commitment to internal tolling. Sobol thinks only bankers will benefit from the decree, as firms must secure loans to finance the switch to external tolling. Additionally, they must endure high interest rates and higher world prices for bauxite. The IrkAZ managers have already appealed to the acting prime minister to allow internal tolling at their enterprise.

The Irkutsk Oblast economy depends greatly on the economic well-being of its aluminum smelters, which keep many support industries alive. For instance, aluminum smelters consume about half of all locally produced electric power and are the largest clients of the East Siberian Railroads. And of course the decree directly affects the oblast's tax revenues, as IrkAZ is one of the main contributors to the oblast budget.

The situation is likely to worsen in 1999. The government's Commission on Operational Issues decided on 21 April to end all tolling operations at the end of this

year, proclaiming that the aluminum industry cannot live at the expense of the other sectors of the economy. (*Izvestiya*, 22 April) The federal government hopes to raise its tax revenues by removing the tax holidays tolling provided. - Natalia Michurina (Teleinform) in Irkutsk

SAMSUNG TO PROVIDE WIRELESS PHONES IN BRYANSK. As a result of an agreement signed in March, Bryansk firm Elikson and South Korea's Samsung Electronics will invest \$30 million in a new wireless phone system for the oblast, creating 50,000 new numbers. Only the governor and the region's acting representative in Moscow were privy to the deal, while oblast officials responsible for the economy and communications as well as the director of Bryansk's city phone station were kept in the dark about the affair.

The local telecom monopoly Bryansksvyazinform is not happy about Samsung's entry into the Bryansk telephone market. Some sources claim the monopoly will refuse to merge its system with Elikson's. That would prevent Samsung subscribers from phoning anybody outside the company's system. If that happens, Elikson will invest in its own long distance phone line.

Samsung has had some success with a similar pilot project in Ivanovo, where it installed 1,500 new numbers. Interviewed by a Bryansk newspaper, a representative from Ivtelekom said the partnership benefits both the public and the local phone operators. Samsung never required any prepayment from Ivtelekom for the \$2 million job, letting the project pay for itself after the launch. In turn, the public benefited from the company's pricing strategy, which matches the traditional rates in the oblast.

The system would be good for Bryansk Oblast's rural areas because it does not require cable installation. Instead of going through the trouble of connecting each house and village to a cable network, Samsung can build one station for signal reception and transmission covering a wide area. In urban areas, the wireless system can open up a new technological era, modernizing overnight much of the outdated equipment currently in use. - Alex Levinsky in Bryansk

TATARSTAN PRESIDENT SCOLDS ELITES FOR ECONOMY DOWNTURN. Upon returning from vacation, Tatarstan President Mintimer Shaimiev called a high-level meeting of the republic's top political and economic leaders. The official theme of the meeting was "measures to reduce salary arrears and to stabilize the economy." As local TV reported, the president was furious with the poor performance of government officials and economic managers and scolded them severely.

Indeed, the situation is dire, judging by the report from Tatarstani Prime Minister Farid Mukhametshin. Overall, the republic's economy suffers from slower industrial production growth rates, falling sales, and decreasing direct investment. The government reported a 4 percent growth in the economy for 1997, although that statistical growth was hardly reflected in the people's daily lives. Arrears are mounting and barter operations comprise 65 percent of all sales transactions. Only 80 percent of the republican budget was fulfilled during the past quarter. Because the population's real income has declined, more Tatarstanis today live below the minimum subsistence level.

Salary arrears in the republic's economy were over 2.2 billion new rubles (\$367

million) as of 1 April 1998, or 1.2 times more than at the same time last year. Today, Tatarstan has one of the worst records among all Russian regions in paying salaries to its workers. Every industrial sector faces that problem. For example, the truck manufacturer KamAZ owes over 14 months worth of salaries to its staff. About 70 percent of its employees have been forced to take a leave of absence following the idling of the main production line. The plant's volume of production in the first quarter of 1998 was less than 20 percent of the level for the previous year.

The agricultural sector suffers the most from salary arrears. In one raion of Tatarstan, people are still waiting for their 1995 wages, and in eight other raions people have not been paid since 1996. Retirees are among the hardest hit by the wage arrears crisis. Contributions to the Pension Fund in March were roughly 58.7 percent of the expected income. The government was forced to borrow money to make up for the shortage and pay pensions in full.

Participants at the high-level meeting noted that most of the salaries are "frozen" in unsold products. While the majority of industrial enterprises sold 92 percent to 93 percent of their products in 1997, the total volume of unsold goods is worth over 3 billion rubles (\$500 million). During January and February, the republic's producers only managed to sell 68 percent of what they produced. Given the poor social and economic conditions in the republic and the president's publicly expressed dissatisfaction with the government, some serious high-level personnel changes can be expected soon. - Midkhat Faroukshine in Kazan

DAGESTAN SEEKS GREATER CONTROL OVER BUSINESSES. At a 15 April meeting, Dagestan's top industrial managers discussed the situation of the republic's joint stock companies and ways to increase state involvement in their operations. Dagestan's State Property Committee (GKI) convened the session. The committee's chairman Zeynulla Yuzbekov is most concerned about the former state enterprises, which were privatized and now comprise 37 percent of the republic's companies. Managers of many companies used various schemes to increase the charter capital of their firms, thereby decreasing the state's stake. As Kamil Kubasaev, the head of Dagestan's anti-trust agency, reported, more than 20 percent of the shares are commonly distributed to relatives of the companies' managers. In that manner, various clans gain control of many formerly state-owned firms.

A resolution adopted at the meeting recommended that the government move quickly to adopt a decree regulating state participation in joint stock companies. It also called for increasing the number of state representatives on the boards of those companies in accordance with the federal directives. Finally, it asked the government of Dagestan to exercise tighter control over the distribution of companies' shares and over placing state representatives on the boards.

The Rostov office of the Federal Securities Commission (FSC), which is responsible for the securities market in southern Russia, found the work of inspectors auditing North Caucasian joint stock companies unsatisfactory. Therefore, all the joint stock companies and their subsidiaries have been ordered to prepare annual reports for 1997. In its open letter to the head of Dagestan's Republican Securities Commission, the Rostov branch of the FSC states that the lack of joint stock company audits directly violates federal legislation and infringes on shareholders' rights. Shareholders can sue

audit commissions for such negligence. - Nabi Abdullaev in Dagestan

REGIONAL LINKS

Minorities in Russia - (<http://www.riga.lv/minelres/>) The Minorities Electronic Resources homepage provides extensive information (though somewhat dated) on the human rights situation in Russia as well as articles (in the country information section) detailing the situation of various minority groups in the country.

Association of Siberian and Far Eastern Cities - (<http://www.trecom.tomsk.su:8088/gorod/win/asdg/Index.htm>) The server for this organization provides extensive information on the social and economic situations in the cities of Siberia and the Far East and legal documents adopted by the regional and local governments.

Regional Servers - ([http://www.amursk.ru/admin/gos organ.htm](http://www.amursk.ru/admin/gos%20organ.htm)) This site has one of the best lists of regional government servers on the WWW. It also includes links to federal organizations, political parties, and other organizations in Russia.

CORRECTION: Last week the RRR incorrectly identified St. Petersburg Governor Vladimir Yakovlev as Aleksandr Yakovlev. The report also wrongly identified Leningrad Oblast Governor Vadim Gustov as Leonid Gorbenko. Gorbenko is the governor of Kaliningrad Oblast. Russian regional politics is confusing enough and we apologize for these oversights!

REGIONAL PROFILE: UST-ORDA BURYAT AUTONOMOUS OKRUG

Governor: Valerii Maleev

Valerii Maleev was elected okrug governor on 17 December 1996 with 38.5 percent of the vote.

He was born in 1964 in an Irkutsk Oblast village to a family of *sovkhos* workers. He graduated from the Irkutsk Agricultural Institute, earning degrees in biology and hunting, and later from the Academy of Economics. Until 1991, when he was elected deputy of the okrug legislature, he worked in the Kamenskii *sovkhos* in his home village, where he rose from a worker to a director. From 1991 until he was elected governor, he served in the okrug legislature.

Other Local Leaders

Chairman of the okrug дума -- Leonid Khutanov, elected in late 1996; head of the local Our Home Is Russia movement

Brief Overview

The okrug is located in the southern part of Irkutsk Oblast to the west of Lake Baikal. Its

population includes 79 different ethnic groups, of which 55 percent are Russian and 37.5 percent Buryat.

The okrug is rich in coal, gypsum, and clay. Oil and gas fields have been discovered but remain unexplored. Major regional industries are gypsum and coal extraction and forestry and timber-working. However, only 5 percent of the local population is employed in industry, with the others involved in agriculture.

Basic Facts

Population (as of 1 Jan.1997): 143,000 (0.10% of Russian total)
Urban population (1989 census): 0% (Russia overall: 73.0%)
Student population (1996): 0 per 10,000 (Russia overall: 171/10,000);
Pensioner population (1996): 21.64% (Russia overall: 25.78%)
Percent of population with higher education (1989 census): 6.4% (Russia overall: 11.3%)
Industrial production as percentage of all Russian production (1996): 0.01%
Proportion of loss-making enterprises (1996): 71% (Russia overall: 56%)
Number of enterprises with wage arrears (1996): 82
Agricultural production as percentage of all Russian production (1996): 0.41%
Number of private farms (as of 1 Jan. 1997): 777 (0.28% of Russian total)
Capital investment (1996): 130,100 rubles (Russia overall: 370 trillion rubles)
Sources of investment (1996): federal budget: 26.7% (Russian average: 9.2%); regional budget: 24.1% (9.6%); enterprises: 49.2% (66.3%)
Number of telephones per 100 families (1993): in villages: 12.3 (19.7)

According to a 1997 survey by *Ekspert* magazine, the oblast is ranked 84th among Russia's 89 regions in terms of investment potential and 57th in terms of investment risks. A 1995 survey by Bank Austria ranked the oblast 67th in terms of investment climate.

Electoral History

1996 Presidential Election

Yeltsin: 36.99%/48.67% (first round/second round)
Zyuganov: 40.01%/47.00%
Lebed: 8.54%
Zhirinovskiy: 4.56%
Yavlinskii: 3.96%
Turnout: 71.14%/71.99% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Elections

Communist Party of the Russian Federation: 22.80%
Agrarian Party of Russia: 19.08%
Our Home Is Russia: 9.28%
Liberal Democratic Party of Russia: 7.18%
Women of Russia: 8.78%
Communists -- Workers' Russia: 8.32%
Party of Workers' Self-Government: 2.11%

Yabloko: 2.05%
In a single-member district: 1 Our Home Is Russia
Turnout: 70.14% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 74.03% "No" -- 25.97%

1993 Parliamentary Elections

Agrarian Party of Russia: 25.28%
Liberal Democratic Party of Russia: 14.35%
Party of Russian Unity and Concord: 13.25%
Women of Russia: 12.34%
Communist Party of the Russian Federation: 11.86%
Russia's Choice: 10.02%
Democratic Party of Russia: 3.58%
Yabloko: 2.14%
In a single-mandate district: 1 independent
Turnout: 69.73% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 32.37%
Ryzhkov: 24.28%
Tuleev: 19.18%
Zhirinovskiy: 12.93%
Bakatin: 3.93%
Makashov: 2.81%
Turnout: 83.72% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regioni Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.

RRR-SPECIAL SUPPLEMENT

Two weeks ago, we published a talk by Dr. Oksana Oracheva (Perm State University) on Russian federalism as a special supplement to the *Russia Regional Report*. This week, we are publishing a response from Professor Midkhat Faroukshine of Kazan State University in Tatarstan. Faroukshine is a political scientist whose research focuses

on federal issues. A reply by Oracheva follows.

We published the original presentation and these commentaries to give readers a better understanding of the issues as defined from the point of view of Russian Federation citizens.

–The RRR Editors

RUSSIAN FEDERALISM: THE VIEW FROM TATARSTAN

by Midkhat Faroukshine, Kazan State University

As a scholar long interested in problems of federalism, I carefully studied Dr. Oracheva's remarks. My opinion is that her presentation distorts the realities of Russian federalism and her assessments of the situation do not take into account many facts.

First of all, Dr. Oracheva mistakenly attributes the growth of regionalism and ethnic separatism in Russia to the federal system when she says: "On the other hand, the federal structure can be one of the reasons why regionalism, and ethnic regionalism in particular, is developing and growing in Russia." In and of itself, the federal system does not produce a form of regionalism that would threaten the integrity of the country. Russia's problems stem not from federalism, but from the country's "disconnectedness" and the total absence, or at least poor development, of a sense of universal national identification. Systemic flaws, poor leadership, Russian political culture, and lack of true democratic federal relations also contribute to the problem.

The true meaning of federalism lies in overcoming strong centrifugal forces and in securing unity with diversity. Societal diversity is the true foundation of federal relations. Even if there were no other reasons to have a federal state, the presence of concentrated ethnic groups on the country's territory provides a sufficient foundation for federation.

Dr. Oracheva's concern that the Center is losing power seems far-fetched to me. ("The Center's power is decreasing...") On the contrary, the Center enjoys enormous powers, and there is still much room for devolution and decentralization of power. The fact that the Center cannot use its enormous powers, as is evident from recent experience, is a different story.

Dr. Oracheva is right to say: "The Center is unable to protect people from human rights violations in all 89 regions. So Russia as a whole cannot become a truly democratic country while such things go on in its constituent parts." However, it has to be added that the federal Center itself is the main source of human rights violations in Russia. Consider the large number of wage arrears, without a doubt caused by the federal government. The processes of democratization and respect for the law must start in the Center, not on the periphery, for, according to a Russian saying, "a fish rots from the head down."

In her talk, Dr. Oracheva turns to the problem of symmetry and asymmetry in federal relations several times. First she states that "the asymmetrical structure cannot endure in the long run, as it only creates more problems." Then, however, she proposes that: "...for the long term, it (asymmetry - M.F.) should somehow be institutionalized in the constitution and federal laws." On the one hand, she equates symmetry with equality and advocates equal rights for all the components of the federation. On the other hand, she laments that "the Center favors with its subsidies not the democratic, loyal

regions, as one would think, but the troublemakers." Similarly, she says: "There are illustrations that loyalty is not always rewarded. Consider Perm, for example. We have consistently supported Yeltsin and reforms in general. Yet, we still have wage arrears to public sector workers."

The main issue, of course, is something else. As Columbia University's Steven Solnick correctly pointed out: "Yes, the (Russian - M. F.) constitution claims that all subjects of the federation are equal, but it is a very ambiguous statement." Russian political scientists make three kinds of mistakes in their interpretations of symmetry and asymmetry in federal systems.

The first mistake is using the term "symmetry" to describe the relationship of the federal center and sub-units (the vertical axis). However, that ignores the horizontal relations among the units, which are fundamental to federalism. If there is no symmetry on the horizontal axis, one can hardly expect it on the vertical axis. The second common error is made when analysts reduce the equality of federal subjects vis-a-vis the center to equal rights for all units. However, it is well known that equality does not imply only equal rights. It also means equal responsibilities. The third frequent mistake is thinking that if all federal subjects have equal rights, it implies symmetry. Real asymmetry comes when unequal units are given equal rights.

The egalitarian aspiration to even out the inherently unequal units has been proved inefficient and dangerous to social and political stability many times. In Russia's case, full symmetry would mean concentrating power in the hands of ethnic Russians and leveling the status of ethnic republics. In fact, no federation in the world is symmetrical.

It is misleading when Oracheva says that "Republics resist claims to more power by the ordinary regions," or "Leaders of ethnic republics, like Tatarstan President Mintimer Shaimiev for example, are not fully satisfied with the ordinary regions getting the same degree of power." Nothing can be further from the truth. Ethnic republics never spoke out against the right of non-ethnic regions to broaden their authority. The situation is quite the contrary. We should recall that during the Constitutional Conference (*Soveshchani*) in 1993, ten republics, including Tatarstan, proposed equalizing the rights of all federal subunits, not by reducing the powers of the republics but by broadening the powers of other subunits (oblasts, kraia, okrugs). All one can tell Perm residents is: "Work for it, and you shall get it. The more rights you can gain, the more we will have as well." Oracheva further says: "When ethnic republics like Tatarstan negotiate favorable tax treatments, it causes ordinary regions to ask: Why do they get the benefits?" Ordinary regions must fight for their rights and get them out of the Center by all means possible. As IEWS's Natan Shklyar pointed out, "It seems to me that when ordinary regions see special benefits negotiated by ethnic republics out of the Center, this should be an impetus for them to negotiate similar arrangements as well, and many of them have done just that."

I disagree with Oracheva's statement that: "If we look at the relationship between Tatarstan and the Center, we see a kind of confederation, at least from the republic's point of view." The question is: is that the republic's point of view or her own personal point of view?

Dr. Oracheva never answered the question about possible future scenarios of Russia's federal development. Of course, the question is complex and, depending on Moscow politics surrounding the confirmation of a new prime minister, there might be a

period of decrepitude, paralyzed authoritarianism. However, it seems that Russian society will prove resilient enough to counter those tendencies.

Healthy federal relations and the stability of the federation depend first and foremost on prospects for economic growth. After all, the roots of the conflict between the federal Center and the regions are economic in nature, with widespread poverty a primary cause. If there will be economic growth, there will be normal federal relations. However, since there is little hope for economic growth, the immediate future will remain very similar to the present, marked by the constant tug of war between Moscow and the periphery, and mutual dissatisfaction.

However, the dominant political culture is a long-term factor that will hamper the development of truly democratic federal relations. Several features of the Russian political culture specifically go against true federalism. The first is Russia's centuries-old tradition of rigid, bureaucratic, centralized decision-making in a highly centralized state. Today, as in the past, numerous and powerful firmly entrenched bureaucratic agencies with parochial interests command influence and capital. As they have traditionally done, those agencies seek to command from the capital. Any attempts to devolve power threaten those agencies' most vital interests.

The second feature of the Russian political culture impeding normal federal developments is the limited experience with democracy and lack of democratic traditions. Subsequently, Russia is not accustomed to granting equal rights to all ethnic groups within society. One of the inherent traits of Russian political culture is intolerance for different ways of thinking and alternative ideas. There is a strong preference for uniformity and homogeneity over pluralism and diversity, which does not work well with federalist aspirations.

The third critical feature of the Russian political culture is its preference for confrontation and violence over discourse and dialogue in resolving complex social problems. A culture that lacks traditions of public dialogue inherently lacks tendencies toward compromise and consensus. After all, Russia historically grew into an empire through conquest of foreign lands and subjugation of other peoples.

Fourth, Russian political culture is characterized by legal nihilism. Russia can adopt reasonably good laws and conclude attractive treaties on the delimitation of powers between federal authorities and the regions. But problems crop up in actually implementing the laws and honoring treaty obligations.

Finally, the picture would not be complete without mentioning the disregard for the rights of other peoples, especially ethnic minorities, in Russia. Consider the negation of the principle of self-determination and the widespread idea of "gubernization" of Russia, by which its proponents mean transforming the country into a unitary state with equally divided administrative provinces. Also consider the bloody slaughter staged by the federal government in Chechnya. Last, but not least, we must take into account the scornful and humiliating remarks Russians make about non-Russian communities and names that they apply to them. Russia's clumsy and reckless policies failed to draw together ethnic minorities, but only alienated them further.

The Russian mentality, influenced by the political culture described above, seriously impedes the establishment of democratic federal relations in Russia. Perhaps, to establish a true federal system, a society must first develop an appropriate political culture.

Midkhat Faroukshine is the chairman of the Political Science Department at Kazan State University and a regular contributor to the RRR. For more on federalism, see his "Federalizm i demokratiya: slozhnyi balans" in Polis, no. 6, 1997.

REPLY FROM OKSANA ORACHEVA

I am happy that my talk published by the *Russia Regional Report* provoked such an interesting and stimulating response. However, I believe that I need to respond to some comments, as some of the arguments I mentioned briefly during the talk should be clarified.

Despite some rhetorical excesses, Prof. Faroukshine makes some very important points. First, there is no doubt that holding the country together is one of the main functions of any federation. The Russian Federation is not an exception, because it preserves diversity and guarantees plurality within established territorial borders. However, federalism, I think, has a dual charge. On one hand, as Prof. Faroukshine clearly stated, one can stress the standard political science conception that there is a strong correlation between federalism and democracy. But, on the other hand, some of the specific features of Russian federalism (especially those inherited from the Soviet past) could undermine the democratization process. For example, the considerable uncertainty surrounding the federal principle of self-rule could provide a basis "for fragmentation along undesired lines," as the University of Melbourne's Cheryl Saunders has noted. However, politicians' perceptions regarding the costs and benefits of adopting a federal form of government are largely dependent on the particular circumstances of the time and the existing alternatives. In the Russian case, the costs of the alternatives were much higher than those of federalism.

Second, I agree with Prof. Faroukshine that Russia's problems come from a variety of origins, including the country's spatial diversity, the absence of a constitutional tradition, economic difficulties, and last but not least, the absence of an universally accepted Russian collective identity and democratic political culture. I think, nevertheless, that the pre-existing federal structure contributes to the increasing cleavages between the center and the regions, as it provides the regional political elite with institutionalized resources for mass mobilization. Thus during the process of democratization, the traditional benefits of federalism, such as regional autonomy and opportunity for greater participation, may actually turn into costs. The same type of correlation between the federal structure of the state and the rise of regionalism can be identified, for example, in the Canadian case. There, the existence of a specific institutional framework allowed the Quebec nationalists to turn their claims into political actions after their electoral victory in the province.

Third, there is no doubt that the Russian state, and especially the fiscal system, must be further decentralized. As Prof. Faroukshine rightly points out "the Center enjoys enormous powers, and there is still much room for devolution." However, it seems to me that one important distinction should be made: between authority and power. While the center still enjoys a lot of rights in

terms of its decision-making authority and enormous concentration of resources, its enforcement power is rather limited. As Vera Tolz (University of Salford) and Irina Busygina (Institute of Europe) rightly argue, the weakness of the federal government could be illustrated by the fact that "the center can react to, but not necessarily shape, the developments of the regions."

Fourth, Prof. Faroukshine rightly notes that there is a lot of confusion in definitions of "symmetrical-asymmetrical relations." I think both terms are too often misused. While the constituent parts of an ideal federation should be equal in relative terms of size, population, natural resources, and level of development, the actual practice is rather different. From that perspective, none of the world's existing federations are truly symmetrical. However, as Saunders argues, "large differences in economic circumstances between regions are likely to threaten the social cohesion of a federation." Symmetrical federalism is based upon the equal status of the constituent units, with the same degree of autonomy and equal rights protected by the constitution or other federal arrangements. Asymmetrical federation favors giving regions different levels of status, degrees of autonomy, and privileges, with the consequent differentiated distribution of benefits. In the Russian case, asymmetrical federalism results in less autonomy for the regions and more autonomy for the republics. The bilateral treaties signed between the Kremlin and individual regions only reinforce the existing asymmetry.

In the short term, the most pragmatic regions' decision to adopt a strategy to fight for more power and resources in order to restore some kind of symmetry, an effort supported by Prof. Faroukshine, could solve some of the existing cleavages. However, in the long-term "the resulting ad hoc deals may destroy constitutional norms needed to regulate Russian federalism in the future," as Columbia's Steven Solnick has noted. Moreover, by increasing the struggle with the Center for more rights and autonomy, ordinary regions, in fact, follow the path of ethnic republics as they also try to take as much power as they can negotiate. That on-going negotiation process between the Center and the regions, and bilateral treaties in particular, marks a shift from a constitutionally based federation to federalism defined by treaty. Treaty-based federalism is widely recognized as a less stable system of federal arrangements.

Finally, I'd like to agree with Prof. Faroukshine that the truly federal system cannot exist without "an appropriate political culture," a culture which needs time to develop.

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BREAKING NEWS

POLITICS

SKLYAROV GAINING UPPER HAND IN POLITICAL BATTLES FOLLOWING CANCELED ELECTIONS. Nizhnii Novgorod Governor Ivan Sklyarov won over the "Nizhnii Diaspora" in Moscow -- Deputy Prime Minister Boris Nemtsov and Prime Minister Sergei Kirienko -- when Yeltsin appointed Deputy Governor for Ecological Issues Aleksandr Kosarikov as his representative in the region. Yeltsin fired his old representative Yurii Lebedev after Andrei Klimentiev was elected mayor and the elections were subsequently canceled (see *IEWS Russian Regional Report*, 2 April). Lebedev was a Nemtsov ally who served as acting governor when Nemtsov departed for Moscow in March 1997 and then ran against Sklyarov in last year's gubernatorial election. Sklyarov unsuccessfully proposed appointing Kosarikov last year, but Nemtsov then blocked the nomination. After Yeltsin's announcement, Sklyarov quickly appointed Kosarikov to head the oblast committee on television and radio. Local journalists interpreted that move as possible revenge for their criticism of Sklyarov's management style and for some media support of Klimentiev. (*Russkii Telegraf*, 28 April)

The governor and the "federals" remain locked in conflict over the next steps following the cancellation of the mayoral elections. The governor has not hidden his anger about the criticism his former colleagues from the city have heaped on him. Currently the mayor's office remains vacant and A. Meleshkin is acting mayor. Sklyarov has by now realized he made a mistake in supporting the former acting Mayor Vladimir Gorin. He is now hoping to win the election of either the current speaker of the city duma, I. Karnilin, or one of the members of the oblast administration. The "federals" are interested in electing a more independent official to balance the governor's power within the oblast in order to preserve their own influence. Although they lost out in naming the presidential representative, Nemtsov and Kirienko could support the elections of former presidential representative Yurii Lebedev as mayor. A compromise choice would be backing one of the city's raion administrators. The mayoral elections have yet to be set, and may not take place until the end of the year. (*Birzha* [Nizhnii Novgorod], 23 April)

FEARS OF ETHNIC CONFLICT ON STAVROPOL-DAGESTAN BORDER. The Stavropol Krai Security Council is worried about the influx of up to 10,000 migrants from Dagestan into the eastern part of the krai. During the last three or four years, Dagestanis have been buying apartments and stores in the region. Local officials in the eastern part of the krai say the migrants are responsible for an increase in robberies, organized crime, and murders and are demanding that the krai leadership take measures to limit the number of people moving into the area. The Dagestanis make money processing oil on the black market. Local Cossacks claim they have seen fliers extorting the Dagestanis to throw out the "Russian occupiers" as the Chechens did. Leaders of those cossack groups believe an argument in a cafe or at a dance could trigger mass ethnic mobilization. Stavropol Governor Aleksandr Chernogorov characterized the situation as "alarming." He is currently taking steps to beef up security on the Stavropol-Dagestan border. Additionally, he is working with the leadership of Dagestan, where pre-presidential election tensions are increasing, and has set up an ethnic council in Stavropol. (*Izvestiya*, 25 April)

SVERDLOVSK LEGISLATURE DUMPS ROSSEL ALLY AS SPEAKER. The newly elected members of the Sverdlovsk legislature voted speaker Vyacheslav Surganov out of office after he refused to leave voluntarily on 22 April. Surganov is a close ally of Governor Eduard Rossel, whose organization Transformation of the Urals lost its majority in the body in the recent elections. The new deputies, led by Yekaterinburg Mayor Arkadii Chernetskii and his organization Our Home--Our City, have yet to agree on a successor. The new speaker will become a member of the Federation Council and a potential contender in next year's gubernatorial elections. (*Kommersant Daily*, 23 April)

OUR HOME IS RUSSIA HOLDS CONGRESS. Former Prime Minister Viktor Chernomyrdin's Our Home is Russia (NDR) held its fifth congress on 25 April. No longer the "party of power," NDR hopes to become the party that influences power. Chernomyrdin can still count on the financial support of Gazprom, Lukoil, and possibly magnate Boris Berezovsky. (*Izvestiya*, 28 April) Many governors are clearly dropping their ties to the party. Samara Governor Konstantin Titov suggested that the NDR should consider nominating other candidates besides Chernomyrdin as president. Saratov Governor Dmitrii Ayatskov criticized Chernomyrdin for not defining his position on the new government. He argued that if Chernomyrdin does not have a strong position, no one will believe in him. (*Kommersant Daily*, 28 April) Nevertheless, regional executives like Marii-El's Anatolii Kislitsyn, Komi's Yurii Spiridonov, Chukotka's Aleksandr Nazarov, and Leningrad Oblast's Vadim Gustov were elected members of the movement's political council.

CONSTITUTIONAL COURT RULES AGAINST LANGUAGE LAW. The Russian Constitutional Court effectively ruled that Russian republics cannot require presidential candidates to speak the titular language of the republic. The constitutions of Bashkortostan, Buryatiya, Ingushetiya, Sakha (Yakutiya), North Osetiya, Tatarstan, Tyva, and Adygeya now require presidential candidates to speak the local language as well as Russian. Bashkortostan, where presidential elections are set for 14 June, had already scheduled a language test for candidate Aleksandr Arinin, who refused to take it, saying it violated his rights. While technically the court has yet to outlaw language testing, it ordered the republics not to use it until the legal status of state language laws could be evaluated. (*Kommersant Daily*, 28 April)

ECONOMICS

FEDERAL GOVERNMENT SEEKS TO IMPROVE ECONOMIC CONTROL OVER REGIONS. The president is on the verge of issuing a decree better defining how the federal government will issue aid to the regions. The main innovation is that Moscow will sign agreements with each region explicitly defining the responsibilities of both the federal and regional governments. The decree also defines how the regions will repay federal debt. Following the signing of the treaties, the federal government plans to track how the money it transferred to the regions was spent. Governors will be rewarded or punished based on their fiscal discipline. Tightening discipline will be difficult because most regions (75 of 89) receive monthly transfers and practically all receive a variety of grants and loans. The rapidly changing

and poorly defined system benefits many governors whose budgets are based on barter deals and various accounting tricks. For example, some firms pay their taxes in shipments of cement, which the regional administration can use to build hospitals. When there is no money to pay the doctors hired to work in the new healthcare facilities, however, governors start demanding more funds from Moscow.

Subsidies are now based on pressure brought by the governor and predictions of regional budget deficits, even though those do not necessarily reflect actual economic conditions. Under that system, Kemerovo Oblast, with its numerous miners' protests, is considered the poorest region although economic indicators in the relatively quiet Novosibirsk Oblast are far worse. In the future, indicators of per capita budget income will determine subsidies. Regions with the lowest indicators will receive the most aid. The center will simultaneously press to cleanse all budgets of non-monetary surrogates, senseless expenditures, and other weak spots. The feds hope to coax regional governments into rationalizing their budgets by offering cheap loans for useful infrastructure projects. The government is also threatening to impose outside control on those regions that do not take decisive action. (*Izvestiya*, 24 April)

Tackling the issues of fiscal federalism will be very important for the future of the Russian Federation. As the OECD's Economic Survey of Russia for 1997 points out, "Fiscal relations between the federal, regional, and local governments have been a constant sources of uncertainty and conflict during the transition period." The absence of a tradition of fiscal federalism, sprawling geography, complex historical and political factors, ethnic diversity, and an unequal distribution of resources are among the causes the OECD cites in analyzing the difficulties the country faces.

GOVERNORS SEEK CONTROL OVER ELECTRICITY MONOPOLY. In a bid by regional leaders to gain greater control over the electricity monopoly, the Federation Council voted to join the State Duma in overriding a presidential veto on a law governing the distribution of shares in the Unified Energy System (EES) on 23 April (<http://www.akdi.ru/gd/proekt/10778GD.HTM>). According to the bill, which the president must sign within seven days of the upper house vote, the state will retain a 51 percent stake in the firm, from which 33 percent of all shares in the company will be transferred to the regions. Foreigners will be allowed to buy up to 25 percent. Tyumen Governor Leonid Roketskii made clear that the governors wanted control over the company so they could prevent it from raising prices. Likewise, Samara Governor Konstantin Titov asked why a Cyprus-based company that owns shares could vote in EES meetings when the governors could not do anything. (NTV, 23 April). Yeltsin objects to the measure because there is no mechanism for transferring the stock to the regions. Moreover, he has noted that foreigners now own more than 30 percent of the firm and there is no legal way to induce them to sell their shares. The regional elite in the upper house apparently decided to support the bill despite those problems because of their interest in gaining the shares. Because most regions are indebted to the monopoly, it has considerable power over them. Yeltsin may now ask the courts to rule whether the law is constitutional. (*Izvestiya*, 24 April and *Nezavisimaya gazeta*, 23 April)

YELTSIN MEETS WITH MINERS. President Yeltsin met with miners on 23 April to address their problems. Kemerovo Governor Aman Tuleev said the discussion was about "money, money, money" and particularly how to raise 5 billion rubles (\$833 million). Yeltsin promised to restructure the mining firms' debts, delaying repayment of the debt itself for four years and postponing payment of fines for "decades." He also promised to use part of a Japanese credit to build houses for the miners. Additionally, Yeltsin said that 2 billion rubles (\$400 million) generated from state-controlled vodka sales would support the coal industry. The president promised to meet with the miners at least twice a year. (Russian TV, 23 April)

BUSINESS BRIEFS

-- **MCDONALD'S** opened its third restaurant in **NIZHNI NOVGOROD**, directly across from the Moscow train station. That restaurant now serves customers 24 hours a day. (*Birzha* [Nizhnii Novgorod], 23 April)

-- Germany's **MERCEDES BENZ AG** has made a "strategic decision" to assemble trucks in Russia, but it hasn't chosen a Russian partner, a site for its operations, or a start date, according to the firm's sales manager for Eastern Europe, Peter Mink. The company's management believes it cannot increase its presence in the Russian market without assembling vehicles in the country. (*Russkii Telegraf*, 25 April)

-- **LENINGRAD OBLAST** floated a \$50 million syndicated Euroloan, priced impressively low at just 4.25 points over the London Inter-bank Offering Rate. The original loan was \$30 million, but the oblast raised it due to strong demand. **WESTMERCHANT** and **MOSCOW NARODNY BANK** were joint arrangers. The loan is only the second Euroloan issued in Russia, with the first going to the city of Moscow. The oblast will use the money to restructure its debts and upgrade its heating system. The loan comes on much better terms than money raised on the internal market and has a surprisingly good rate given the Asian financial crisis and uncertainty in April over the Duma confirmation of Prime Minister Sergei Kirienko. (*St. Petersburg Times*, <http://www.times.spb.ru/archive/times/>, 24 April)

-- Hollywood's **WARNER BROTHERS** is teaming up with **MOSCOW** Mayor Yurii Luzhkov to build a chain of multi-screen cinemas in the capital city. They hope to replicate the success of the Kodak-Kinomir. Warner Brothers will benefit by tapping into an underserved market while taking some customers from video pirates who sell unauthorized copies of many Hollywood films in Russia. The mayor hopes to generate more tax revenue. A \$200 million investment is required for the chain of 20 cinemas envisioned by the mayor. Prague's first multi-screen cinema, built on the edge of the city, quickly captured 11 percent of all ticket sales in the entire Czech Republic. (*Kommersant Daily*, 25 April)

-- **ST. PETERSBURG** Governor Vladimir Yakovlev signed an agreement with South Korea's **CHOONGWAE** committing both sides to invest \$8 million in a new pharmaceuticals factory

that should open in the city within eight months. The plant will be the fourth new pharmaceuticals concern in the city, bringing a total investment of \$125 million. (*Kommersant Daily*, 25 April)

-- **ST. PETERSBURG** plans to offer large investors special tax breaks. They will start paying profit and property taxes at a time determined in conjunction with the city administration. Regions like Novgorod require investors to begin paying such taxes when their projects become profitable. The city has yet to determine the size of the investment required for the benefits, according to Property Committee official Aleksei Ignatenko. (*Finansovye izvestiya*, 28 April)

-- Japan's **NEC**, with financial support from **SUMITOMO**, opened a factory producing digital telecommunications equipment at the Experimental Factory of the Russian Academy of Science in Chernogolovka (**MOSCOW OBLAST**). Sales are expected to reach \$10 million to \$12 million this year and should climb to \$40 million to \$50 million by 2000. The overall investment is worth \$4 million, including a \$2 million credit from Sumitomo. (*Finansovaya izvestiya*, 28 April)

-- **BRITISH PETROLEUM** is interested in purchasing 24 percent of the stock minus one of **MOSCOW'S** Central Fuel Company. (*Finansovye izvestiya*, 28 April)

-- **AEROFLOT** has signed a preliminary agreement with **SAMARA'S AVIAKOR** in which it agreed to buy 50 An-140 airplanes, with a capacity of 50 to 70 passengers, by the year 2005. Each plane costs about \$30 million. Aviakor will also service the airplanes. The contract should be signed this fall. Aeroflot will use the airplanes to regain the regional market it lost following the breakup of the Soviet Union. Most Russian aircraft manufacturers have had difficulty competing with Boeing and Airbus because their planes are considered inferior. (*Russkii Telegraf*, 25 April and *Kommersant Daily*, 28 April)

SPECIAL REPORT ON LOCAL GOVERNMENT

RUSSIAN MAYORS VISIT HARVARD. On 22 April, eight Russian mayors and deputy mayors visited the Davis Center for Russian Studies at Harvard University to discuss the problems facing municipal governments in their regions.*

The mayors engaged in a lively and frank debate, agreeing on some issues, disagreeing on others. Their main complaint was the lack of clear rules in their dealings with oblast and federal authorities, particularly with regard to sharing tax revenues. The city authorities are still responsible for providing education, health, and housing services to their residents, but they lack the revenue to do the job. The federal and regional budgets still operate on the old principles of "redistribution" (*pereraspredelenie*), transferring funds from richer to poorer cities, which provides no incentive to improve local tax collection. Similarly, cities that raised extra money for their health insurance funds were incensed to learn that as a result they received less funding from federal coffers. "The effort to introduce health insurance was a sick joke," one mayor concluded.

The mayors urged the government and parliament to agree on a new, simpler tax code that they hope will give the municipalities more specific rights to local revenues. Another problem is that local authorities must deal with many contradictions between laws and governmental decrees. The main thing they admired about the American system (they had visited the city of Springfield, Mass.) was the clear definition of responsibilities for each layer of government..

As in Soviet times, city governments depend heavily on the economic health of the enterprises that prevail in their regions - military industries in Perm, glass factories in Gus-Khrustalnyi, the steel mill in Cherepovets. Ongoing economic recession continues to cause financial problems in all the cities represented in the delegation. The mayors were also very concerned about proposals to raise the tariff level of the "natural monopolies" - electricity, natural gas, and railways

In terms of politics, there was a range of experiences: local government practices are no longer uniform, not even in regard to formal institutional structures. Some mayors are directly elected, others are chosen by the city legislature. Some mayors chair the legislature and effectively control its operations ("I am a dictator," one mayor joked), other mayors were less assertive. Several of the mayors stressed the importance of forging a consensus with local financial and industrial elites, although the strength and unity of those elites varied from region to region. One deputy mayor proudly explained, without any irony, that local democracy works well in his town because the city's leading businessmen meet and decide on an approved candidate, and hence the elections go smoothly.

The officials reported that numerous small parties are present in their regions, but none of them suggested that those parties exercise any significant influence over local policy making. Even though the Communist Party of the Russian Federation has a presence, it was described by one participant as "a party of the weak, not a political party," meaning that its members are pensioners and the poor. The party lacks a strategy for what to do even if it were to gain power, and seems more comfortable to sit in opposition. Generally speaking, the local political system is not structured around parties but around personalities and economic elites, who conduct intrigues in the corridors of power and via the local media. Party activity does pick up before elections, especially in the big cities. In Pervouralsk, for example, more than 50 blocs and parties were active around election time.

There was a lively debate with the American hosts over whether the U.S. wants to see Russia strong and wealthy or would prefer to keep it weak - lest it again become a military rival. Responding to a comment that the high level of crime in Russia deters American investors, delegates insisted that the crime situation is calm in their cities, claiming that the streets are certainly safer than in Springfield, where the officials were barred from walking into certain areas. They urged US businesspeople not to extrapolate about crime rates based on scare stories from Moscow.

Vera Andrievskaya, the vice-mayor of Togliatti, averred that women are not facing any particular problems in the transition, although she conceded that they are over-represented in the ranks of the unemployed. She also said the city has developed a special program to encourage businesses to hire young people. After which Perm mayor Yurii Trutnev interjected, "And I would just like to add that in Russia, we love our women very much." - Peter Rutland

* The officials included: Pervouralsk Mayor Mikhail Ananin; Togliatti Vice-Mayor Vera Andrievskaya; Vyska Raion Vice-Mayor Vladimir Asonov; Cherepovets Vice-Mayor Leonid Ryabinin; Vladimir Deputy Mayor Aleksandr Ryabov; Vologda Deputy Head of Administration Sergei Sazonov; Perm Head of Administration Yurii Trutnev; and Gus-Khrustalnyi Mayor Boris Yumatov.

PATTERNS OF REGIONAL DEVELOPMENT

LEBED SCORES SURPRISING UPSET IN KRASNOYARSK. Retired General Aleksandr Lebed and incumbent Governor Valerii Zubov will face each other in a runoff on 17 May after first round voting propelled Lebed to a surprising lead on 26 April. Lebed dominated Zubov 45 percent to 35.5 percent in the first round. Communist Petr Romanov had to settle for a distant third with 13 percent. Overall voter turnout was about 62 percent, but reached as high as 80 percent in some rural areas (<http://www.krasnoyarsk.org>). If Lebed wins the second round, he will be in a strong position to contest the presidential elections in 2000. The runoff results will depend significantly on how the communists vote. Predictions are difficult because communist voters must decide between the lesser of two evils or simply choose not to vote. The local Communist Party has already advised the rank-and-file not to back either of the candidates, according to *RFE/RL Newswire*.

As in the rest of the country, urban and rural areas voted differently. The city of Krasnoyarsk backed the status quo, while the rest of the krai voted for Lebed. Turnout in the capital was just over 50 percent, much less than in the more active pro-Lebed rural areas, and Zubov may be able to eke out a victory if he can mobilize supporters who sat out the first round. *Kommersant Daily* (28 April) even recommended reviving Yeltsin's 1996 slogan "Vote or you lose" to energize the Zubov constituencies.

Although Lebed's victory took most pollsters and observers by surprise, his success comes on the heels of a strong showing by his party in the December elections to the krai's legislature (see *IEWS Russian Regional Report*, 11 December 1997).

The general's success will undoubtedly upset many in Moscow. There is speculation that if Lebed wins, the Kremlin will cite numerous violations of the law and annul the election. Yet that move would likely prompt a much stronger public reaction than when Moscow recently supported the annulment of elections in Nizhnii Novgorod after a convicted criminal won the mayor's seat. Making a move against Lebed by selectively enforcing the electoral law would also tarnish Russia's commitment to democracy much more than the cancellation of the Nizhnii elections.

Political calculations aside, the Krasnoyarsk elections were clearly not by the book. The candidates broke all records in the use of funds, spending millions and, by some accounts, tens of millions of dollars. (*Kommersant Daily*, 23 April) In contrast to the 1996 presidential race, major bankers were divided in their support. Boris Berezovsky and Rosskii Kredit bank supported Lebed, while UNEXIMbank -- which owns a controlling stake in Norilsk Nickel -- and Inkombank stood behind Zubov. Both sides produced unprecedented quantities of flyers and newspapers to support their candidate and denounce the opposition.

By all accounts, incumbent Governor Zubov ran a bad campaign. He tried to win votes by scaring krai residents with warnings about the consequences of electing Lebed. His appeal to the voters effectively boiled down to the phrase, "If you vote for Lebed, you will elect Berezovsky." Moscow Mayor Yurii Luzhkov visited the region on 22 April to stump for Zubov, warning that Lebed as president would be "frightening" and "dangerous for Russia." (*Moscow Times*, 22 April) According to *Izvestiya* (28 April), Zubov's attacks on Lebed backfired, hurting the incumbent.

Besides running a bad campaign, Zubov had to answer for failing to turn the region's economy around during his tenure. Zubov's platform had an intensive 15-point economic development program that included reconstructing the krai's machine-building industry; building 150 km to 200 km of new roads annually; installing a gas pipeline network; boosting small business; installing 200,000 new phone lines over five years; increasing state support for agriculture; intensifying production in the forestry industry; sponsoring the bus factory in Sosnovoborsk; and building more housing (www.krasnoyarsk.org). He also promised to pay back salaries to teachers, doctors, and other public sector employees by June 1998 and even to raise teachers' salaries by 1999. Naturally, voters were skeptical. The buses, for example, are supposed to be produced with the help of Mercedes Benz's Turkish subsidiary, and the governor even claimed two had already been built. Yet plant workers said nothing had happened yet and criticized the governor for stretching the truth. (*Moscow Times*, 24 April)

Lebed clearly found a way to connect with voters and address their immediate concerns. At a rally in Aban, he appeared at the back of the crowd and walked through throngs of people toward the stage, winning over many rally participants by his unusual approach. According to *Itogi* (20 April), the general did not criticize his opponent during his public appearances. Instead he stressed that he would crack down on corrupt factory directors. He never tired of saying that he had no plans to introduce dictatorship and did not want to impose military methods on civilian life. According to *Itogi*, he advocated liberalism and the "politics of common sense" in a way that was much more convincing than if it had come from figures like Chubais or Gaidar. By doing so, he may have grabbed large chunks of Zubov's electorate. Ironically, Zubov should have had the liberal electorate locked up: he is a former economics professor, speaks fluent English, and studied in the US.

A Lebed victory would be particularly bad for the city of Moscow. Lebed claims that 86 percent of Russia's capital is concentrated in Moscow. If elected governor, Lebed said he would use his seat on the Federation Council to make sure that enterprises pay all their taxes where they are actually located and not in Moscow, where their headquarters are based. (*Izvestiya*, 24 April) Many Siberian leaders have made the same argument, but none have successfully stopped the flow of money to Moscow. Among the protest votes Lebed collected were those of people who want Moscow to stop living off the rest of the country. Lebed's success shows that Luzhkov's support may have been a liability for Zubov and that the Moscow mayor would garner little support in the regions for a 2000 presidential bid. - Robert Ortung

KARELIYA VOTERS SEEK CHANGE. Former Petrozavodsk Mayor Sergei Katanandov led incumbent Viktor Stepanov almost 40 percent to 33 percent following the first round of voting in elections to name the head of the Kareliyan government on 26 April. Voter

participation was 57 percent. The two contenders will enter a runoff on 17 May. The republic has an anemic economy, dropping production, and increasing unemployment. The returns show that the voters in the north-western region are ready for change. (*Nezavisimaya gazeta*, 28 April) In local elections held the same day, Karelians replaced more than half of the members of the republican legislature. In the capital of Petrozavodsk, voters elected the young Andrei Demin as the new mayor.

The two major candidates going into the runoff have completely different backgrounds and plans for the republic. Stepanov is a communist politician and has the support of the republic's Communist Party and other leftist groups. Katanandov is a pragmatic manager who does not formally belong to any political party. Katanandov was born in 1955 in Petrozavodsk to a well-known family of construction workers. Stepanov was born in 1947 and comes from a rural family of reindeer herders. (*Nezavisimaya gazeta*, 22 April)

Stepanov began his career as a geography teacher and then entered the typical nomenklatura path, rising through the Komsomol and party ranks. He studied in the Higher Party School of the Czechoslovak Central Committee. In 1989, when Stepanov was in Moscow working in the staff of the Communist Party Central Committee, the party leadership of the republic voluntarily resigned. Stepanov was offered the position of Kareliyan obkom first secretary, but refused it in favor of the chairmanship of the Kareliyan Supreme Soviet. Under his leadership the republican legislature drew up a constitution creating the position of head of government, and he won that position as the only candidate in the 1994 elections.

Following family tradition, Katanandov worked his way up in the construction industry to become the head of an association that builds large pre-fabricated panel buildings. He was elected to the city council in 1990 and then was appointed head of the city executive committee, effectively serving as Petrozavodsk mayor. He was elected to the position in 1994. In the current race, he has the support of Our Home is Russia. (See the next article for a report from Kareliya.) - Robert Orttung

KARELIYAN INCUMBENT DENOUNCES OPPOSITION CANDIDATE.

Commenting on the results of the first round of the elections, the incumbent Viktor Stepanov thanked all those who turned out at the polls and then said:

"I view the outcome as positive and am a bit surprised that so many people voted for me, given wage and pension arrears and my campaign's relatively late start. This year's race is much more competitive than in 1994, as I have to face opposition from much of the media. People often say that papers such as *Narodnyi advokat* and *Karelskoe obozrenie* support the prime minister. But if you look at the total distribution figures for the opposition papers, the odds are not in my favor. As if this was not enough, my foes print dirty, libelous leaflets about me allegedly having a country house in Nice, where I have never been. I plan to hold accountable the people responsible for those actions and have already contacted the Procurator General and the Foreign Minister to look into this matter. Despite my neutrality during the duma race and the presidential elections, the local [Zhirinovskite] Liberal Democrats have *de facto* united forces with Our Home is Russia (NDR) against me.

"...But Katanandov won only 39 percent of the vote in Petrozavodsk. The myths about the alleged prosperity enjoyed by the capital city have been shattered. It will be tough for

Katanandov to explain why his city voted against him. General neglect and wage arrears, especially in the heating sector, lead to a gap between rhetoric and reality. I doubt he would get re-elected if he had to run for mayor today. He has a high opinion of himself, and equally high ambitions. It is almost as if he considers himself to be royalty. It is significant that the city's favorite candidates did not win. The king turned out to be almost totally naked. Until now, I have avoided evaluating Katanandov's work, but his criticisms have been quite caustic. That shows he does not understand the roots of the crisis. Can we allow the voters to be fooled by the publication of materials with such large print runs? It shows disrespect toward voters and toward other candidates. A campaign based on lies will not work."

After denouncing his opponent in great detail, Stepanov did not bother to explain why the voters chose him. Most importantly, he is deceptive about the results in Petrozavodsk. Katanandov led the city with 40 percent while Stepanov only received 33 percent there, so it is not true that the city voted "against" its former mayor.

In other comments, Stepanov promised that the collapsing Segezhabumprom paper-making combine will have an owner before the second round of elections. [Sweden's AssiDoman, which owns a majority stake in the plant, recently pulled out, complaining that government restrictions prevented it from making a profit.]

Talks in Moscow with the AssiDoman president have so far failed to produce an agreement for selling the investor's share in the plant. Stepanov also told reporters that the state дума finally passed a law on pensions payment in the Far North which he had lobbied for since 1993. Responding to questions from reporters, Stepanov promised that no government reshuffles are in store beyond the recent voluntary resignation of the health minister. Contrary to his previous statements, Stepanov said he would welcome the opportunity to face Katanandov in a televised debate. - Boris Matveev in Petrozavodsk

SMOLENSK OPTS FOR STATUS QUO. Smolensk Mayor Aleksandr Prokhorov took a strong 46 percent to 25 percent lead over Smolensk Governor Anatolii Glushenkov in the oblast's gubernatorial elections on 26 April. Voter turnout was 39.26 percent. The two will compete in a runoff next month.

Governor Glushenkov represented former Prime Minister Viktor Chernomyrdin's Our Home is Russia, while Mayor Prokhorov is a Communist Party member. Despite their different party affiliations, both candidates represent nostalgia for the past and a rejection of new approaches to resolving the region's serious economic difficulties, according to *Izvestiya* on 28 April. Prokhorov is likely to win the 17 May runoff and already controls the oblast legislature.

Boris Reva was the only candidate to suggest that the economically stagnant oblast should push strongly to establish a market economy. He had also threatened to investigate the work of the current oblast and city administration if he came to power. He won only 10 percent of the vote. On 22 April, assailants attacked him by detonating a bomb near the exit of his apartment building. (*Nezavisimaya gazeta*, 24 April).

In both Smolensk and Kareliya, the mayors of the capital cities are leading following the first round. In both regions, the capital city dominates in terms of economic indicators and population. (*Russkii Telegraf*, 28 April) Such support for the mayors is not surprising, considering they exercise much greater influence over the day-to-day life of city residents than

the governor. Moreover, the governors must cooperate with the federal authorities, which discredits them in the eyes of most voters. - Robert Orttung

CONTROVERSIAL PAPER EDITOR REINSTATED, AGAIN. A district court ruling has for the second time reinstated former editor of *BK-Fakt* Vladimir Pronin in his positions, despite the wishes of the paper's founders. *BK-Fakt* (*Bryanskyi Komsomolets-Fakt*) once belonged to the Bryansk Oblast branch of the Komsomol. Pronin was initially dismissed after alleged improprieties. His second dismissal, in fall 1997, came after he was accused of "playing political games." In reality, the controversial editor clashed with Communist Governor Yurii Lodkin when he published several anti-administration articles. After the first editorial coup, the founders appointed a puppet editor and the local printers refused to deal with Pronin.

Almost all Bryansk newspapers agree that the governor's office directed the censoring of Pronin's activities. Earlier, the governor publicly described Pronin as a friend and ally who was invaluable during the gubernatorial campaign. Lodkin even offered him a job in the oblast administration. However, Pronin declined the appointment and announced that he plans to write a book exposing the governor's unscrupulous climb to power, for which he personally helped raise money. Governor Lodkin claims that Pronin acts on behalf of certain anti-administration business interests, both local and in Moscow. While he was prevented from working at *BK-Fakt*, Pronin founded several other papers, winning many of his old readers from *BK-Fakt*. Pronin's newspapers now claim 24,000 readers, while *BK-Fakt's* subscription base has dropped from 14,000 to a mere 3,000 readers. - Alex Levinski in Bryansk

THE NEW GENERATION

Note from the RRR editors: This week we begin a new section examining the rise of young leaders across the Russian regions. In many areas, young people are having difficulty cracking into the upper levels of politics and business. Authoritarian regional leaders naturally have an interest in thwarting the rise of potential opponents and therefore work to constrain opportunities for new-comers. Despite the rough terrain, new leaders are making names for themselves here and there. This week's report from Komi shows that the new generation is likely to be as complicated as its predecessor. While some take advantage of opportunities to establish market-oriented businesses, others prefer to advance nationalist causes that may prove destabilizing.

KOMI'S YOUNG POLITICAL ELITES. Among Komi Republic's political elite, largely composed of the remnants of the Soviet-era party and state nomenklatura, there are several leaders who were carried to the top by Gorbachev's reforms and subsequent free-market transformations. Two prominent young politicians stand out on the political landscape: republican Nationalities Minister Aleksey Konyukhov and Economics Minister Yurii Kolmakov.

Konyukhov was born in 1960 to the family of a high-level civil servant. After graduating from Syktyvkar Pedagogical Institute with a language degree, he taught English before joining the Communist Party and launching a Komsomol career. Between 1983 and 1990, he rapidly rose in the Komsomol ranks and was ultimately transferred to Moscow. After the collapse of

the Soviet Union he did three years of graduate work at the Russian Academy of Administration (formerly the Party Academy of Social Sciences), focusing on Komi minority issues. His active work in the Moscow Komi community earned him the reputation that eventually propelled Konyukhov to a top position back home, at the republican State Committee on Nationalities (later to become the Nationalities Ministry).

Today Konyukhov is one of the leaders of the Komi national movement, which is much more active than comparable movements in other Finno-Ugric republics of Russia (Kareliya, Udmurtiya, Marii El or Mordoviya). He has participated in all five congresses of the Komi people, which is legally recognized as the highest representative assembly of the Komi. At the last three congresses he was elected to the movement's Executive Committee, a position he never gave up even after joining the cabinet of ministers. Many have questioned whether holding that seat is a possible conflict of interest. Hanging on as a leader of the Komi ethnic movement might testify to his weak political instincts, since the Komi national movement enjoys very little popular support, even among ethnic Komi. Banking on the nationalist card might not be a winning political move for Konyukhov in the long run.

Yurii Kolmakov was born in 1959 in the polar city of Vorkuta. His father managed a state-owned reindeer-breeding enterprise. Pragmatically, Kolmakov chose to first succeed in business and then move on to politics. He graduated from the economics department of Syktyvkar University in 1982 and won a job at a small poultry processing factory, quickly becoming its chief economist. In 1989 he took advantage of the burgeoning development of the new banking sector, and in 1992 created IFK Corporation, arguably his most brilliant achievement, which he still heads. The company is a combined securities brokerage and consulting firm. Earlier this year he was honored with the republic's best economist of the year award. Shortly thereafter, he became the Komi Republic's Economics Minister. As the holder of one of the key cabinet posts, Kolmakov is well-positioned for a bright political future, possibly including election as the republic's chief executive. - Yurii Shabaev in Syktyvkar

CENTER-PERIPHERY RELATIONS

NIZHNI PASSES ILLEGAL LAWS TO BOOST BUDGET REVENUE. Speaking at a meeting of oblast lawmakers convened to discuss legislative cooperation with the Nizhnii Novgorod Oblast administration, Chairman of the oblast assembly Anatolya Kozeradskiy said he and the governor agree that the oblast will be walking a fine legislative line *vis a vis* the feds. That statement must be viewed in the context of several recent violations of federal legislation by Nizhnii. The president's representative in the oblast and the prosecutor general have often brought that problem to the attention of the regional authorities. According to former Presidential Representative Yurii Lebedev, Kozeradskiy was perfectly aware of the unconstitutional nature of the oblast's laws, but his parochial loyalty to the Nizhnii budget prevailed. Despite his membership in the Federation Council, which means he should pursue national as well as regional interests, Kozeradskiy decided to violate the law in the hope that the oblast could make money while the court underwent the long process of ruling the law invalid.

The case of alcohol taxes is illustrative. Nizhnii Novgorod Oblast is only one of many Russian regions violating federal laws by double taxing imported alcohol contrary to anti-trust

legislation. According to the governor, today excise taxes amount to 16 percent of budget revenue, compared to 4.5 percent last year. Oblast officials thus lose little sleep over breaking federal laws because they want the benefits of the new revenue streams. - Yuri Rodygin in Nizhnii Novgorod

MOSCOW MAKES REGIONS PAY FOR CULTURE. Novosibirsk cultural circles are panicking: the Russian Ministry of Culture notified Governor Vitaly Mukha that the Novosibirsk Opera and Ballet Theater has been transferred from federal to regional jurisdiction. Many other governors have received similar notifications from the Ministry of Culture, which is trying to cut down on federal budget expenditures by devolving the responsibility for supporting cultural institutions to the regions. Under that decision, jointly made by the Ministry of Culture and the Ministry of Finance, an institution will be disbanded if regions refuse to assume responsibility for it. That decision has aroused considerable concern in the theatrical community. While the Novosibirsk Opera and Ballet Theater is too important for the oblast to drop, many smaller theaters fear dissolution and their administrators have been earnestly lobbying oblast and municipal authorities for support. The governor has not yet issued an official reply to the note from Moscow, most likely in hopes of winning more bargaining time. - Konstantin Kanterov in Novosibirsk

SOCIAL ISSUES

TVER REFORMS HEALTHCARE AMIDST CONTROVERSY. A scandal of national proportions is brewing over the proposed reform of Tver Oblast's healthcare system. Communist state дума member Tatyana Astrakhankina is leading the opposition to the reform effort. The World Bank is financing the controversial reform plan with \$30 million. Tver must begin repaying the money in 2004 and finish by 2013. The federal government will cover half of the costs. The loan will be used for purchasing cardiovascular clinic equipment (\$3 million); 44 new ambulances (\$1.69 million); new equipment for 84 ambulances (\$920,000); a special communications system for Tver's dispatchers (\$190,000); intensive therapy equipment (\$1.7 million); special diagnostic equipment (\$820,000); equipment for the Family Medicine project (\$765,000); office equipment for 50 family doctors (\$1.99 million); and reconstruction of the prenatal care and delivery centers in the town of Rzhevsk.

To "expose the devious plans of the foreign imperialists," Astrakhankina hosted a roundtable in the state дума to discuss the situation in Tver. She criticized the plan as a move away from the publicly funded free medical care system. She equated accepting the World Bank credit with hating the Russian people. In reality, nobody plans to cut government support for medical care, either on the federal or regional levels. New methods of healthcare financing are being implemented in tandem with the old system, said the oblast's chief healthcare official, Aleksandr Zlobin. (*Tverskaya zhizn*, 23 April) Today, 52 family doctors affiliated with the new system work alongside the old system's 2,000 district doctors. Healthcare reform will take decades, with progress depending heavily on the rate of success in other areas of reform. - Boris Goubman in Tver

TUBERCULOSIS EPIDEMIC SPREADS IN DAGESTAN. Dagestan adopted its own anti-tuberculosis (TB) program in 1994, long before the recently approved federal program was enacted. The republican action plan spanned four years, but by 1997 it became clear that the program was not working and tuberculosis was continuing to spread. The program was extended to the year 2000 and again to 2004. However, manipulating the timeline will hardly solve the problem of scarce funds.

There are 90 TB-infected people for every 100,000 residents of Dagestan, and in some districts bordering Chechnya, that number reaches 150. Dagestan exceeds Russia's national average of TB cases four times over. During the last five years, the number of people infected with tuberculosis has increased by 42.4 percent while the number of deaths has soared 37 percent. Under normal circumstances 80 percent to 90 percent of people diagnosed with the tuberculosis virus can be cured, but in Dagestan the figure stands at roughly 50 percent. Due to a lack of appropriate procedures and lax controls, 30 percent of those cured are infected again. About 10 percent of all Dagestani children are infected, and almost all of those children will develop chronic tuberculosis because they cannot be isolated from infected family members. In the first quarter of 1998 alone, 419 new tuberculosis cases were registered.

Each infectious case can spread tuberculosis to up to 17 other people within a year. After the local tuberculosis clinic in Makhachkala was destroyed, about 200 infected people roamed the city. The republican anti-TB agency predicts that by year end, 1,700 new cases will be registered, putting Dagestan's total at over 40,000 people. More than 6,000 of them suffer from an active form of tuberculosis and need emergency medical assistance. Dagestan can care for only 1,200 patients in its tuberculosis clinics, which lack everything but beds.

According to the chief of Dagestan's tuberculosis clinic, the spread of the disease in Dagestan is slowly turning into an epidemic. To counter that trend, Dagestan must open an anti-tuberculosis clinic outfitted with medicines and modern equipment, allow it to conduct preventive work, and provide decent salaries for personnel who now risk their lives daily for a mere 300 rubles (\$50) a month.

Of course, these days every Dagestani is risking infection for free. - Polina Sanaeva (*Novoe delo*) in Makhachkala

ECONOMIC ISSUES

MOTOROLA THRIVES IN RUSSIAN MARKET. During the 21-24 April Security-98 trade fair in Chelyabinsk, the oblast government met with Motorola company representatives. As Chelyabinsk Prime Minister Valdimir Utkin told reporters, Motorola has already earned a good reputation in the region. Its wireless communication products are very popular with many government agencies, energy utilities, railway operators, and nuclear sites in the oblast.

Motorola entered the Russian market as early as 1980, when it supplied radio -equipment to the Moscow Olympics. In 1993 Motorola opened its first Russian office in Moscow and now controls 39 percent of the Russian mobile communications market. Motorola also has offices in St. Petersburg and Novosibirsk, and has just launched a joint venture with Izhevsk (Udmurtiya) Radio Plant. The company has research and development labs in Moscow and St. Petersburg. Altogether, Motorola employs about 500 people in Russia.

The company now appears to want to expand beyond importing its foreign-made communications equipment into Russia and begin local production. Motorola sees much potential for growth in the Russian market. Given Russia's immense size and traditional problems with conventional communications, Motorola's wireless transmission will be quite competitive. For example, today the firm's products are used in the energy, transport, and construction sectors as well as in law enforcement. Motorola has long been present in Chelyabinsk Oblast, mostly through the efforts of its distributor Ural-Kommunikatsii. The latter has developed a wide network of dealerships and supplies Motorola's products to 15 Russian regions and to Kazakhstan. Ural-Kommunikatsii's status was recently upgraded to an official Motorola service center. - Igor Stepanov in Chelyabinsk

COURT BANS PRICE DISCRIMINATION AGAINST FOREIGNERS. A Novosibirsk district court ruling in a year-long civil case challenged the popular Russian practice of charging foreigners higher rates than Russian citizens for the same services. The controversial case began last April when a German, John Tepfer, was charged 298,000 old rubles (\$50) more for a Sibir Airline ticket than Russian passengers on the same Novosibirsk-St. Petersburg route. Tepfer, a noted "third sector" activist and an expert working for the European Commission, sued Sibir Airline for material and moral damages. The court finally ruled in his favor based on Article 2 of the constitution and several articles of the civil code, awarding Tepfer compensation for material damages and legal costs but refusing to compensate him for moral damages. Tepfer claims that during his two years in Russia he has lost about \$2,000 due to discriminatory pricing practices by various Russian companies.

Special higher tariffs for foreigners have existed since the Soviet days. Today, a foreigner must pay one and a half times more than a Russian for a train ride from Novosibirsk to Moscow. Different airlines have different price policies: prices on the Novosibirsk-Moscow route on Vnukovo and Sibir airlines differ dramatically for foreigners and Russian citizens, while Transaero and Aeroflot offer uniform prices. A similar situation exists in the hotel business. The former Intourist hotel Sibir dropped its discriminatory pricing policy for foreigners in 1996 while the other quality Novosibirsk hotel, Vostok, which is controlled by a federal agency, still has two-tier pricing.

As a rule, discriminatory pricing exists in industries with a rigid vertical pricing mechanism -- railways, commercial airlines, and agency-controlled hotels. Federal regulatory agencies often impose differentiated tariff policies.

The first court case in the area of discriminatory pricing might be the last one. In December 1997 the Federal Aviation Administration ordered airlines to drop the double standard by February 1998. That date was later extended to September for logistical reasons. Most airlines, however, are likely to follow the order sooner than that. - Konstantin Kanterov in Novosibirsk

REGIONAL PROFILE: KARACHAEVO-CHEKES REPUBLIC

Head of the Republic: Vladimir Khubiev

Vladimir Khubiev is the only regional leader who was not popularly elected. President Boris Yeltsin appointed him to head the republic's administration in January 1991 and he was reappointed in April 1995 after consultations with the republican legislature -- the People's Assembly. The republican constitution of 1996 stipulates that the executive should be popularly elected, but Khubiev has so far postponed elections.

Khubiev was born in 1932 and is an ethnic Karachai. He spent several years in Central Asia when Stalin deported all Karachais for allegedly collaborating with the Nazis, and he speaks the Kyrgyz and Kazakh languages in addition to Russian. In 1964 he graduated from the Stavropol Agricultural Institute.

Khubiev was a member of the Communist Party of the Soviet Union from 1957 until 1991. Since 1961, he worked on the party staff in Karachaevo-Cherkesiya and Stavropol Krai. By 1979, he was chairman of the republican executive committee and a member of the Stavropol Krai party committee.

In March 1990 Khubiev became chairman of the republican government. He was also elected a member of the Russian Federation Congress of People's Deputies. He has been a member of the Federation Council since December 1993, where he sits on the committee on international affairs.

In May 1995 Khubiev joined the Our Home Is Russia movement. He entirely supports President Yeltsin's policies, including the 1993 Russian constitution and privatization, and argues that state intervention in the economy is necessary at the moment, but only as a provisional measure. He opposed Chechen separatism and promotes federal efforts to preserve the unity of the country and defend Russian citizens living in other countries of the former Soviet Union.

Other Local Leaders

Chairman of the People's Assembly -- Igor Ivanov

Brief Overview

Karachaevo-Cherkesiya was established as an autonomous oblast within Stavropol Krai in 1922 and became an independent republic within the Russian Federation in July 1991. It is situated on the northern slope of the Caucasus Mountains and borders Kabardino-Balkariya, Stavropol and Krasnodar krais, and Georgia. Like many other North Caucasus republics, it is home to many ethnic groups: Russians (42.4 percent), Karachais (31.2 percent), Cherkess (9.7 percent), Abazins (6.6 percent), Nogais (3.1 percent), Osetins (0.9 percent), Greeks (0.4 percent), and others. More than half of the republic's territory is mountainous. Many major rivers, such as the Kuban, Urun, and the Big and Small Zelenchuks, pass through its territory. The region is rich in various raw materials -- gas, oil, copper, coal, granite, marble, and clays -- and mineral and thermal waters.

Major regional industries are chemicals and petrochemicals (29 percent of total industrial output); production of construction materials (24.2 percent); machine-building (23.9 percent); food-processing (14.7 percent); and light industry (14.3 percent). A majority of industrial

enterprises are located in the republican center -- the city of Cherkessk -- and in the city of Karachaevsk.

The republic's main foreign trade partners are the CIS countries (76.7 percent of the republic's imports), the European Community (5.4 percent), and the countries of Eastern and Central Europe (1.5 percent).

Basic Facts

Population (as of 1 Jan. 1997): 436,300 (0.30% of Russian total)

Urban population (1989 census): 47.6% (Russia overall: 73.0%)

Student population (1996): 179 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 24.90% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 29.1% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 28.5% (Russian average: 29.9%);

Agriculture: 23.6% (12.8%); Trade: 6.4% (9.1%); Culture: 12.1% (13.6%); Management: 2.4% (2.3%)

Average monthly personal income in 1996: 332,000 rubles (Russian average: 764,000 rubles)

Average monthly personal expenses in 1996: 267,000 rubles (Russian average: 753,000 rubles)

Average monthly subsistence requirement in 1996: 290,200 rubles (Russian average: 369,400 rubles)

Consumer price index (as of Dec. 1996): 97.62 (Russia overall = 100)

Industrial production as percentage of all Russian production (1996): 0.09%

Proportion of loss-making enterprises (1996): 52% (Russia overall: 56%)

Number of enterprises with wage arrears (1996): 359 (4.41% of total number of regional enterprises)

Agricultural production as percentage of all Russian production (1996): 0.40%

Number of private farms (as of 1 Jan. 1997): 888 (0.32% of Russian total)

Capital investment (1996): 514,300 rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): Federal budget: 11.5% (Russian average: 9.2%); Regional budget: 2.3% (9.6%); Enterprises: 33.3% (66.3%)

Number of joint ventures (as of 1 Jan. 1997): 8 (0.05% of Russian total)

Fixed capital investment in joint ventures and foreign companies (1995): 0 rubles

Number of small businesses (as of 1 Jan. 1997): 1,611 (0.19% of Russian total)

Number of enterprises privatized in 1996: 11 (0.22% of Russian total), including former municipal property: 100% (Russian average: 67.1%); regional property: 0% (14.3%); federal property: 0% (18.6%)

Number of telephones per 100 families (1996): in cities: 59.1 (Russian average: 48.7); in villages: 29.1 (19.7)

According to a 1997 survey by *Ekspert* magazine, the republic is ranked 76th among Russia's 89 regions in terms of investment potential and 80th in terms of investment risks. A 1995 Bank Austria survey ranked the republic 83rd in terms of investment climate.

Electoral History

1996 Presidential Election

Yeltsin: 25.82%/49.89% (first round/second round)

Zyuganov: 55.42%/46.09%

Lebed: 8.77%

Yavlinskii: 3.07%

Zhirinovskiy: 2.49%

Turnout: 72.46%/74.23% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Elections

Communist Party of the Russian Federation: 40.03%

Our Home Is Russia: 12.67%

Derzhava: 7.86%

Communists -- Workers' Russia: 7.10%

Liberal Democratic Party of Russia: 6.91%

Congress of Russian Communities: 6.56%

Nur: 2.20%

Agrarian Party of Russia: 2.01%

Women of Russia: 2.00%

In a single-member district: Communist Party of the Russian Federation

Turnout: 61.63% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 27.45% "No" -- 72.55%

1993 Parliamentary Elections

Communist Party of the Russian Federation: 38.58%

Liberal Democratic Party of Russia: 20.19%

Agrarian Party of Russia: 10.80%

Party of Russian Unity and Concord: 7.54%

Democratic Party of Russia: 4.61%

Women of Russia: 4.41%

Russia's Choice: 4.30%

Yabloko: 3.40%

In a single-mandate district: 1 independent

Turnout: 71.90% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 61.76%

Ryzhkov: 12.78%

Zhirinovskiy: 8.05%

Tuleev: 7.39%

Makashov: 4.13%

Bakatin: 2.42%

Turnout: 85.68% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regioni Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.

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BREAKING NEWS

POLITICS

ZUBOV ATTACKS MOSCOW TO WIN KRASNOYARSK RUNOFF. Following the first round voting on 26 April in which incumbent Governor Valerii Zubov trailed challenger Aleksandr Lebed 35.4% - 45.11% in Krasnoyarsk Krai gubernatorial elections, Zubov made

public an open letter on 2 May in which he demanded that President Boris Yeltsin pay off federal debts to the krai, cut off the interference of Moscow banks in the krai's economy, finance the spring sowing, and shut down what he described as the central media's support for Lebed. Zubov faces Lebed in a 17 May runoff. The embattled governor blamed Moscow for creating fertile conditions in the region for a protest vote. In the letter, he threatened not to transfer any funds to the federal budget and warned that the krai would hold a referendum to give itself a "special status" within the Russian Federation if the demands were not fulfilled. Lebed denounced the statement as "hysterical." (*Kommersant Daily*, 5 May)

Presidential Spokesman Sergei Yastrzhembskii, in a harshly worded response, accused the governor of playing "games with the fire of separatism." Shockingly, the president's representative in the region, Yuri Moskovich said that Zubov's demands were understandable since Moscow had not met many of its financial obligations (*Segodnya*, 6 May). Rumors in the krai suggest that a high level guest from Moscow, such as Yeltsin or Prime Minister Kirienko, may visit the region to bolster support for Zubov before the 17 May runoff. The Kremlin's support for Zubov has been extremely tentative during the entire campaign, but the president's team would like to prevent Lebed from winning in the resource-rich territory.

Lebed is convinced that he will win without any difficulty. As his victory seems more certain, observers are trying to determine what the consequences will be for Russia's powerful financial groups. While Lebed refuses to discuss his financial backing in great detail, he has come to the defense of Krasnoyarsk Aluminum Factory (KrAZ) Director Anatolii Bykov and magnate Boris Berezovskii. In an interview with the French newspaper *Le Figaro*, he defended Bykov in the following way: "Should he be more open than the Pope? The tax system in Russia is such that in order to observe the law it is necessary to put half the people in jail and have the other half guard them. But then who will work? It is necessary to change the rules of the game and let people leave the black market." Lebed also admitted to changing his opinion about Berezovsky, noting that when he served as the deputy Security Council secretary, he was the only one able to make progress in Chechnya after Lebed left. (*Kommersant Daily*, 29 April)

According to *Itogi* (4 May), UNEXIMbank, which owns the krai's mammoth Norilsk Nickel plant and supported Zubov, and Bykov's aluminum factory did not openly intervene in the governor's race. The journal argued that Zubov's main supporter was Inkombank, which is very close to Moscow Mayor Yurii Luzhkov. Ironically, despite the alliances of the plants' owners, most of the workers at KrAZ voted for Zubov and most of the residents of Norilsk supported Lebed. Ten percent of the krai's voters live in Norilsk and their anti-Zubov fervor could be decisive in the runoff, according to Russian Public TV (3 May). Despite some successes in increasing production and raising capital in western markets, UNEXIMbank has done little to improve the lives of Norilsk's workers.

AYATSKOV LAUNCHES NEW PARTY. Saratov Governor Dmitrii Ayatskov announced 28 April that he would found a new political party because former Prime Minister Viktor Chernomyrdin's Our Home is Russia (NDR) did not have strong local base and was not focused on solving the most pressing social problems. Ayatskov said that he decided that it was time to found a new party after the NDR congress convinced him the former "party of power" had no future. He is hoping to attract votes beyond the two million in his oblast, arguing that the

party will represent landowners, who, he claims, make up 80% of the electorate. The founding congress will take place at the end of May (Radio Rossii, 4 May). Ayatskov plans to start building the party in neighboring regions such as Tatarstan, Bashkortostan, Samara, and Nizhnii Novgorod. He is not interested in support from Moscow politicians and believes that the party will gain representation in the State Duma as the representative of the regions.

Generally the local branches of NDR are focused on either the governor or his main opponent in the regions, so if Ayatskov's departure starts a trend for the regional elite, the ranks of the NDR would be decimated. Kaliningrad Governor Leonid Gorbenko is also reportedly setting up his own regional organization. (*Kommersant Daily*, 29 and 30 April)

Building a regional party into a national party is extremely difficult as Sverdlovsk Governor Eduard Rossel discovered when he tried to transform his "Transformation of the Urals" party into a national organization, "Transformation of the Fatherland." In the December 1995 elections, it won few votes beyond Sverdlovsk and is now losing its grip on its homebase. Attempts to build parties from St. Petersburg have also had little success.

MINERS TAKE DEPUTY GOVERNOR HOSTAGE. Miners in Partizansk (Primorskii Krai) took Deputy Governor Vladimir Rud hostage on 27 April demanding that he pay off their wages arrears which now amount to 57 million new rubles (\$9.5 million). Rud is in charge of the fuel and energy complex for the region. The miners were also protesting against efforts to close unprofitable mines. The protesters finally freed Rud at 1:30 in the morning after holding him for a few hours (*Kommersant Daily*, 29 April). When one set of miners received their back wages, another group then went out on strike (Russian Public TV, 30 April) so the issue is far from settled.

SAKHALIN GOVERNOR AFFIRMS CONTROL OF KURILS, DEMANDS MORE MONEY FROM MOSCOW. Sakhalin Governor Igor Farkhutdinov signed an announcement on 28 April declaring that the Kuril islands belong to Russia and said that he would prepare an oblast law on the region's border. The governor's move came in response to rumors circulating after the 18-19 April Russo-Japanese summit that Yeltsin would give the islands back to Japan. The governor also claimed that the USA had an interest in maintaining tensions between Russia and Japan. (*Kommersant Daily*, 29 April)

In addition to his concerns about the Kurils, Farkhutdinov believes that the federal government is collecting too much money from his oblast in fees it charges for various services and prices for natural monopolies. He ordered federal agencies to stop collecting money unless they are registered in the federal Justice Department and demanded that all money collected by inspectorates be given to the regional budget until it could be determined how the money was being spent now. (*Nezavisimaya gazeta-Regioni*, 5 May) Such protests have generally been ineffective. Following a similar protest last year, Irkutsk Governor Yurii Nozhikov resigned when no one in the Kremlin would listen to his pleas.

SVERDLOVSK SPEAKER RESTORED ON TECHNICALITY. The Sverdlovsk Oblast Duma restored Speaker Vyacheslav Surganov, a close ally of Governor Eduard Rossel, to his position after determining that the vote to remove him had violated the body's rules (see *IEWS*

Russian Regional Report, 23 April). The opposition now plans to regroup and make another attempt to remove Surganov from his post. (*Kommersant Daily*, 29 April)

RNE MEETS IN KOSTROMA. The hard-line nationalist Russian National Unity (RNE) held a gathering in a hall in the Kostroma city administration's office building that brought together about 200 party activists from Kostroma, Yaroslavl, and Ivanovo oblasts. The local RNE branch was registered in December 1995, although police cracked down on some activists in 1997 for violence. The meeting apparently attracted 50 new members in Kostroma, so the group is now planning meetings in other regions. (*Nezavisimaya gazeta*, 28 April)

A DAY IN THE LIFE OF ARKHANGELSK'S GOVERNOR. *Novaya gazeta* (3 May) correspondent Sergei Smirnov recently spent a day in the company of Arkhangelsk Governor Anatolii Yefremov. In the course of the day, Yefremov had to help an Egyptian businessman he had invited to work in the region to escape the clutches of the local mafia which had offered him "protection." The governor offered the businessman support and began investigating his oppressors. Later Yefremov listened as the head of the local Federal Security Service praised Vladimir Krupchak, the chairman of the board of Russia's largest cellulose and paper plant. Krupchak had been arrested on suspicion of involvement in large-scale crime, but then released "under great pressure," according to the governor. Additionally Yefremov visited a group of women who decided to lie across the railroad tracks to protest the government's failure to pay their salary. In his travels through the region, journalist Smirnov also met rural residents who complained that they were facing starvation since they subsisted on a diet of berries.

TERRORIST ATTACK IN ADYGEYA. Attackers shot four traffic police officers in the normally quiet North Caucasus republic of Adygeya on 1 May. The officers were shot dead when two of them stopped a truck at a road checkpoint. This was the first attack on the police in the republic, which is located within Krasnodar Krai. (NTV, 2 May)

ECONOMICS

RUSSIA SEEKS TO PROTECT DOMESTIC TV MAKERS. Beginning 1 May, Russia is requiring that all imported color TVs bear a special licence. The licences will not cost anything because Russia does not want to affect its ability to enter the World Trade Organization, but they will make it more difficult for firms in Singapore, South Korea, and Japan to import their products. During the last three years, Russian production has dropped from 2,200,000 to 100,000 sets a year. About 4 million sets are imported a year, 2.1 million legally and the rest on the "grey market." The authorities hope to hold imports to between 1 and 2 million. Six factories in Russia make color TVs: two in Moscow, and one each in St. Petersburg, Voronezh, Novgorod, and Nizhnii Novgorod (*Russkii Telegraf*, 25 April). Philips recently pulled out of its joint venture in Voronezh when the market for Russian televisions collapsed.

NAKHODKA-BREST CROSSING A SUCCESS. A train carrying goods from Russia's Pacific coast to its western border arrived eight hours earlier than its scheduled 9.25 days.

Travel time from the Far East to Germany will be less than 20 days, about 70% of what it takes cargo to make the same trip by sea. The organizers hope that the demonstration will boost cargo traffic along the Trans-Siberian railroad. (*Finansovye izvestiya*, 30 April)

MOSCOW, CHECHNYA AGREE ON OIL TRANSIT. Moscow and Chechnya agreed that Chechnya would earn \$7,464,300 for shipping 2.85 million tons of oil from Azerbaijan in 1998. In a deal considered fair by both sides, the republic will get \$0.43 for each ton plus money to guard, repair, and maintain the pipeline in the harsh post-war conditions. (*Segodnya*, 6 May)

GERMANS OPEN ECONOMIC REPRESENTATION IN KALININGRAD.

Germany opened an economic representative office in Kaliningrad 14 April to improve trade links. Lithuania and Poland already have consulates there and Denmark and Sweden have preliminary agreements to open representations. In 1997, there were 252 German joint ventures in the oblast, 20% of the overall total. Trade with Germany for the year was \$329 million, with exports of \$36.7 million and imports of \$292.4 million, making Germany the region's most important trade partner. (*Yantarnyi krai* [Kaliningrad], 15 April)

BUSINESS BRIEFS

-- The Russian Supreme Court ordered the Russian partner, Vadim Bordug, in the failed **SUBWAY** sandwich shop venture in **ST. PETERSBURG** to pay \$1.2 million to his former US partners. The decision upheld an earlier ruling by the Arbitration Institute of the Stockholm Chamber of Commerce. The shop opened in 1994, but Bordug pushed out the US partners in 1995 according to court findings. Most joint ventures in Russia stipulate that the Stockholm court settle disputes, so the Supreme Court's ruling that its decisions are enforceable in Russia was a major boost to foreign investors. The Americans have called on the city to implement the decision. (*Moscow Times*, 25 April)

-- **MICROSOFT** signed a three-year cooperation agreement with **SURGUTNEFTEGAZ** to help set up a corporate computer network, train system engineers, and conduct seminars for the company. This is Microsoft's first general agreement with a Russian company. No figures were released on the value of the contract, but Surgutneftegaz hopes to earn its investment back in a few years through increased efficiency. In 1995, the oil company bought a \$100,000 licence for the use of Microsoft products and in 1997 it paid \$400,000 to set up a corporate network. (*Ekspert*, 20 April)

-- The **YUKOS** oil company signed cooperation agreements with several major **ST. PETERSBURG** enterprises and plans to open 50 gas stations in the city and **LENINGRAD OBLAST** to increase its sales in the Russian northwest. Because of the drop in world oil prices, Russian companies are seeking to sell more of their products on the domestic retail market. The consulting firm Arthur D. Little suggested St. Petersburg as a lucrative market. The British-Dutch **SHELL** is also opening 25 gas stations in the city. (*Kommersant Daily*, 29 April)

Because of its financial difficulties, however, YUKOS did not sign a planned agreement with Leningrad Oblast Governor Vadim Gustov. Gustov hopes to interest the oil company in financing pipelines to bring oil to the planned ports under construction in his region (*Kommersant Daily*, 5 May).

-- **SWISS AIR** began regular three times a week service between Zurich and **SAMARA** on 1 May. An economy class ticket costs \$849. **LUFTHANSA** began service on the Frankfurt-Nizhnii Novgorod-Samara route in 1996. (*Kommersant Daily*, 29 April) Switzerland's Nestle operates two chocolate factories in Samara.

-- **ROSTOV OBLAST** is on the verge of signing an agreement with the American **JOHN DEERE** tractor producer to ship the region 250 combine harvesters and spare parts over a two year period. The firm will also set up several stations capable of handling 40,000 to 45,000 hectares of wheat. The overall deal is worth \$100 million. The government expects to make back the money in five years since the machinery makes it possible to harvest while losing only 0.75% of the crop. Additionally, **MONSANTO** is providing soil and technology to the region that makes it possible to save energy. (*Nezavisimaya gazeta*, 29 April)

-- **TATARSTAN'S NIZHNEKAMSKSHIN** opened negotiations with **MICHELIN** on 28 June to discuss local tire production. Nizhnekamskshin controls 40% of the Russian market for automobile tires and has been successful in raising capital on the international markets. Unfortunately, the firm received cash for only 2.5% of its production last year and thus faces problems paying its workers, covering its tax bill, and compensating suppliers. The firm is hoping to increase sales to the many new automobile assembly projects getting underway in Russia. (*Russkii Telegraf*, 29 April)

-- **ING BARINGS** is organizing a second syndicated credit for **NORILSK NIKEL** worth \$110 million, guaranteed by the firm's production of copper. The rate is 4% above LIBOR. Last year the bank organized a \$75 million credit for the plant. (*Russkii Telegraf*, 30 April)

-- Sweden's **VOLVO** announced that it has no plans to introduce the production of cars in Russia because it cannot guarantee that the cars produced there would meet the company's high quality standards. Nevertheless, the firm is still planning to begin producing 250 buses a year in **OMSK**, following the signing of a deal during Yeltsin's trip to Sweden last year. The firm is hoping for a large order for tourist buses from the Moscow city government. Volvo Vice President Lars Anand visited the Irtysh plant on 4 May to check on progress and scout out possibilities for assembling trucks in the area. (*Radio Rossii*, 1 and 4 May)

THE NEW GENERATION

YOUNG IDEOLOGUES PURSUE DIFFERENT PATHS IN VOLGOGRAD.

by Ivan Kurilla, Volgograd State University

VOLGOGRAD -- Many Russian statesmen have their roots in Volgograd, though none of them seemed promising just months before their rise. That was true for Ivan Rybkin, the first secretary of Volgograd's Soviet Raion before his election to the RSFSR Supreme Soviet in 1990, and for Lev Rokhlin, a military commander never involved in politics before he took the opportunity to run on the pro-government "Our Home is Russia" party ticket in the 1995 State Duma elections. Following his early career in Volgograd, Rybkin has served as speaker of the State Duma, secretary of the Security Council, and, most recently, deputy prime minister for CIS affairs. Rokhlin is now one of the leaders of the opposition to President Yeltsin (see below for more on Rokhlin). On the other hand, many young people who had promising political careers in the early years of perestroika ended up going into business or pursuing more private pleasures.

Given this history, it would be difficult to predict the rise of a new generation of Russian politicians. Nevertheless, the careers of two young people in Volgograd demonstrate the different paths to the top in contemporary Russia. Both Oleg Gaduchkin (born in 1966) and Andrei Varakin (born in 1963) graduated from Volgograd State University with majors in history (Oleg received his diploma in 1988, Andrei in 1989). During the Soviet era, history departments were extremely popular because they forged intellectuals and ideologists for Communist Party careers. However, the end of 1980s was a time of uncertainty in public affairs. Many former party officials were leaving the Communist ranks, new political movements were staking their claim, and previously quiet social movements were preparing to assert their interests.

Oleg Gaduchkin decided to participate in the new forms of political activity that Gorbachev made available. A brilliant orator, he became a prominent student leader during his last years in the university. Upon graduation, he created a unified trade-union for students – the Volgograd Association of Student Trade-Unions (VASP). Reflecting the students' disillusionment with politics, Gaduchkin channeled his organization's activities from politics to social welfare issues. VASP became the major recipient and distributor of regional funds allocated to "youth policy." That task naturally brought him into the political circle of Volgograd Governor Ivan Shabunin, a Yeltsin-appointee who ruled the region from 1991 to 1996. Another consequence of Gaduchkin's access to the regional purse was the creation of several business enterprises around VASP. When Shabunin lost the gubernatorial elections in December 1996, Oleg Gaduchkin's organization lost his major source of support. Newly elected Communist Governor Nikolai Maksyuta redirected the "youth policy" money to other recipients. However, the return of the Communists has revived Gaduchkin's political ambitions, and VASP now is probably the most influential organization of young people in Volgograd Oblast.

Recent threats to cut funding for higher education have rejuvenated students' political activity. During the all-Russian student protests on 14 April, VASP organized demonstrations among Volgograd's young people. Moreover through the all-Russian student trade union, Gaduchkin has access to federal authorities, which allowed him to participate in the meeting of youth leaders with President Boris Yeltsin on the eve of the presidential elections in 1996. With this kind of access, his career is likely to flourish.

Andrei Varakin chose a different path. He joined the Communist Party of the Soviet Union at a time when many people were leaving the party ranks. After graduating he became the second secretary of a neighborhood Komsomol organization in Volgograd. During the Communists' nadir after the collapse of the Soviet Union, Andrei devoted himself tirelessly to the reformed Russian Union of Youth, the heir to the Komsomol. The newly elected Communist Governor Nikolai Maksyuta rewarded him for this work when he made Varakin the chief of the Committee on Youth Affairs in the Volgograd Oblast administration. Now he is virtually the only young person in the oblast's new Communist leadership. He is an influential figure with access to power and money and may celebrate a victory over his old opponent Oleg Gaduchkin.

The young leaders in Volgograd differ from technocrats like Sergei Kirienko whose success in business launched them to political prominence. Volgograd's young leaders are ideologists. If the Communists make a comeback in Russia, Andrei Varakin may continue his rise up the party ladder to national office. Success for the "democrats" will boost Oleg Gaduchkin. At the moment, however, the technocrats are in the ascendance.

CENTER-PERIPHERY RELATIONS

KIRIENKO SEEKS CONSTRUCTIVE RELATIONS WITH TATARSTAN. Last week Prime Minister Sergei Kirienko met with representatives of the regional media. Answering a question from *Vecherniyaya Kazan*, Kirienko said that he is positively inclined toward treaty-based relationships between Moscow and the regions, as they provide a civilized way of negotiating differences while adhering to the basic body of law. Commenting on Tatarstan's agreement with Moscow, the new prime minister said that he intends to keep Moscow's side of the bargain for the duration of the treaty's term, despite the special privileges it grants to the republic. When the treaty expires, Kirienko plans to negotiate a new agreement with Tatarstan, keeping in mind fairness and criteria used in relations with other regions. When the prime minister was asked his opinion on separatist tendencies among the republics, he said that while nobody in his position likes outright separatism, he approves of the republics' aspirations to be economically self-sufficient. - Midkhat Faroukshine in Kazan

ROKHLIN LOOKS FOR SUPPORT ON VOLGOGRAD MILITARY BASES. Commander of the North Caucasus Military District Colonel-General Viktor Kazantsev announced on 25 April that several people had been arrested on the territory of Volgograd's 8th Guards Corps for spreading flyers that called on the troops to disobey their orders. That news was immediately linked to the planned 27 April national demonstrations organized by Lev Rokhlin's movement "In support of the Army, Military Industry and Science". (For more on Rokhlin see, *IEWS Russian Regional Report*, 19 February)

Before entering politics in 1995, Rokhlin served as commander of the 8th Guards Corps, quartered in Volgograd. His unit was one of the most successful during the Chechen war, and, more importantly, he won a reputation for saving his men's lives by refusing risky assignments ordered from above. During the 1995 State Duma elections, the pro-governmental party "Our Home is Russia" made him the second person on its electoral ticket, following then Prime Minister Viktor Chernomyrdin.

Rokhlin exchanged his military uniform for the civilian suit and tie of a Duma deputy in 1996 and began serving as the chairman of the Defence Committee in the lower house of the Russian Parliament. At the same time, he became involved in various political games. Rokhlin strongly backed his former deputy in the 8th Corps, Colonel Viktor Skopenko, in his unsuccessful bid for the Volgograd mayor's office in fall 1995. Rokhlin also had his own ambitions. He used his Duma platform to criticize the government's military policy and demanded that President Yeltsin resign. Ultimately, he was excluded from the "Our Home is Russia" faction and organized his own political movement.

Like other military men who have entered politics, Rokhlin is trying to exploit the anger of the large section of Russia's population that either serves in the military or depends on jobs provided by the defense industry. Unlike other military opponents of the president, he has directly addressed military officers, a dangerous form of behavior that could destabilize the Russian ranks, which have remained loyal despite the country's calamities.

In the end, Rokhlin was not able to stir up trouble in the city during the planned demonstrations of 27 April. On Tuesday, April 28, Volgograd Mayor Yurii Chekhov said that several days prior to announced demonstrations, the city authorities were quite concerned in anticipation of the military protests. However, on 27 April there were no protesting officers in Volgograd. The authorities declared the absence of trouble a success for their demonstration of firmness and a failure for Rokhlin's movement since it could not mobilize support in the town that cradled the general's career.

During his visit to Volgograd, North Caucasus Military District Commander Viktor Kazantsev charged that Nikolai Batalov, a retired colonel who is the leader of Rokhlin's movement in Volgograd, had tried to enlist soldiers to participate in the 27 April protests. In the 7 May edition of the local *Gorodskie Vesti*, Batalov denied the accusations as well as rumors published by some Russian newspapers that Rokhlin was preparing a military uprising of the 8th Corps during the upcoming 9 May Victory Day celebrations. He described the reports as a "provocation". At the same time Batalov criticized the Communist Party for excluding Rokhlin's movement from People's Patriotic Union, an umbrella group of movements opposed to Yeltsin, and for inconsistency in their fight against the president. - Ivan Kurilla in Volgograd

SOCIAL ISSUES

EFFECTIVE USE OF RESOURCES BENEFITS TVER. While the local media is making a considerable fuss about potential oil and gas deposits in Tver Oblast, the natural resources already being exploited win little attention. Back in 1935, a deposit of sand that can be used in glass-making and steel-rolling was discovered near the peripheral city of Zubtsov. Largely neglected in the 1970s, the deposit only attracted attention recently when the oblast decided to sell it off. The Mehta firm, which specializes in sand extraction and possesses the necessary equipment, won the tender. Thus, in January 1998 the first sand from Zubtsov was shipped to local glass-making and steel-rolling facilities. Currently, the company limits its production to 9,000 tons a month, but could potentially ship up to 20,000 tons if it were not for the high prepayment rates required by the local railway transportation company. Expansion of the company's production line could create new jobs for the oblast residents. In return for the

license to work the deposit, Mechta has provided services to the city administration by servicing the water treatment plant and renovating pre-schools and residential buildings. - Boris Goubman in Tver

ECONOMIC ISSUES

SVYAZINVEST LOSING CONTROL OVER REGIONAL TELECOMS IN MOSCOW... The federal government will soon auction off a 25% stake minus two shares in Svyazinvest. However, the value of the firm is dropping because it is losing control of its regional telecoms. A consortium that includes Russia's UNEXIMbank, Renaissance Capital, Deutsche Morgan Greenfell, Soros Fund Management, and Morgan Stanley Asset Management bought a 25% stake last year. Svyazinvest General Director Nail Ismailov recently said that he wanted to increase Svyazinvest's control over its regional components (see *IEWS Russian Regional Report*, 2 April), but the firm is having major difficulty putting that plan into effect since it has lost control over the Moscow and St. Petersburg telecoms in recent days.

At its shareholders' meeting on 27 April, the board of directors of the Moscow City Telephone Network (MGTS) decided to increase the company's capitalization in order to dilute the 46.67% stake held by the national monopoly Svyazinvest, while giving a majority of shares to the Moscow Committee on Science and Technology, which was set up by Mayor Yurii Luzhkov. Once the transaction takes place, the committee will have 60% of MGTS. As a result of this move, Svyazinvest is losing control over the most powerful regional telecom in Russia. The vote went forward even though Svyazinvest controlled five of the nine seats on the board of directors. Some of the Svyazinvest directors clearly do not support the position of the monopoly (*Russkii Telegraf*, 28 April). According to *Kommersant Daily* (28 April), then acting Prime Minister Sergei Kirienko gave the go-ahead for this deal in order to win over Moscow Mayor Yurii Luzhkov as an ally in his new position. - Robert Ortung

... AND ST. PETERSBURG. At the 28 April shareholders' meeting of the Petersburg Telephone Networks (PTS), the Russian telecom holding monopoly Svyazinvest failed to gain a majority on the company's board of directors, and now PTS representatives control 5 of 9 seats. Additionally, fewer than the necessary 70% voted to adopt Svyazinvest's recommendations on regulations concerning the issue of new shares. Instead, representatives of PTS were successful in changing the company's charter to increase the firm's market capitalization and dilute Svyazinvest's share. Leonid Reiman, PTS director for investment and international ties, said that PTS representatives "gained the upper hand" at the meeting.

PTS's balance profit in 1997 amounted to 250 billion old rubles (\$43 million), marginally less than the year before. Overall, the company's profitability level declined from 61.2% in 1996 to 51.8% in 1997. Shareholders approved the level of dividends to be paid for 1997: while ordinary stocks will pay a 2% return, the rate of return on preferred stocks will be 16%.

Svyazinvest is the largest shareholder in PTS, holding 41.8% of its stock. Other shareholders include Crawford Holdings Ltd. (12.95%) and CS First Boston Securities (6.31%). Altogether, holders of 85.9% of the company stock were present at the meeting. (There are more than 6,600 shareholders overall.) In 1997 the company installed new

telecommunications equipment from Lucent Technologies and Japan's NEC Corp., which increased its capacity by 67,800 numbers. Of these, 48,000 were used to replace old and outdated numbers in the city's telephone network. - Yurii Bryukvin (Delo) in St. Petersburg

NENETS OKRUG CLASHES WITH KOMI REPUBLIC OVER OIL TRANSPORT ROUTE. The conflicts surrounding the transport of Timan Pechoran oil and Siberian gas are just as intense as the disputes over Caspian oil. But where the Caspian battle has international dimensions, the fight in the Russian Far North is largely between Russian regions.

The problems first emerged in the beginning of April, when Nenets Autonomous Okrug Governor Vladimir Butov presented a plan for constructing an oil transport terminal on the Barents Sea coast. During his presentation he suggested that in the future all the oil extracted in his okrug could be exported via the Northern Sea Route. The okrug leadership views this project, provisionally entitled the Northern Gate, as more attractive to investors than other alternatives. The Komi Republic's leadership has a very different opinion.

Today, oil companies ship all the oil extracted from the northern part of the Timan-Pechora oil and gas basin to central Russia via the Kharyaga-Usinsk pipeline, which runs through Komi Republic. Anxious to keep the lucrative tax revenues the pipeline generates, the republic opposes the Northern Gate project in favor of the status quo. Its main argument is that at current rates of transportation, the pipeline works at only half of its annual capacity of 18 million tons of oil. This, incidentally, is true for most of the rest of Russia's oil pipelines. (*Kommersant-Vlast*, 2 April).

Former Prime Minister Viktor Chernomyrdin vocally supported the pipeline route for the Nenets oil many times in the past, but his dismissal has opened a window of opportunity for alternative routes, even if the latter benefit Western consumers at the expense of Russian companies. It is often assumed that transporting oil by sea is cheaper, and thus more competitive, than via pipeline. Additionally, the sea route could service future oil extraction from the continental shelf in the northern seas. Finally, the same route could be used to transport Siberian gas from the Yamal peninsula.

While Western companies are eager to explore this opportunity, many Russians on different levels fear that it might hurt tax revenues. However, the Nenets Autonomous Okrug seems to be quite eager to rid itself of Komi's monopoly on oil transportation. To illustrate the public mood, during the recent campaign for the okrug assembly, one candidate was often accused of pandering to Komi's interests by allowing several companies to register in Komi, thus siphoning tax revenue from Nenets to Komi (*Molodezh Severa*, 23 April). Thus, the Northern Gate project is becoming a tool of sorts in the struggle between regions over the oil market. However, Komi's influence on the market is bound to persist in the near future, as Russia has signed an agreement with the international Timan-Pechora Company consortium to begin large-scale extraction of Nenets oil. - Yurii Shabaev in Syktyvkar

NIZHNIИ KEEPS MODERATE CREDIT RATING. Standard & Poor's rating agency has renewed Nizhnii Novgorod Oblast's sovereign rating of BB-, the same as Russia's, originally assigned last year. In its analysis of the oblast government budget, Standard & Poor's was very careful to note that while Nizhnii has failed to produce significant economic growth, the same

was true of the Russian economy as a whole. The agency's analysts consider the new \$850 million GAZ-FIAT joint car manufacturing venture as a positive development. At the same time, Standard & Poors believes that Nizhnii Novgorod will have a tough time paying back its Eurobond debt, especially since the oblast will be repaying the \$19.7 million it used to cover back wages until the year 2000. Preliminary data shows mounting debt arrears for 1998, and this will most likely decrease budget expenditures. Because the oblast budget largely depends on tax revenues from the city of Nizhnii Novgorod, the results of the recently cancelled mayoral elections cause Standard & Poor's specialists to be even more skeptical. The agency notes that the region's total debt (including the Eurobonds) amounts to 38% of its operational expenditures, a moderate proportion. However, this high level of budget debt could prevent the oblast from floating its second Eurobond issue. - Yuri Rodygin in Nizhnii Novgorod

PIRATE VIDEOS SATURATE KARELIYA MARKET. About half of all video cassettes and compact laser discs (CDs) sold in Petrozavodsk, the capital of Kareliya, are pirated, and the share of black market products reaches as high as 90% in the rest of the republic. During a recent raid, the police confiscated 1,300 pirated video cassettes and levied 15,000 rubles (\$2,460) in fines against violators. Discerning the fake from the real is very difficult, as pirates manage to make their product seem identical to the original, complete with holographic labels on the cover. The only difference is that pirated videos and CDs are much cheaper. For example, CDs that usually sell for 320-350 rubles (\$52-53) can go for a mere 30-40 rubles (\$5-6.50) in their pirated version. Pirated videocassettes cost only 20-25 rubles (\$3.30-4.10), while licensed videocassettes usually sell for no less than 35 rubles (\$5.70). Numerous bootleg copies of the Oscar-winning movie Titanic are now widely sold throughout Petrozavodsk, even though it has not officially been released on video yet. The bulk of the pirated products come from St. Petersburg and Belarus. According to the republic's deputy chief of police, authorities have already rounded up five smuggling rings operating out of the Belarusan city of Vitebsk. Most recently, one of Petrozavodsk's largest department stores, the usually family-friendly Detskii mir, was caught selling bootleg pornographic recordings. - Boris Matveev in Petrozavodsk

FOREIGN TIES

WESTERN PORTFOLIO INVESTORS EXAMINE CHELYABINSK MARKET.

According to a 23 April report from the governor's office, a delegation of US and British investors organized by Morgan Stanley visited Chelyabinsk to study portfolio investment opportunities in some of the oblast's enterprises. Among the visitors were such companies as the UK's Hill Samuel Asset Management, which controls \$28 billion; Boston-based Batterymarch Financial Management, with \$1.8 billion worth of stock investments; Credit Suisse Asset Management, which manages \$256 billion worth of securities, and the Boston branch of the US's largest mutual fund, Fidelity Management and Research, which holds over \$500 billion in assets. The visitors were most interested in local monopolists, such as the Chelyabinskvyazinform telecom and the Chelyabenergo power utility. Opportunities for buying short term securities issued by the oblast and the city of Chelyabinsk were also discussed. The

delegation was planning to move on to Ufa and Samara after completing the Chelyabinsk leg of its visit. - Igor Stepanov in Chelyabinsk

REGIONAL PROFILE: KOMI-PERMYAK AUTONOMOUS OKRUG

Governor: Nikolai Poluyanov

Nikolai Poluyanov was elected okrug governor on 17 December 1996 with about 70% of the vote. Yeltsin originally appointed him governor in December 1991.

He was born in 1952 in the okrug and is an ethnic Komi. In 1979 he graduated from the Department of Economics at Perm State University. For ten years Poluyanov worked in different regional financial organizations, rising from the post of financial inspector to the head of the okrug finance department.

He was a member of the Communist Party until August 1991 and from 1983 to the party's collapse was a full-time party functionary in the local organization. In March 1990, he was elected deputy of the Perm Oblast legislature and was reelected for another term in 1994.

Other Local Leaders

Chairman of the Legislative Assembly -- Ivan Chetin

Brief Overview

Komi-Permyak Autonomous Okrug is located in the north-west of Perm Oblast, 150 km from the city of Perm. It borders the Republic of Komi, Kirov Oblast, and other parts of Perm Oblast. Its population is 60% Komi-Permyak, 36% Russian, and about 1% Tatar.

It is fairly rich in mineral resources, such as oil, charcoal, peat, and mineral waters. Additionally, the okrug may have gold and diamond deposits. However, forests are the okrug's major asset since over two thirds of the territory are covered with woods. Forestry and timber-working are the region's major industries, while manufacturing accounts for over 50% of the total industrial output. Other important industries are machine-building, chemicals, small-scale production, and food products. Local farmers specialize in cattle-breeding, however, more than half of local agricultural products are exported outside the okrug unprocessed because the region lacks sufficient food-processing capabilities.

Timber is the major export and is shipped to Sweden, Finland, Germany, Kazakhstan, and Ukraine.

The region currently lacks rail service, however the federal government has decided to build a link connecting the Siberian Railroad with Arkhangelsk that would pass through Komi-Permyak Okrug.

Basic Facts

Population (as of Jan. 1, 1997): 155,600 (0.11% of Russian total)

Urban population (1989 census): 30.2% (Russia overall: 73.0%)
Pensioner population (1996): 27.30% (Russia overall: 25.78%)
Percent of population with higher education (1989 census): 4.3% (Russia overall: 11.3%)
Industrial production as percentage of all Russian production (1996): 0.02%
Proportion of loss-making enterprises (1996): 86% (Russia overall: 56%)
Number of enterprises which have wage arrears (1996): 207
Agricultural production as percentage of all Russian production (1996): 0.14%
Number of private farms (as of Jan. 1, 1997): 264 (0.09% of Russian total)
Capital investment (1996): 77,900,000 rubles (Russia overall: 370 trillion rubles)
Sources of investment (1996): federal budget: 12.6% (Russian average: 9.2%); regional budget: 4.2% (9.6%); enterprises: 72.0% (66.3%)
Number of telephones per 100 families (1993): in cities: 20.2 (Russian average: 48.7); in villages: 7.3 (19.7)

According to a 1997 survey by *Ekspert* magazine, the okrug is ranked 85th among Russia's 89 regions in terms of investment potential and 67th in terms of investment risks. A 1995 survey by Bank Austria ranked the okrug 56th in terms of investment climate.

Electoral History

1996 Presidential Election

Yeltsin: 53.29%/62.78% (first round/second round)
Zyuganov: 23.71%/32.58%
Lebed: 5.45%
Zhirinovskiy: 8.51%
Yavlinskii: 3.00%
Turnout: 69.17%/68.55% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Liberal Democratic Party of Russia: 21.69%
Communist Party of the Russian Federation: 12.27%
Our Home Is Russia: 9.56%
Women of Russia: 7.69%
Agrarian Party of Russia: 7.28%
Communists -- Workers' Russia: 4.85%
Power to the People: 2.94%
Trade Unions and Industrialists of Russia -- Union of Labor: 2.69%
Bloc of Ivan Rybkin: 2.17%
Forward, Russia!: 2.05%
In a single-member district: 1 independent
Turnout: 62.34% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 66.24% "No" -- 33.76%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 19.38%

Russia's Choice: 17.68%

Women of Russia: 13.52%

Agrarian Party of Russia: 12.22%

Party of Russian Unity and Concord: 11.33%

Communist Party of the Russian Federation: 6.76%

Democratic Party of Russia: 5.24%

Yabloko: 3.16%

In a single-mandate district: 1 Women of Russia

Turnout: 56.36% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 40.64%

Ryzhkov: 27.79%

Zhirinovskiy: 9.11%

Makashov: 7.44%

Bakatin: 5.23%

Tuleev: 2.36%

Turnout: 82.90% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regiony Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.

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BREAKING NEWS

POLITICS

KHANTY MANSII LEGISLATURE SEEKS MECHANISM FOR REGIONS TO BRING THEIR LAWS INTO COMPLIANCE WITH FEDERAL LEGISLATION.

Khanty Mansii Autonomous Okrug Duma Chairman Sergei Sobyenin is seeking to develop a procedure for regions to bring local laws into compliance with federal legislation. He believes that through a process of negotiation it will be possible to produce "ideal laws" that many regions could use in formulating their own legislation. Between one-third and one-half of regional laws violate federal norms, according to analyses by the Justice Ministry. Sobyenin therefore initiated the creation of a Consultative Council that brings together leading jurists from the okrug with representatives of the presidential administration, Justice Ministry, both houses of parliament, and academic specialists. The group's first session focused on amending the okrug charter and okrug laws dealing with natural resources. About 60 percent of Russia's oil is located in the West Siberian region. (*Nezavisimaya gazeta*, 6 May)

TVER OBLAST TEENAGERS ATTACK AZERBAIJANI TRADERS. A group of 200 drunken ethnic Russian teenagers in Udomol (Tver Oblast) attacked the trading booths of Azerbaijani merchants working in the city in the early morning hours of 10 May. According to police, it was the first case of interethnic violence in the city. The police arrested seven of the teenagers, and five traders sought medical aid. Azerbaijanis, Armenians, and Chechens initially came to the region in the 1970s to construct the Kalinin Atomic Energy Station and then remained in the area. Many of them opened their own stores and kiosks at the beginning of perestroika. (*Kommersant Daily*, 12 May)

REGIONAL GOVERNMENT TRANSFORMING FROM "DELEGATIVE DEMOCRACY" TO REPRESENTATIVE DEMOCRACY

Saratov Governor Dmitrii Ayatskov's warning to the members of his oblast assembly that "democracy ends once the last ballot is thrown into the ballot box" has become very popular in Moscow and may turn Russia into a "delegative democracy," according to an analysis published in *Nezavisimaya gazeta* on 8 May. Yabloko analyst Aleksei Denisov, however, argues that in some regions at least, delegative democracy is becoming representative democracy and leaders are finding that a concentration of power does not help them. The best example is Sverdlovsk Oblast, where Governor Eduard Rossel's party placed next to last in the recent regional legislative elections. Other examples include St. Petersburg's Vladimir Yakovlev, who had issued a completely

transparent city budget and Ayatskov himself, who has posted a list of all the oblast's property owners on the World Wide Web.

MOSCOW, PETERSBURG TO WORK TOGETHER. The administrations of Moscow and St. Petersburg will hold a joint meeting in St. Petersburg at the end of May. During the meeting, the two sides will sign a host of agreements envisioning cooperation on mutually beneficial development. Yakovlev won his election over former Mayor Anatolii Sobchak two years ago with the support of Moscow Mayor Yurii Luzhkov. (*Nezavisimaya gazeta*, 12 May)

PRUSAK ON HIS SUCCESS IN NOVGOROD, NEW GOVERNMENT. Novgorod Governor Mikhail Prusak attributed part of his success in attracting foreign investment to competent deputies in the regional duma. He boasts that he has never vetoed a law. He sees only one party in the region, "the party of power," and feels power must be concentrated in its hands in order to effectively manage the local economy.

. Prusak said he had no intention of serving in the new government. He was very close to former Prime Minister Viktor Chernomyrdin and participated in the recent Gore-Chernomyrdin meeting in Washington just before Chernomyrdin was sacked. He argued that move was necessary to change the rules of the game and then select new ministers according to those rules. He said he would only join a government that significantly lowered the prices for electricity and gas, cut the Central Bank's interest rate, and reformed the tax and customs codes. However, as governor, he expressed his readiness to cooperate with any government. By early May, he had received no offers to join the government and claimed that he would have rejected any offers.

Prusak plans to run for another term as governor at the end of next year. He said there are problems working with the mayor of Novgorod, but pointed out that his situation was easier than others' because the mayor also serves as his deputy.

Although Prusak was a member of Our Home is Russia's (NDR) Political Council, he asserts that the NDR is not a strong, united organization. He believes that the "party of power" at the national level is the presidential administration and the businessmen, journalists, and others who support it. He favors reforming state institutions, including amending the constitution, a position Yeltsin strongly rejects. In particular, he believes that regional executives should not serve simultaneously in the federal parliament's upper house. Despite his objections to this organizational structure, however, he sees the Federation Council as a stabilizing factor in the country today. He also believes that electing the State Duma from party lists gives too much representation to Moscow. He would prefer to elect the lower house from a pool of candidates with "legal education" in single-member districts. He claimed that much of the population is unhappy with the president's policies, and that the "party of power" should take note. (*Nezavisimaya gazeta-Regioni*, 5 May)

ECONOMICS

RUSSIAN COAL WAITS ON POLISH-KALININGRAD BORDER. Two thousand train cars of Siberian coal are waiting to enter Poland at the border with Kaliningrad Oblast. The Polish authorities will not let the fuel enter because the Polish importer does not have the newly required documents. Moreover, permission to import coal will only be granted for three-month periods, making long-term contracts impossible. Russian coal is cheaper and more efficient than Polish coal, but the Polish government imposed the protectionist measures to appease Polish miners. (*Izvestiya*, 13 May)

CONFLICT CONTINUES OVER HIGH-SPEED RAILROAD. St. Petersburg Governor Vladimir Yakovlev stated on 12 May that work is pressing ahead on the construction of a high-speed railroad linking Moscow and St. Petersburg and that it is impossible to stop the project now. However, the head of the Department of Ecological Analysis of the State Ecology Committee, Genadii Chegasov, said the necessary environmental impact reports would not be complete until the fall, at the earliest, and that any work undertaken on the project before the reports are completed would be illegal. Moscow experts point out that the trains will only travel at speeds of 220-260 km/hour, much slower than Japan's 350-km/hr train. (*Segodnya*, 13 May)

YELTSIN SIGNS LAW ON ELECTRICITY MONOPOLY. Yeltsin signed into law the bill on the Unified Energy System (EES) adopted by the Federation Council three weeks ago. The new law transfers a 33 percent stake in the electricity monopoly to the regions and limits foreign ownership to 25 percent, even though foreigners already own more than 30 percent. There is no clear mechanism for reducing the foreign-owned share (see *IEWS Russian Regional Report*, 30 April). The move may have been an attempt to appease the Duma after Anatolii Chubais won election as chief executive of the monopoly. (*Moscow Times*, 12 May)

Analysts believe that Yeltsin's signature on the law will make reform of the giant holding company, which owns controlling stakes in most regional utilities, more difficult. The company is owed about \$17 billion and forcing customers to pay will require cutting off electricity to many of them. (*Moscow Times*, 6 May) Chubais announced on 12 May that he would impose the harshest measures possible against those who don't pay their bills. (*Segodnya*, 13 May) Governors will oppose such moves because they want to prevent unemployment in their regions by keeping bankrupt firms afloat. Reformers in the monopoly are also trying to raise rates for heavily subsidized residential consumers while lowering them for industrial enterprises. Governors oppose taking a bite out of their constituents' incomes. Chubais has long advocated imposing greater control over the regions. Federation Council Chairman Yegor Stroeve has already voiced his opposition to Chubais's appointment. Orenburg Governor Vladimir Yelagin, who sits on the EES Board of Directors, voted against Chubais's candidacy for the position of chairman.

Chubais hopes to break the circle of non-payments by making good on the electricity monopoly's debt to the coal and gas suppliers who provide the fuel necessary to generate

electricity. Successfully addressing that problem would shore up one of the weak points of the economy and could win over skeptical governors.

BUSINESS BRIEFS

-- **GUM** is planning a \$100 million renovation of its store on **MOSCOW'S** Red Square after Christmas. Skittish investors scaled back the original \$200 million project. The store has hired Britain's **BOVIS INTERNATIONAL LIMITED** as the general contractor. Last year GUM made profits of \$40.9 million on sales of \$267 million from all of its Moscow stores. The main store on Red Square faces increasing competition from the new underground shopping center at Manezh Square and other retailers opening in the area. (*Moscow Times*, 12 May)

-- **SIR ROCCO FORTE & FAMILY** is also hoping to employ **BOVIS'S** services for a \$12 million reconstruction project at **ST. PETERSBURG'S** Astoria hotel. Sir Rocco Forte bought 25.5 percent of the hotel in September 1997 for 19.9 billion old rubles (\$3.3 million) and is required to invest \$7 million. (*Russkii Telegraf*, 13 May)

-- During a 6 May press conference, **ST. PETERSBURG** Governor Vladimir Yakovlev lashed out at a reporter who asked what steps he was taking to enforce the payment of a \$1.2 million settlement in favor of the **SUBWAY** fast food chain. The American chain won the judgment after its deal with a Russian joint venture partner soured. Yakovlev said "this question just makes me angry." He had just returned from a trip to the US seeking foreign investment, where he was asked about the case repeatedly. The *Moscow Times* argued on 8 May that Yakovlev should move quickly to bolster investor confidence that the courts will treat them fairly and that decisions will be enforced.

-- **LUCENT TECHNOLOGIES** announced plans to open a factory to assemble 5ESS digital telephone stations in **ST. PETERSBURG**. It will invest \$12 million in the plant and retain 100 percent ownership. (*Russkii Telegraf*, 13 May)

-- The **YAMAL NENETS AUTONOMOUS OKRUG** Arbitrage Court will hear the case filled by investor Kenneth Dart against **NOYABRNEFTEGAZ**, a subsidiary of Sibneft, on 17 June. Dart is disputing the firm's decision to issue new stock that diluted his initial 7.6 percent share. (*Russkii Telegraf*, 13 May)

-- The **VORONEZH OBLAST** administration accused Holland's **PHILIPS DISPLAY COMPONENTS** of using its ownership of the local **VELT** television picture tube factory to inhibit Russian television production and flood the market with imports. The administration cited an unpublished report it received from the Russian trade mission in the Netherlands. Philips bought an 89 percent stake in the factory three years ago, hoping to increase the plant's capacity from 2 million tubes a year to 3.3 million. The firm has invested \$63 million in the project. However, Russian sets are not competitive with foreign imports and there is little

demand for them. If the oblast declares the firm bankrupt, another investor could buy it for a relatively low price. (*Kommersant Daily*, 7 May)

-- The German firm **MAN** has signed a deal with **LENINGRAD OBLAST** for a joint venture with the **TOSNENSKII BUS FACTORY** to assemble buses. The financial aspects of the deal were not made public. The German side would provide 35 percent of the parts for the buses, while Russian firms would produce the rest. The oblast needs 100 buses a year, the number expected to be produced at the plant. At the end of last year, St. Petersburg set up a joint venture with Italy's Breda to manufacture 2,000 buses at the city's Northern Factory. The Leningrad Oblast authorities decided not to work with the Breda project because of on-going disputes with the St. Petersburg city authorities. They wanted the MAN plant to be independent of the city. (*Kommersant Daily*, 7 May)

CENTER-PERIPHERY RELATIONS

WHAT THE GOVERNMENT CHANGES MEAN FOR THE REGIONS. Following the State Duma's confirmation of Sergei Kirienko as prime minister, Yeltsin finally filled out the ranks of his cabinet last week. The dismissal of the old government and the naming of new ministers continues to have important consequences for the regions and foreigners interested in investing there.

The new government is good news for foreign investors in the Russian regions because it seeks to strengthen the regions' financial standing. Regions with balanced and functioning budgets will be more credit worthy and better partners for outside firms.

Of the 26 ministers, 13 are new. The changes are in the field of economic and social policy. Ministers for foreign and defense policy remain in place from the Chernomyrdin government, although the Ministry of CIS Affairs and the Ministry of Foreign Economic Ties and Trade were abolished, with their duties divided among other ministries. Yeltsin picked the ministers for their technocratic skills rather than their political connections. The new cabinet members generally have seven years of practical experience working in the post-Soviet economy. (*Izvestiya*, 12 May) The ministers are also well educated in their field of expertise. Their average age is 46.8.

Three deputy ministers, Boris Nemtsov, Viktor Khristenko, and Oleg Sysuev, will serve under Kirienko and wield considerable power. None of the top four have been involved in Moscow politics for much more than a year, so the new government has a strongly regional flavor. Kirienko and Nemtsov are from Nizhnii Novgorod, Khristenko is from Chelyabinsk, and Sysuev is from Samara, giving the Volga and Ural regions the most prominence. The new head of the government administration, Nikolai Khvatkov, who has the rank of a minister, is also from Nizhnii. As a whole, this group has relatively fewer ties to the old bureaucratic and financial lobbies that were so powerful in the old government. The average age of the top four officials is only 40.

Khristenko's appointment is probably the most important for the regions because it signals that Moscow wants to impose greater control over the distribution of federal funds to the outlying provinces. The new policy makes clear that continued federal subsidies will depend on strong financial discipline in the regions. Before being appointed deputy minister, Khristenko served as first deputy finance minister for ten months. In that position, he was in charge of disbursing subsidies to the regions to pay public sector employees. The federal government has charged that many regional leaders do not disburse the money effectively. According to *Izvestiya* (30 April), Chubais, Nemtsov, and Sysuev shielded him from any repercussions for not making greater improvements in that process. Now he will perform the same duties, but with much higher status and presumably at greater personal risk.

The new government's main task is financial: increasing income while cutting spending. The government will also have to pay off wage and pension debts to public sector employees and keep new debts from piling up. In two 5 May decrees, Yeltsin gave the government powerful tools to limit state expenditures and bring the regions to heel. (For the text of the decrees, see presidential administration press releases number 8 and 9 for 5 May at http://www.maindir.gov.ru/Administration/Press_Release/May/main.html.) By 2001, the government should reduce budget deficits to 2.4 percent of GDP in a three-year plan that won praise from the World Bank.

It would be impossible to put the federal budget in order without also imposing discipline on the regional budgets. One of the decree requires the regions to sign an agreement with the federal government on how money will be disbursed from the center in the next two months. (For an earlier discussion of this decree, see *IEWS Russian Regional Report*, 30 April.) Strict conditions are imposed on the regions. The governors will have to trim their budgets of excess staff and cut ties with "authorized banks," which benefit from conducting transactions with public money. Regions with debts to public sector workers will be limited in how they can disburse their funds. The regions will no longer be able to accept non-cash tax payments for federal taxes. Currently payment in-kind is widespread. The regional leaders will also have to restructure the debts of local enterprises to the regional budget. Additionally, the federal government seeks to limit regional flexibility in electricity and water prices -- a difficult task given the tremendous price variations across the country. (*Izvestiya*, 12 May and *Kommersant Daily*, 6 May)

Part of the plan to cut spending includes trimming the federal payroll by 200,000 jobs. Those staff cuts have come under heavy criticism (see *IEWS Russian Regional Report*, 2 April 1998), but First Deputy Finance Minister Alexei Kudrin said on 10 May that the layoffs would go ahead as part of a strategy to save \$11 billion this year. (*Moscow Times*, 12 May)

During a trip to Tver, Nemtsov announced that the government's goals include reducing the Central Bank's lending rate from 30 percent to 16 to 18 percent, making credits more widely available, and adopting a new tax code that cuts taxes throughout Russia by 40 billion to

50 billion new rubles (\$7.5 billion). Nemtsov also said he will seek cuts in the prices charged by the gas, electricity, and transportation monopolies. (*Russkii Telegraf*, 8 May) - Robert Ortung

THE NEW GOVERNMENT

Prime Minister

Sergei Vladimirovich KIRIENKO, 35

Sergei Kirienko was born in Sukhumi (Abkhazia, Georgia) on 26 July 1962. His education focused on water transportation engineering, finance, and banking. He served as the first secretary of the Gorky (now Nizhnii Novgorod) Komsomol and then was a member of the Gorky Oblast Soviet.

In January 1994, he founded the Guarantee Bank in Nizhnii Novgorod Oblast and worked as its president. According to his colleagues there, he was a "young reformer, energetic, honest, ambitious (in the best sense of the word), and capable of finding a common language with just about anyone." The bank is still thriving, with assets of 178 billion old rubles at the end of 1997. (*Birzha* [Nizhnii Novgorod], 30 April)

In November 1996, Nizhnii Novgorod Governor Boris Nemtsov recommended his appointment as president of the Norski-oil company. At the end of 1994, the Norski oil refinery had been declared bankrupt. Construction on the plant had begun in 1957, and during its heyday it had daily refined 60,000 tons of oil into gasoline, kerosene, diesel fuel, mineral oil, paraffin, and other products. But rumors of the plant's death were greatly exaggerated. Deloitte and Touche and Moscow's Interaudit examined the refinery's books and declared that it could be profitable.

The Norski refinery is now Russia's second largest oil refiner. Within a half year of taking over, Kirienko devised a way for the plant to pay its debts and restored the confidence of the main raw material suppliers, Tatneft and LUKoil, gaining a steady supply of oil.

When Nemtsov was appointed first deputy prime minister and fuel and energy minister in March 1997, Kirienko joined him in the capital as first deputy minister of fuel and energy, assuming his post on 13 May 1997. When Yeltsin forced Nemtsov to resign as fuel and energy minister in November, Kirienko moved into the post. On 23 March, Yeltsin appointed him acting prime minister.

Deputy Prime Minister (replaces Kirienko when he is absent, oversees natural monopolies, energy policy)

Boris Yefimovich NEMTSOV, 38

Born in 1959 in Sochi, Nemtsov studied radio physics in Gorky (Nizhnii Novgorod) and in his 20s earned a reputation as a brilliant engineer. In 1990, he was elected to the Russian

parliament and, after the abortive 1991 coup, Yeltsin initially appointed him as his representative in Nizhnii Novgorod and later governor of the region. In 1995, he won a gubernatorial election, but in 1997 Yeltsin transferred him to the federal government, making him first deputy prime minister and, temporarily, minister of fuel and energy.

Deputy Prime Minister (responsible for finance and economy, center-periphery relations)
Viktor Borisovich KHRISTENKO, 41

Born in 1957 in Chelyabinsk, Khristenko is a trained economist who made a successful teaching career at the Chelyabinsk Polytechnic Institute. In 1990, he became involved in Chelyabinsk city politics and later handled economic problems in the Chelyabinsk Oblast government. In 1997, he briefly served as the president's representative in the region and later that year became deputy finance minister.

Deputy Prime Minister (oversees social and labor issues)
Oleg Nikolaevich SYSUEV, 45

Born in 1953 in Kuybyshev (Samara), Sysuev is a trained aircraft pilot who made a career in the Communist Party and Soviet power structures before 1991. Yeltsin appointed him mayor of Samara in December 1991. On 5 June 1994, 73% percent of the voters gave him a popular mandate in the city. He won a second term in September 1996, holding on to his 73 percent majority. In March 1997, Yeltsin appointed him deputy prime minister and in April of that year added responsibilities as minister of labor and social development.

Minister of State Property
Farit Rafikovich GAZIZULLIN, 52

Born in 1946 in Selenodolsk, Tatarstan, Gazizullin was trained in water transport engineering and sociology. He worked his way up the Communist Party and Soviet administrative ladder and by 1995 held several important positions in Tatarstan's government. In 1996, he became first deputy head of the State Property Committee, which eventually became a ministry that he was appointed to head in 1997.

Interior Minister
Sergei Vadimovich STEPASHIN, 46

Born in 1952 in Port-Arthur, Stepashin was educated in ideological training at the Political School of the Soviet Ministry of the Interior. After serving in the interior forces and completing graduate work in political training, he taught at his alma mater. In 1991, he began a career in the Russian security apparatus, eventually becoming director of the Federal Security Service in 1994. Stepashin was sacked in 1995 and partially blamed for Russia's losses in the Chechen war and the hostage-taking incident at Budennovsk. However, he returned to power as justice minister in July 1997. He moved to the Interior Ministry in April 1998. He is a loyal Yeltsinist. (*Segodnya*, 31 March) The ministry controls 220,000 troops.

Labor and Social Development Minister

Oksana Genrikhovna DMITRIEVA, 40

Born in 1958 in Leningrad, Dmitrieva was trained in finance and economics, after which she pursued a research career at her alma mater, the Leningrad Institute of Finance and Economics. In 1993, she was elected to the State Duma, joining the Yabloko faction. She was re-elected in 1995.

Economics Minister

Yakov Moiseyevich URINSON, 54

Born in 1944, Urinson graduated from the Plekhanov Economics Institute and then pursued an academic career at several research institutes. In 1993, he became acting first deputy economics minister and in 1997 Yeltsin appointed him deputy prime minister and economics minister.

Minister of Agriculture and Foodstuffs

Viktor Aleksandrovich SEMENOV, 40

Born in 1958 in Moscow Oblast, Semenov was trained in agricultural economics and became a state farm director by 1988. Beginning in 1985, he became involved in Communist Party and Soviet work. In 1995, he won election to the Moscow Oblast Duma. When his term was up in 1997, he became first deputy head of the Russian Agricultural Industrial Union.

Minister of Atomic Energy

Yevgenii Olegovich ADAMOV, 59

Born in 1939, Adamov graduated from the Moscow Aviation Institute and later earned a doctorate in technical sciences. He spent most of his career at the Kurchatov Atomic Energy Institute and at the Institute of Energy Technologies in Moscow. Adamov was first appointed minister of atomic energy in March 1998. He is a distinguished scholar and a member of the Russian Academy of Engineering Sciences and the New York Academy of Sciences.

Minister for Emergency Situations

Sergei Kuzhugetovich SHOIGU, 43

Born in 1955 in what is now Tuva Republic, Shoigu studied construction engineering and had a successful career in the construction industry in Krasnoyarsk Krai. Eventually he became involved in Party and Komsomol work, but in 1990 he joined a state committee on construction and architecture. In 1991, he was appointed to head the State Committee on Emergency Situations, and in 1994 he became minister for emergency situations and civil defense.

Minister for Regional and Nationalities Policy

Yevgenii Saulovich SAPIRO, 64

Born in 1934 in Mariupol, Ukraine, Sapiro studied metallurgical engineering at the Urals Polytechnic Institute, Sverdlovsk (Yekaterinburg), and then earned a doctorate in economics from Perm University, where he later taught. In addition to academic work, Sapiro had a brief

Party and Soviet career in Perm until the collapse of the Soviet Union. In 1992, he became deputy governor of Perm Oblast. After he won a seat in the oblast Legislative Assembly in 1994, the body elected him its speaker, simultaneously making him a member of the Federation Council, where he chaired the Economic Policy Committee. Although he was reelected to the Perm legislature in December 1997, he failed to regain the chairmanship. Following his defeat, he set up the Sapiro Fund, which engaged in legal consulting work. Many of his graduate students have been successful in business.

Minister of Healthcare

Oleg Vsevolodovich RUTKOVSKII, 50

Until now, Rutkovskii has served as the chief surgeon at Moscow's First City Hospital, according to *RFE/RL Newslines* (11 May).

Minister of Foreign Affairs

Yevgenii Maksimovich PRIMAKOV, 69

Born in 1929 in Kiev, Primakov majored in Oriental studies and economics at the university. He had a long career in the media and the Soviet State Committee on TV and Radio. In 1977, he became director of the Oriental Studies Institute and in 1985 director of the Institute of the World Economy and International Relations. In the late 1980s, he joined the Party's Central Committee and subsequently won election to the Soviet parliament. During the fall of 1991, he served in various capacities in the KGB. From December 1991 to January 1996, he served as director of the Foreign Intelligence Service, which took over some of the KGB's functions. He replaced Andrei Kozyrev as foreign minister in January 1996.

Minister of Culture

Natalia Leonidovna DEMENTIEVA, 51

Born in 1945 in Kuibyshev (Samara), Dementieva is a trained historian and archaeologist with a degree from Leningrad State University. After a brief career in the field of archaeology, she worked as a museum curator and fought to preserve historical monuments in Leningrad and Leningrad Oblast. In 1987, she became director of the State Museum of St. Petersburg History and in 1997 she was appointed Minister of Culture.

Minister of Science and Technology

Vladimir Borisovich BULGAK, 57

Born in 1941 in Moscow, Bulgak received a degree in electric communications and later attended the Institute of Economic Administration. Following some work in the Komsomol, Bulgak focused on building communications infrastructure in the city of Moscow. In 1983, he joined the Soviet Ministry of Communications, where he remained until his appointment as Russian minister of communications in 1991, a post he held until 1997, when he became deputy prime minister. Bulgak was appointed minister of science and technology in April 1998.

Defense Minister

Igor Dmitrievich SERGEEV, 60

Born in 1938, Sergeev initially served in the navy and attended two military command academies. During most of his career, Sergeev remained in the Strategic Rocket Forces in various command positions. In 1992, he became chief commander of the Strategic Rocket Forces and, in 1997, defense minister. He is a highly decorated officer and the first individual elevated to the rank of marshal in post-Soviet Russia. Yeltsin likes Sergeev because, in contrast to his predecessors, he does not complain about a lack of financial resources and claims that military reform is on track, according to military analyst Pavel Felgenhauer. He also has no apparent political ambitions. Yeltsin, Felgenhauer argues, has no real interest in addressing the military's problems.

Minister of General and Professional Education

Aleksandr Nikolaevich TIKHONOV, 51

Born in 1947 in Yalta, Tikhonov studied electronics and earned his doctorate before becoming a professor and a member of the Russian Academy of Natural Sciences and several other academies. He had a highly successful academic career at his alma mater, the Moscow Institute of Electronics, ultimately becoming its rector in 1990. In 1991, he began his career in the Russian government, serving on various bodies dealing with higher and professional education, and in March 1998, he was appointed minister of general and professional education.

Minister for Natural Resources

Viktor Yuriievich NEKRUTENKO, 47

Born in 1951 in Moscow, Nekrutenko studied geodesic engineering and land surveying, and later earned a graduate degree in public management. After a long career in land surveying, he joined the State Property Committee in 1992, and worked on the Russian government staff handling property and entrepreneurship issues until his April 1998 appointment.

Communications Minister

Nikolay Emel'yanovich AKSENENKO, 49

Born in 1949 in Novosibirsk Oblast, Aksenenko studied railway transport engineering and did graduate work at the Economics Academy. He has risen to his current post from an entry-level position at the East Siberian Railroads.

Minister of Fuel and Energy

Sergei Vladimirovich GENERALOV, 34

Born in 1963 in Simferopol, Generalov was educated in radio technology at the Moscow Energy Institute and in administration at the Ordzhonikidze School of Management. In the early 1990s, he worked in the private sector, including several commercial banks. From 1993-1997, he worked in Yukos oil company, becoming its vice president in 1994. In 1997, he became deputy chairman of the board of MENATEP bank.

He spoke with foreign investors at Yukos and understands how to deal with them, according to the *Moscow Times*. (6 May) The paper notes that Yeltsin first offered the job to LUKoil vice president and CFO Leonid Fedun, but Fedun turned it down, suggesting that the post is not thought to further the interests of any one company.

Generalov's former employer is now part of the Yuksi oil company, which is co-controlled by Chubais-enemy Boris Berezovsky. In this light, Generalov is seen as a counterweight to Chubais on energy issues.

Transportation Minister

Sergei Ottovich FRANK, 38

Born in 1960 in Novosibirsk, Frank studied marine engineering in the Far East and made a career in the Far Eastern Shipping Company. In 1995, he was appointed to handle marine transport in the Russian Ministry of Transportation, eventually becoming deputy minister and, in March 1998, minister.

Finance Minister

Mikhail Mikhailovich ZADORNOV, 35

Born in 1963 in Moscow, Zadornov was trained in economics and did graduate work on direct capital investment in industrial enterprises. After working briefly at several economic research institutes, Zadornov won election to the State Duma on the Yabloko ticket from a district in Kamchatka. In November 1997 he was appointed finance minister, leaving both the parliament and the party, which is strongly critical of Yeltsin's policies.

Justice Minister

Pavel Vladimirovich KRASHENINNIKOV, 34

Born in 1964 in Sverdlovsk Oblast, Krashennnikov studied law at the Sverdlovsk Legal Institute, where he subsequently taught civil law. After working as an expert for the Supreme Soviet, he moved on to the Ministry of Justice and briefly served on the State Anti-Trust Committee. In August 1997, he became deputy minister of justice and, in April 1998, minister.

Minister on Land Policy, Construction and the Housing and Utilities Sector (The ministry absorbs functions of the abolished State Land Committee, State Committee on Housing and Construction Policy, and the Federal Service on Surveying and Cartography.)

Ilya Arturovich YUZHANOV, 38

Born in 1960 in Leningrad (St. Petersburg), Yuzhanov has advanced training in economics. He taught economics in various institutions around Leningrad before joining the city government's economic reforms committee, which he eventually headed. In April 1994, he became the head of the municipal land resources committee, and in May 1997 moved on to chair a similar committee on the federal level.

Industry and Trade Minister (The ministry assumes some functions of the abolished Foreign

Trade and CIS Ministries, along with some responsibilities of the Ministry of the Economy.)
Georgii Valerievich GABUNIYA (Acting Minister), 46

Born in 1952 in Moscow, Gabuniya graduated from the Moscow State Institute of International Relations before joining a research institute at the USSR Ministry of Foreign Trade. Later he worked at the UN Conference on Trade and Development (UNCTAD) in Geneva and handled foreign economic relations at the Soviet Ministry of Foreign Affairs. After 1991, he held several high-level positions at the Russian Ministry of Foreign Economic Relations, including that of first deputy minister. According to *RFE/RL Newswire* (11 May), he has been Russia's top negotiator on trade issues, such as the country's bid for membership in the World Trade Organization.

This biographical information was collected from the National News Service (<http://www.nns.ru>) and other sources listed in the text. For Yeltsin's decree on reorganizing the executive branch, see (http://www.maindir.gov.ru/Administration/Press_Release/Apr/SVWI2679.html). The list above includes only the federal ministries. - Compiled by Natan Shklyar

NEW NATIONALITIES, REGIONS MINISTER BUILT LONG CAREER IN PERM. While a newcomer to the Moscow scene, the newly-appointed Minister for Regional and Nationalities Policy Yevgenii Sapiro is well-known in Perm. In the last five years he always ranked among the top 10 most popular local politicians. He is 64, which makes him stand out in what many have referred to as the "cabinet of boys in short pants." Fluent in English, Sapiro is a professional economist with a doctorate and long career at Perm State University. Sapiro's political career began at the outset of the reform era. He successfully ran for a seat in the oblast legislature and was elected its speaker. In that capacity he earned a solid reputation among voters and secured substantial political capital. Additionally, his organizational and professional skills proved useful in his ex officio job as a member of the Federation Council and the chair of its Economic Policy Committee.

Sapiro's transfer to Moscow could not have been more timely, as his political career in Perm seemed to be waning. Even though he easily regained his seat in the oblast assembly in December 1997, the new legislature was dominated by industrial managers who elected one of their own as the speaker. Only Sapiro knows how he managed to propel himself from provincial politics to a ministerial post. It is possible that his talents were noticed during his work in the Federation Council. It is also likely that patronage from Chelyabinsk's former deputy governor Viktor Khristenko, now one of three deputy prime ministers, helped as well. The two used to work well together in the Urals Economic Association, as Sapiro himself explained in a newspaper article (*Permskie novosti*, 8 May).

In his new position as the Minister for Regional and Nationalities Policy, Sapiro will encounter many challenges. We know little about his experience with nationality issues. However, his economic background should help him tackle regional problems, largely economic in nature. He will probably make a good minister if he applies his superior organizational skills.

Some think that Perm Oblast will benefit from having one of its own in a high-powered federal job. Others, like the editor of local newspaper *Zvezda*, disagree. He writes that Sapiro has alienated the oblast governor and Perm's leading businessmen and industrialists, and that his main goal is to retire with a ministerial pension (*Kapital*, 13 May). Either way, the new minister is likely to bring with him many loyal Perm personnel. Maybe soon analysts will be talking about a "Perm group" in the Russian government in addition to the "Nizhnii Novgorod group" of Prime Minister Kirienko and Deputy Prime Minister Boris Nemtsov. - Andrei Suslov in Perm

DISPATCHES FROM THE FIELD

THE AFTERMATH OF THE "CRISIS": VIEWS FROM MOSCOW AND YEKATERINBURG

by Rodric Braithwaite

LONDON-- You have to give him credit: contrary to what many people thought, Yeltsin's formidable political instincts remain in excellent order, and he knew just what he was doing when he sacked the government on 23 March. He had taken the measure of the Communist opposition exactly, and called their bluff for the umpteenth time. He bullied and cajoled the parliament into accepting his "young and inexperienced" candidate for prime minister. And he ended up with a new government even more reformist - and even more under his thumb - than its predecessor.

The Communists are now in disarray. I followed their march to Marx's statue in Moscow on May Day. They made a brave show with their red banners, revolutionary songs, and slogans calling for Yeltsin's impeachment. But they could only muster a few thousand supporters, and the fiery speeches of their leaders were devoid of content. Zyuganov has shown considerable skill hitherto in holding them together and maintaining himself as their leader. After his latest failure, one must wonder if he can continue to do so, or whether he is still a credible candidate for the presidential election in two years' time.

What is more, Yeltsin has shown, once again, that when it comes to the crunch he is determined to support reform. The new government is at least as liberal as its predecessors and the new "young reformers" have much the same credentials as their predecessors. Kirienko performed with great coolness and political skill during the nerve-racking weeks when he was no more than prime minister-designate, and has gained respect at least among the chattering classes of Moscow. There is no reason at this stage to think that he will not rise to meet his formidable responsibilities. It was a masterstroke to put Chubais in charge of the national electricity utility. It infuriated the opposition, put one of Yeltsin's most effective henchmen in a place from which the parliament will find it hard to dislodge him, and holds out some real hope that a grip will at last be got on this key sector of the economy.

But it is Russia's economy, not its politics, that remains the central problem. The international financial institutions and the foreign banks continue to force feed Russia with new debt as if it were a Strasbourg goose. Yeltsin's economic adviser, Alexander Livshits, has been trailing the presidential budget statement. He claims that next year's budget will be rigorously observed and that the budget deficit will be reduced to 3.7 percent in 1999 and 2.6 percent in 2000. He has made such claims before. But he admits that debt service now eats up one-third of the annual budget. And according to outside experts, the federal deficit could range between 6 percent and 10 percent in 1999. Successive Russian governments have promised to balance that budget and sort out the tax system. There is no particular reason to believe that the new government will be any more successful than its predecessors.

The failure of Yeltsin's governments to get a grip on the macroeconomy makes it very hard for even the most enlightened operators in the real economy to overcome the problems of transition. In the Urals cities, shops are full; "Euroremont" (Western-style apartment renovation) and "do it yourself" home improvements are fashionable; and the people are well-enough dressed. But the buildings are shabby and there is little sign of the construction boom that has transformed the capital in the last five years. Much of the local defense industry seems to be waiting for the return of the Soviet Union and its mouthwatering defense budgets.

But even the most enlightened enterprises are struggling to survive. They have slashed their workforce, employed Western accountants and energy savings advisers, and entered into joint ventures with Western firms. Their executives know what is meant by profit and loss, marketing, and quality control. Some of them have successfully raised capital on Western exchanges. But the economic mismanagement of successive governments still means that they are perennially short of cash, and that the majority of their operations have to be conducted on the basis of a Byzantine system of barter, which wastes both time and money that should be devoted to the reconstruction of the company. The best of them are determined to succeed. The least one can say is that they get very little help from government policy.

All in all, the political situation in Russia now looks more stable than it has for some time. One should not underestimate the capacity of Yeltsin and his compatriots to surprise us. But despite the efforts of the *Financial Times* to create a new crisis for Yeltsin out of General Lebed's electoral campaign in Krasnoyarsk, it is in the economy, rather than in the run up to the presidential elections, that the next real crisis may lie.

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PATTERNS OF REGIONAL DEVELOPMENT

COURT TO CONSIDER LEGALITY OF NIZHNI MAYORAL ELECTIONS ANNULMENT. The Nizhnii Novgorod district court has agreed to hear a claim by Andrei

Klimentiev against the local electoral commission, which had earlier overturned his election as Nizhnii mayor. In the 29 March mayoral elections, former convict Andrei Klimentiev narrowly defeated the incumbent. The newly elected mayor had previously served two jail sentences, one for eight years and the other for a year-and-a-half. During the campaign he was being investigated for embezzlement, but that did not seem to bother anyone either in Moscow or Nizhnii Novgorod. However, when Klimentiev's victory became a shocking reality, authorities clumsily chose to suspend the election results and use the embezzlement charges to lock the winner in jail. Naturally, civil rights activists in the city and across Russia vocally protested the authorities ill-thought-out actions.

The situation remains tense, as anticipation of the upcoming court hearing intensifies both in Moscow and in Nizhnii. Many politicians and so-called oligarchs are using the "Klimentiev affair" in their feuds, and more and more Moscow leaders and businessmen are becoming involved in the case. Rumor has it that such influential tycoons as LogoVAZ boss Boris Berezovskii and UNEXIMbank Chairman Vladimir Potanin have joined the fray on opposing sides. And each of them brings to the game powerful financial interests, media empires, political movements, and experienced lawyers.

For example, TV programs and newspapers belonging to Berezovskii, such as *Moskovskii Komsomolets*, have been continuously "uncovering" facts from the affair that link Deputy Prime Minister Boris Nemtsov to Klimentiev. These controlled media sources can thus influence the new Russian cabinet and the president himself. After all, Nemtsov was largely responsible for bringing his old friend and colleague Sergei Kirienko to Moscow, thus making his recent appointment as prime minister possible. Kirienko, thus, will do everything to keep his old patron close to power, with the help of Yeltsin and Potanin. However, such maneuvering runs against Berezovskii's interests, and his team is trying hard to collect as much compromising material as possible from the Klimentiev affair against Nemtsov.

Moreover, during his brief tenure in Moscow, Nemtsov has made few friends in the State Duma, and has alienated his successor as Nizhnii governor, Ivan Sklyarov. On the whole, Nemtsov has lost many of his supporters in his hometown and the ground is fertile for those who want to dig up compromising materials against him. What is most surprising, however, is that neither Moscow nor Nizhnii authorities have attempted to take control of the situation. The local authorities have failed even to ask themselves why the city's voters elected the former convict in the first place. Will Moscow officials again intervene in Nizhnii's internal affairs, only this time meddling with the courts instead of the ballot box? - Yuri Rodygin in Nizhnii Novgorod

ELECTIONS IN KARELIYA: SPECIAL REPORT

STUMP SPEECH: KARELIYAN INCUMBENT DENOUNCES POLITICAL CONFRONTATION. During a 12 May press conference, Kareliya's prime minister Viktor Stepanov read the following address to the republic's voters.

"On 17 May you will go to the polls again and vote in runoffs for Kareliya's highest office, the post of prime minister. I sincerely thank all those who supported me in the first round. That round showed an evenly divided electorate. It is obvious today that even the second round will not produce a clear winner. To be honest, we have failed to avoid confrontation and the first round of voting has planted seeds of contention among voters. Let us prevent these seeds from taking root. Unfortunately, despite the public statement by [challenger candidate] Sergei Katanandov, his team continues to use dirty methods. Instead of having constructive discussion on how to pull the republic out of the current crisis, people try to excite political passions. Lowly methods of campaigning include fabricated flyers, slanderous rumors, portraying the cabinet as the enemy of the people, and blaming the prime minister for all the region's ills, from wage arrears to a shoddy workmanship.

"I believe that we all have common enemies: the deepening economic crisis, further criminalization of the economy, unemployment, and organized crime. Under these circumstances what we need is the consolidation of all healthy elements in society, of all political forces. Once again I believe that we should put an end to artificially dividing society into "whites" and "reds." These attempts are rooted in cheap populist demagoguery and political radicalism. Our unifying national idea should be searching for a way out of the economic crisis and creating a decent life for the people.

"If reelected to head the republic's government, I will form a cabinet of public trust with members of all political movements who are interested in working together. I guarantee that to this end I will consult every constructively-oriented political party and movement in the republic. I promise that, if reelected, I will offer my opponent Sergei Katanandov and his team of experts influential positions in my government of public trust. I further ask all those who support me to make a unilateral truce in the propaganda war. Let us stop searching for enemies and pursuing witch hunts. I say a resounding "No" to any kind of political, national, economic, or social radicalism.

"We have nothing to bicker about and nothing to fight over.

"We share one history.

"We share one land--Kareliya.

"We share one Motherland--Russia.

"Kareliya's voters can rest assured--I will do everything in my power to preserve peace and accord on our Kareliyan soil." - Boris Matveev in Petrozavodsk

KARELIYA'S CONTENDERS LOBBY IN MOSCOW. Both candidates for the post of prime minister of Kareliya visited Moscow on 5-6 May. Upon his return, the challenger, Sergei Katanandov, held a press conference together with the head of the local branch of Our Home

is Russia (NDR), Natalia Kotsyuba, on 7 May to report on his trip. While in Moscow, Katanandov met with Viktoria Mitina who oversees regional issues in the Presidential Administration, Deputy Prime Minister Oleg Sysuev, members of the State Duma, and Moscow city government. When meeting with Gazprom representatives, Katanandov discussed the prospects of building a new gas pipeline through Kareliya, and according to Kotsyuba nothing will happen in this direction with the current republican government in power, as the Gazprom leadership does not trust Stepanov's regime.

During negotiations with Mezhkombank, Katanandov discussed possibilities for investment in the embattled Segezhabumprom paper mill. Katanandov maintains that the only way to save the company is to find a new owner or for the government to step in and assume control. Kotsyuba emphasized that both the Economics Ministry and the Federal Bankruptcy Agency have been denied true information about the state of affairs at Segezha, which has hampered their decision making. Katanandov also met with the Moscow city government, and the latter seems interested in working with Kareliya's precious stone extraction and processing industry. The candidate also said that he is happy to see many young deputies and heads of local governments being elected to the republican Legislative Assembly. He also noted that he and the new mayor of Petrozavodsk, Andrei Demin (see the profile of Demin in this issue), maintain a close and cordial relationship.

The following day incumbent Viktor Stepanov held a press conference to report on his Moscow trip. Among others, he met with Finance Minister Mikhail Zadornov to discuss wage and benefits arrears for Kareliya's public sector employees and asked for 100 million rubles (\$17 million) to that end. In the near future the Russian government will consider applications from over 30 units of the federation, including Kareliya, to be officially recognized as depressed regions. If the government decides to grant this status to regions with a budget deficit of 35%, Kareliya could qualify, but if the threshold is raised to 40%, it might not make it. The truth is that without federal assistance, Kareliya will not be able to survive. While he insisted that the federal center should be solely responsible for pension payments, Stepanov reported that he had asked the Russian Pension Fund to help Kareliya in May, as it did in March and April with a 35 million ruble (\$6 million) transfer. Finally, Stepanov phoned the president of the Swedish company AssiDomain, which allegedly owes Segezhabumprom \$6 million, but failed to reach an agreement with him and plans to seek a settlement through the courts. Meanwhile, Mezhkombank approved a credit to help the company pay staff salaries. Even though Segezhabumprom continues to search for new investors, most are frightened off by the \$27.5 million it still owes to AssiDomain. - Boris Matveev in Petrozavodsk

THE NEW GENERATION

YOUNG POPULIST POLITICIAN BECOMES MAYOR OF PETROZAVODSK

by Boris Matveev, *Severnyi Kurier*

PETROZAVODSK--On 26 April, Petrozavodsk elected Andrei Demin, 34, the youngest mayor in the history of the Kareliyan capital. His biography tells the story of how a career Soviet military officer transformed himself into a young and promising leader. Born in 1964 in Donetsk to a military family, Demin graduated from the KGB's Orel High Command School of Communications in 1985 with a degree in communications engineering. From 1986 to 1990, he served in various junior command capacities and was eventually stationed in Petrozavodsk, where in 1990 he ran for the city council. During the abortive 1991 coup, Demin joined other city leaders in publicly denouncing the plotters. He returned to military service from December 1993 to April 1994, and was placed in command of the North-Western border guards unit. In 1994, he was elected to the republican Legislative Assembly, where his committee work focused on legal issues, state building, local government, and nationality questions. In 1996, he headed the local government committee of the North-Western Parliamentary Association. On 26 April 1998, Petrozavodsk voters elected him mayor.

Demin is married with two daughters, and his family lives in an average three-room apartment. Because he does not own a car and prefers to walk, he has first-hand knowledge of the condition of city streets and roads.

In 1997, when Demin served in the assembly and ran the Kareliyan branch of Yabloko, he wrote a public letter to party leader Gregory Yavlinskii. Published in local papers, the letter refuted the party headquarters' misperceptions that the republican branch of Yabloko had been inactive. Demin reminded Yabloko's leader that before the Karelyan branch was properly registered as such, much of its work was done under the auspices of the Respublika political movement. Last year Respublika sponsored 20 needy retired women in the city, providing a monthly allowance of 100,000 old rubles (\$17) -- a sizable contribution to an average pensioner's meager budget. Money was donated by one of Respublika's corporate sponsors. After the letter's publication Demin received numerous invitations to run for the party branch's top position, all of which he declined.

In another example of his personal concern for his fellow citizens, two years ago Demin volunteered to escort a shipment of care packages collected by city residents for soldiers fighting in Chechnya. Despite numerous pleas not to flaunt his bravado and stay home, Demin took the dangerous trip and even returned with letters from some of the local soldiers. For some soldiers' mothers that was the first time they had heard anything from or about their sons. His trip made a deep impression.

By early 1998, Demin had cultivated an image of a people's defender and a fighter against bureaucratic privileges, despite his own standing in the republican political establishment. In the second half of 1997, he publicly criticized the planned increase in salaries for republican civil servants and assembly members. Even though he himself was reportedly active in drafting the law that provided for the salary increase, Demin later claimed that he actually voted against the bill. And when, along with his fellow deputies, he began receiving a larger paycheck as a result of the raise, Demin donated the increase, about 4 million old rubles (\$666), to schools,

foster homes, or needy individuals. No doubt that action further solidified his image as an anti-establishment crusader for the public interest.

One of the most prominent chapters of Demin's mayoral electoral campaign was his open confrontation with the local telecom, Elektrosvyaz. Speaking on local TV, Demin denounced the company's plans to charge by the minute for local calls. He specifically attacked Elektrosvyaz Director Valeriy Nikiforov. At that time, Nikiforov was running for the Legislative Assembly and managing the reelection campaign of Kareliya's prime minister, Viktor Stepanov. In a subsequent open letter to Nikiforov, Demin wrote: "You have been trying to convince Petrozavodsk residents that as a result of your plans telephone rates in the city will go down. At the same time, it is hard to believe that your company would willingly allow the decline of its main source of revenue. There must be a hidden catch, and it is irresponsible to introduce the changes you propose without further meticulous study of the question, just like it is irresponsible to conduct cruel social experiments on the needy and the weak." Many city residents telephoned in to support Demin and denounce the new pricing policy. As a result, Nikiforov lost his race and Stepanov's campaign suffered significantly.

In the last week before the elections, Demin visited the home-turf of his main opponent, Chairman of the regional electricity commission Valery Dubov. Demin met with employees of Karelenego, South-Kareliyan Electric Network, and Petrozavodsk Electric Network Enterprise. Everywhere he went, people gave him a warm and serious reception.

Demin has refused to comment on planned personnel changes in the city administration. He said: "There will not be any repressive purges as a result of my election. I will need the experience and professionalism of everybody who chooses to work with me. Any proposed changes to the municipal administrative structure will be introduced at the September session of the city council. Until then, all municipal civil servants will remain in their jobs." On 6 May Demin was heard saying: "I was elected mayor and plan to be just that. Do not believe rumors about my possible resignation." Of course, most city residents had never heard any rumors about the new mayor's possible resignation. So, once again Demin demonstrated a good political tendency to stay a step ahead of the curve. Soon enough it will be clear if a good politician and campaigner can be an equally effective city manager.

SOCIAL ISSUES

SMUGGLING RADIOACTIVE ELEMENTS IN SIBERIA THREATENS HEALTH, ENVIRONMENT. East Siberia is home to many enterprises dealing with radioactive elements. The availability of these materials threatens public health and makes the region particularly attractive to illegal traffickers in radioactive materials. One gram of radioactive Osmium-187 can sell for \$40,000 on the world market, while one gram of Iron-57 goes for \$2,500. Many countries that wish to use radioactive elements but lack the capacity to produce them often rely on either Russian producers or illegal smugglers who deal in stolen materials. By itself, the smuggling of radioactive materials is only part of the problem. The other side is that

the materials in question are highly unstable and dangerous, with the potential to cause irreparable damage to the environment and public health if transported improperly.

To address the problem, the East Siberian Customs Agency created a special department to control the flow of radioactive materials across Russia's border. By law, no radioactive elements can leave Russia without a special government license, while importing radioactive waste into the Russian Federation is prohibited. In early March the Trans-Baikal customs office intercepted four cargo train cars full of radioactive materials disguised as chlorine salts making a repeated attempt to enter the country from China. The cargo was returned to its port of origin. The same cargo was intercepted in November 1997 on its route from China to Estonia. Because burying radioactive waste is costly, countries often find willing partners to manage the dangerous waste for smaller sums, which must have been the case here as well. Whether or not Russia will file a formal protest with China is not clear, but hopefully the Chinese company trying to smuggle waste across the border will abandon this effort.

Another infamous case of radioactive waste smuggling involved the Russian firm Impuls which tried to transport illegal cargo into China. Impuls declared the shipment as manganese ore at the Irkutsk customs office, but Trans-Baikal customs officials found that the containers' contents had been stolen from one of the local steel rolling enterprises. Additionally, Impuls broke several safety regulations pertaining to transportation of radioactive materials. Instead of using air-tight metal containers, Impuls utilized partially damaged paper and sackcloth bags, exposing everything around to dangerous levels of radiation. To make matter worse, after transporting the bags in a truck, Impuls loaded the contaminated vehicle with a shipment of grapes to take back to Irkutsk, in direct violation of health standards. The local procurator's office has filed criminal charges against the company and an investigation is under way.

Statistics say that customs officials intercept only 10% of all smuggling attempts worldwide. Using this measure, one can only imagine how much illegal smuggling affects public health and damages the federal budget. One of the top priorities for the newly created anti-radioactive smuggling department of the East Siberian customs agency will be training officers to handle radioactive materials and equipping branch offices with better detection technology. - Olga Anufrieva (Teleinform) in Irkutsk

ECONOMIC ISSUES

POSSIBLE OIL DEPOSITS LEAD TO REGIONAL JOCKEYING. Several regions of Central Russia are anticipating a coming oil boom. With no definitive proof available, recent geological studies suggest at least great potential for extracting oil and gas in Vologda, Kostroma, Yaroslavl and Tver oblasts. Even limited oil deposits could be profitable, depending on a host of conditions. In Central Russia, the portion of total costs in developing a deposit spent on geological research is a mere 6%, one of the lowest in the country (compared with 25% in the Timan-Pechora basin and 33% in the Volga-Urals basin). Central Russia's highly developed infrastructure and industrial base also make it easier to extract hydrocarbons.

Experts predict that the region could contain anywhere from 200 million to 2.6 billion tons of oil. Consequently, the Ministry of Natural Resources has included the region in its long term exploration program, which will spend 210 million new rubles (\$35 million). Ultimately, however, experts from the Rifev research center estimate the real costs for the exploration work will be around 303.7 million new rubles (\$51 million).

One of the most crucial questions is: Who will enjoy the spoils of the coming oil boom? Regional authorities lack the resources for full-scale exploration, and count on the Gazprom oil giant to take on this burden. For example, Tver Oblast Governor Vladimir Potapov successfully lobbied the Ministry of Natural Resources to have Gazprom begin exploration ahead of the original schedule. Thus, Gazprom began deploying its drilling equipment in January instead of this summer.

Whatever happens, Gazprom will come out a winner. Besides working in Tver, it will control a new consortium, Centerneftegaz, which was formed in February 1998 by Vologda, Yaroslavl and Kostroma oblasts in conjunction with several regional companies. One of those companies, which holds a 23.5% stake in the new entity, is controlled by Gazprom. The Central Fuel Company, which is directly connected to the Moscow city government own 25% of the stock. In this light it is not clear what portion of the potential profits will fall to Tver Oblast, or the other three regions. - Boris Goubman in Tver

LINKS WITH OTHER CITIES PAY OFF FOR VOLGOGRAD. Last fall Volgograd began signing cooperation agreements with other Russian cities. Seven such agreements now establish formal relations with Samara, Saratov, Ulyanovsk, Yaroslavl, Kazan, Volgograd, and Moscow. Foreign agreements with Tbilisi and Baku will be signed later this month.

These inter-city agreements facilitate contacts between enterprises that might not otherwise establish relationships, according to Volgograd Vice Mayor Anatoly Palenko. For example, the Volgograd tractor parts factory TDiN found a good partner in the Ulyanovsk Automobile plant (UAZ). Other enterprises such as the Volgograd Tractor plant, the chemical factory "Khimprom," and the local aluminum plant have also located new partners. Since November 1997, these new contracts have earned Volgograd enterprises an additional 20 million new rubles (\$3.3 million).

Palenko said marketing and sales departments in Russian enterprises are not ready to work independently in the new market environment and that mayors must help them, accounting for the success of the agreements. Additionally, the city administration hopes to eliminate numerous middle-man firms that make cooperation unprofitable for the industrial enterprises.

The mayors' activity should also be viewed in the larger context of their struggle to gain greater independence, both financial and political, from the oblast administration. The agreements between Russian cities (and, occasionally, with cities in other CIS countries) combined with the activities of the Association of Russian Mayors are turning mayors into

national political figures, with influence beyond their particular regions. - Ivan Kurilla in Volgograd

FOREIGN SHAREHOLDERS TAKE OVER SOLIKAMSK MAGNESIUM WORKS. The recent annual shareholders' meeting of the Solikamsk Magnesium Works disclosed that several foreign investors would take control of the enterprise. Originally, the company's employees owned a controlling stake in the works, remaining one of the few "people's enterprises" with a stable level of production. For a while, the company even managed to expand into new markets and export most of its products. At the same time, the management provided generous employee social benefits and did not lay anybody off until two years ago. However, the economic realities of the world magnesium market forced the company to change its modus operandi. Consequently, most employees cashed in their shares for a handsome profit.

Three main investors have acquired a significant interest in the company and will now run its operations. The largest share of stock belongs to Austrian bank Kreditanstalt. The latter is well known in the region, as it holds 71% of Perm Oblast's Avisma Titanium Magnesium Combine, and runs the Verkhne-Saldinsk Metallurgical Enterprise in Sverdlovsk Oblast, which produces 15% of the world's commercial titanium. It thus controls all of Russia's titanium and magnesium production. The bank's representative on the Solikamsk Magnesium Works' board of directors is its director of corporate finance, Gennady Lopatin (a US citizen), who also serves as chairman of Avisma's board. Because representatives of both Avisma and Verkhne-Saldinsk sit on the company's board of directors, the Austrians have 4 out of fifteen seats.

The other large shareholders are equally notable. One is the Swiss metallurgical company Minmet Financing and the other is the US-based Metallurg group. They have four and three board seats, respectively. Locals retained only three seats. Finally, one more seat belongs to the Ermak investment company from Perm. Shareholders elected the company's marketing director Pavel Detkov as chairman of the board. Anatoly Schelkonogov, who has headed the company since 1982, was reelected as the general director. It is hard to predict the future of the Solikamsk Magnesium Works. Schelkonogov has referred to the new owners as "respectable partners, familiar with the company's specifics and problems." In any case, the foreign investors' acquisition of Russia's titanium and magnesium producers suggests the possible formation of a large international holding company. (*Capital*, 6 May) - Andrei Suslov in Perm

FOREIGN TIES

PHILIPS FORMS PARTNERSHIP WITH DAGESTANI TV PRODUCER. The former defense enterprise, Elektrosignal, located in the city of Derbent, Dagestan began producing Elex color TV sets using European production technology from Holland's Philips. While the plant can produce up to 50,000 sets annually, benefiting from the new equipment imported from Germany, Denmark and Holland, a lack of funds cripples Elektrosignal's actual level of production. Originally, the company planned to invest the profits it made in fulfilling a

large government order, thus increasing output. In reality, however, it received only a portion of the payment and all of that money was used to finance new production equipment.

The alternative is to seek credit from banks. However, borrowing from Russian financial institutions is virtually impossible due to incredibly high interest rates. On the other hand, foreign investors always expect federal government guarantees for their loans, and Moscow is not willing to provide that for Elektrosignal. So far, the company has made about 2,000 TV sets, and before the year expires it will produce 15,000 more with its own money.

The Elex model was developed based on the Philips-1000 model, one of the most popular sets in Europe. Additionally, Phillips produces 90 percent of Elex's parts and provides Elektrosignal with technical support and expert consulting. At first, production of TV sets at Elektrosignal was a part of a republic-wide program, where most parts would be produced in Dagestan as well. However, other companies in the region simply could not afford to invest the amount of money required to join the program, so Elektrosignal had to assume over 70 percent of all the expenses associated with launching the production line. With local partners excluded, over 90 percent of the parts are now imported. The only domestic parts used in the production process are made by Radioremont enterprise.

Recently, Philips' quality control lab in Holland has found Elex sets to be in full accordance with the company's standards. Nevertheless, a foreign-made Phillips-1000 set is still 40 percent to 50 percent cheaper than a Dagestani-produced Elix, which costs as much as 1,250 new rubles (\$208). - Nabi Abdullaev in Makhachkala

SIEMENS WORKS WITH CHELYABINSK POWER PRODUCER. According to official statements from the Chelyabinsk Oblast government, a credit agreement was signed between the oblast and Chelyabenergo power utility on one side and Siemens corporation, Germany's Hermes insurance group, and two foreign banks on the other. The terms of the agreement stipulate that Hermes guarantee a loan to Chelyabenergo of DM 300 million to finance the third and final part of the utility's heating station plant in Chelyabinsk. The credit line will be delivered in three installments, DM 100 million each for the next 12 years, at an interest rate fluctuating between 6.5 and 8% annually. Chelyabenergo will begin paying back the loan only 2 years after the project's completion.

The new addition to the utility's plant will enable it to produce more energy and at about half the cost of current supplies. Half of the income resulting from the difference between the cost of energy production (0.10 rubles per kilowatt/hour) and the current tariff rate (0.245 rubles per kilowatt/hour) will be passed on to the consumer in the form of lower rates, and the other half will be used to service the loan. Chelyabenergo will use its own money and some government funds to build the turbines.

When the construction of the heating power station in question was launched in 1979, it was going to be the most powerful energy producer in the oblast. Recently the regional

legislative assembly adopted a multi-year reconstruction program for the station, hoping to disburse 690 million new rubles (\$115 million) to finance the last addition to the plant.

Today Chelyabenergo's power network is the backbone of the oblast's energy supply, accounting for 87% of its power sources. Last year the oblast managed to cut down its dependency on energy exports from 55% to 22%, while by 2000 it plans to achieve full energy self-sufficiency and even export 6.6% of locally produced energy. Unified Energy Systems (UES) owns 49% of Chelyabenergo, while 15.7% belongs to the Russian government, and the rest to private shareholders. - Igor Stepanov in Chelyabinsk

KOMI REPUBLIC STRIVES TO GAIN MORE FOREIGN INVESTMENT. In the last several years, Komi Republic's leadership has been cultivating an attractive image for the republic in the West, in hopes of luring foreign investors. Last year the Moody's and IBKA rating agencies gave Komi Republic a rating similar to that of Russia as a whole and the cities of Moscow and St. Petersburg. Additionally, the republic has adopted a progressive law on foreign investment and is about to float a \$100 million Eurobond issue. An active marketing campaign was launched to educate foreigners about Komi, mostly through exhibits, such as Komiexpo in Helsinki last October, and the two planned exhibits in Hungary and Austria this year.

The republic's chief executive, Yurii Spiridonov, spoke at the 4-5 May annual meeting of the UN Industrial Development Organization (UNIDO) in Vienna. As a result of an agreement signed with Komi Republic, UNIDO will open an office in Syktyvkar and cooperate with the republican government on several economic development projects. Speaking at a recent cabinet meeting, Spiridonov noted that projects under UNIDO auspices will enjoy significant tax and customs breaks (*Respublika*, 6 May). Even today Komi Republic is among the top five regions in terms of direct foreign investment. The government hopes that numerous contacts with foreign representatives will turn into greater levels of foreign investment. According to a December 1997 interview with Spiridonov's deputy, Anatoly Karakchiev, the republic is prepared to process up to \$1 billion in foreign investments. Last year overall investment in Russia was \$10 billion. - Yurii Shabaev in Syktyvkar

BOOKS WORTH READING

Serge Schmemmann, *Echoes of a Native Land: Two Centuries of a Russian Village*, New York: Alfred A. Knopf, 1997.

FAMILY LIFE IN KALUGA OBLAST. Anyone who has ever sat down and thought about what it would take to write up their family history for the last two centuries or so will appreciate the incredible amount of work former *New York Times* Moscow bureau chief Serge Schmemmann put into his tale of the Osorgin clan, his maternal ancestors. But this book goes beyond an analysis of the author's family tree and also tells the tale of the former family estate in

Kaluga Oblast. Readers of the RRR who just can't get enough about the regions might want to take this book to the beach during their summer holiday for a good read.

The book does a good job of mixing family history with that of the estate of Sergiyevskoye. While neither was really pivotal to the grand sweep of history, they were both dramatically affected by the major events. The most poignant moments come in the aftermath of the Bolshevik Revolution, when the family was expelled from the estate, and during the Stalinist terror, when a young son was randomly executed.

Students of Russia's governors will find plenty of interest as well: Schmemann's great grandfather served as governor of Grodno (now part of Belarus) and Tula for parts of the period between 1903 and 1905. Of course, the tsarist governors did not have to worry about winning elections, as their contemporaries now do. Mostly they spent their time dealing with crises, calming angry crowds, and avoiding bullets. Additionally, in Grodno, which included the Belovezh Forest, now famous as the site where the presidents of Russia, Ukraine, and Belarus met to dissolve the Soviet Union, Governor Mikhail Mikhailovich Osorgin arranged the tsarist hunt. In Tula, he had to deal with the disturbances of 1905. He could not bring himself to allow his Cossack troops to savage young protesters and soon resigned, feeling he was not up to the task of preserving order and sensing that the situation was only going to get worse.

Among its other contributions to our understanding of Russia, the book makes clear why land reform will be so difficult. Before the revolution, Osorgin tried to sell his land to the men who actually worked it at one-half to one-third the market price, but his well-intentioned plans were foiled. Ultimately, few peasants opted to take the land, fearing social retaliation from villagers, and outside speculators made a profit buying up the most desirable parcels.

When Schmemann visited the village, now called Koltsovo, in the 1990s, he found that not much had changed in this regard. Local workers did not want to take offers of private land because they did not know how to work the land and did not have the ready access to other supplies they would need, such as cattle, hay, machinery, and spare parts. Many believed it was criminal to resell goods at a higher price. The peasants expressed concern as well that a change of regime in Moscow would dramatically affect their interests. It was also unclear how the land would be divided and who would get the equipment from the existing state farm. Of course, such fears and logistical difficulties have not tempered the initiatives of present-day regional leaders like Saratov Governor Dmitrii Ayatskov and Tatarstan President Mintimer Shaimiev, who are pushing ahead with private property reforms. But even Schmemann's general optimism does not make these problems seem less daunting.

Toward the end of the book, one peasant woman tells Schmemann, "Everybody's written us off, but we're still alive." It is a fitting conclusion, showing that the story of the village is not finished.

REGIONAL PROFILE: STAVROPOL KRAI

Governor: Aleksandr Chernogorov

Aleksandr Chernogorov was elected governor on 17 November 1996 with support from the opposition National Patriotic Union of Russia (NPSR). In the runoff, he won 55 percent of the vote, defeating incumbent Petr Marchenko.

Chernogorov, born in 1959, is a graduate of the Kuban Agricultural Institute (1981) and the Russian Academy of Management (1993). He joined the Komsomol in 1975 and was a member of the Communist Party from 1983 until it was banned in August 1991. In 1982, he began working full-time on the staff of the Komsomol and the Party. By 1990, he became first secretary of the Stavropol Krai Komsomol Committee. He was a member of regional legislature from 1990-1994.

From 1991-1993, Chernogorov was a member of Socialist Party of Laborers, but he joined the Communist Party of the Russian Federation (KPRF) when it was restored in early 1993. A year later, he was elected secretary of the krai party committee and first secretary of the Stavropol City Party Committee. He ran for the State Duma in December 1993 on the "Otechestvo" bloc party list, but that group failed to clear the 5 percent threshold. In December 1995, he won election to the duma from a single-member district in the krai. Until he was elected governor, Chernogorov had been a member of the duma Legislation Committee.

Other Local Leaders

Chairman of the Krai Duma -- Valerii Zerenkov (until December 1997)

Brief Overview

Stavropol Krai is located on the northern slope of the Caucasus Mountains and borders Rostov Oblast, Krasnodar Krai, and the republics of Kalmykiya, Dagestan, Kabardino-Balkariya, Karachaevo-Cherkesiya, and Chechenya. Ethnic Russians make up the vast majority of the population, 84 percent, although 90 other ethnic groups are also represented.

The krai is fairly rich in mineral resources, including oil, gas, rare metals, and mineral waters. The region's spas are the most famous in Russia and federal legislation provides special ecological protection.

Over one-third of regional GDP comes from industry, 23 percent from agriculture, 14 percent from transportation and communications, and 13 percent from construction. Over 300 large industrial enterprises, mostly in machine building, chemicals, electronics, gas- and oil-processing, and light industries now operate in the region. The krai is one of the country's largest suppliers of grain.

Basic Facts

Population (as of 1 Jan. 1997): 2,673,800 (1.81% of Russian total)
Urban population (1989 census): 53.7% (Russia overall: 73.0%)
Student population (1996): 122 per 10,000 (Russia overall: 171/10,000)
Pensioner population (1996): 26.21% (Russia overall: 25.78%)
Percent of population with higher education (1989 census): 9.7% (Russia overall: 11.3%)
Percent of population working in (1993): Industry: 20.0% (Russian average: 29.9%);
Agriculture: 26.6% (12.8%); Trade: 9.9% (9.1%); Culture: 9.9% (13.6%); Management:
1.9% (2.3%)
Average monthly personal income in 1996: 461,000 rubles (Russian average: 764,000 rubles)
Average monthly personal expenses in 1996: 445,000 rubles (Russian average: 753,000 rubles)
Average monthly subsistence requirement in 1996: 268,500 rubles (Russian average: 369,400 rubles)
Consumer price index (as of Dec. 1996): 98.93 (Russia overall = 100)
Industrial production as percentage of all Russian production (1996): 0.85%
Proportion of loss-making enterprises (1996): 48% (Russia overall: 56%)
Number of enterprises with wage arrears (1996): 928 (1.82% of total number of regional enterprises)
Agricultural production as percentage of all Russian production (1996): 2.36%
Number of private farms (as of 1 Jan. 1997): 23,278 (8.36% of Russian total)
Capital investment (1996): 3,026,600 rubles (Russia overall: 370 trillion rubles)
Sources of investment (1996): federal budget: 10.3% (Russian average: 9.2%); regional budget: 9.6% (9.6%); enterprises: 60.7% (66.3%)
Number of joint ventures (as of 1 Jan. 1997): 141 (0.88% of Russian total)
Fixed capital investment in joint ventures and foreign companies (1995): 38,967 million rubles
Number of small businesses (as of 1 Jan. 1997): 10,250 (1.32% of Russian total)
Number of enterprises privatized in 1996: 25 (0.50% of Russian total), including former municipal property: 60.0% (Russian average: 67.1%); regional property: 12.0% (14.3%); federal property: 28.0% (18.6%)
Number of telephones per 100 families (1996): in cities: 54.3 (Russian average: 48.7); in villages: 22.9 (19.7)

According to a 1997 survey by *Ekspert* magazine, the krai is ranked 28th among Russia's 89 regions in terms of investment potential and 14th in terms of investment risks. A 1995 survey by Bank Austria ranked the krai 68th in terms of investment climate.

Electoral History

1996 Presidential Election

Zyuganov: 43.93%/53.93% (first round/second round)
Yeltsin: 22.00%/40.93%
Lebed: 19.34%

Zhirinovskiy: 6.19%

Yavlinskii: 4.10%

Turnout: 73.75%/71.65% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Elections

Communist Party of the Russian Federation: 28.84%

Liberal Democratic Party of Russia: 13.06%

Congress of Russian Communities: 8.50%

Our Home Is Russia: 6.45%

Communists -- Workers' Russia: 5.63%

Party of Workers' Self-Government: 3.50%

Women of Russia: 3.48%

Agrarian Party of Russia: 3.24%

Derzhava: 3.15%

Yabloko: 3.09%

In single-member districts: 3 Communist Party of the Russian Federation,
1 Bloc of Stanislav Govorukhin

Turnout: 67.21% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 53.26% "No" -- 46.74%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 38.53%

Communist Party of the Russian Federation: 12.35%

Agrarian Party of Russia: 11.48%

Russia's Choice: 9.32%

Women of Russia: 6.93%

Party of Russian Unity and Concord: 6.19%

Yabloko: 5.13%

Democratic Party of Russia: 3.64%

In single-mandate districts: 1 Agrarian Party of Russia, 3 independent

>From electoral associations: 1 Women of Russia, 1 Agrarian Party of
Russia

Turnout: 63.77% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 46.04%

Ryzhkov: 21.84%

Zhirinovskiy: 11.92%

Tuleev: 6.93%

Bakatin: 4.59%

Makashov: 4.37%

Turnout: 82.33% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [*Russian regions on the eve of 1995 elections*], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [*Results of the 17 December 1995 elections, regional breakdown*], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [*State Duma elections 1995*], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [*Governors of Russia*], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regioni Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.

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BREAKING NEWS

POLITICS

ON RISING WAVE OF ANTI-YELTSIN PROTEST, THREE INCUMBENT GOVERNORS LOSE ELECTIONS. In runoff elections on 17 May, Aleksandr Lebed defeated incumbent Valerii Zubov in Krasnoyarsk, Sergei Katanandov bested Viktor Stepanov in Kareliya, and Aleksandr Prokhorov outpolled Anatolii Glushenkov in Smolensk Oblast. (For more details on Krasnoyarsk and Kareliya, see the Patterns of Regional Development section below.) Since the elections returned similar results from geographically disparate regions, *Izvestiya* (19 May) claimed that the results show that the voters did not vote against their particular governors as much as they were voting against President Boris Yeltsin. The paper suggests that, despite intense efforts including visits to Krasnoyarsk by Moscow Mayor Yurii Luzhkov and pop star Alla Pugacheva, the "party of power" is losing control over the country. (One small twist is that Kareliya's Stepanov was a communist and his opponent had the backing of Our Home is Russia, but the incumbent was nevertheless tarred with responsibility for the status quo.) The increasing number of "protest votes" could lead to a disastrous outcome in the 2000 presidential elections the paper warns. The government could avoid this outcome by adopting an effective policy toward the regions and achieving real economic growth soon.

SMOLENSK MAYOR WINS GUBERNATORIAL ELECTIONS. Smolensk Mayor Aleksandr Prokhorov defeated incumbent Anatolii Glushenkov by a margin of 67% to 26%, with 35% turnout. Prokhorov, who does not belong to a political party, had the support of the Communist Party as well as the presidential administration during the campaign (*Nezavisimaya gazeta*, 15 May). In cases where the presidential administration determines that the incumbent has no chance of winning, it usually throws its weight behind the opposition candidate in hopes of moderating his views. Moscow's unwillingness to help the incumbents suggests that it is no longer interested in dictating detailed conditions to the regions, but seeks to use "indirect levers" and only intervene in extreme cases, such as the Nizhnii Novgorod mayoral elections (*Russkii Telegraf*, 19 May).

In his role as the new governor, Prokhorov said that he believes that he does not have any "special obligations" to the Communist Party. Instead, he said that "I will lean for support on the Kremlin in order to improve the oblast's economy." (*Kommersant Daily*, 19 May) The outgoing governor Glushenkov said that the Kremlin simply had "no regional policy" and hence his electoral defeat.

MINERS STRIKE ACROSS THE COUNTRY... Coal miners in a variety of regions across the country blocked railroad links demanding the resignation of President Yeltsin and a secure future for their troubled industry. They also are seeking the payment of their wages. Widespread media reports suggest that the situation is growing increasingly out of control. Coal

miners in Anzhero-Sudzhensk and Prokopyevsk (Kemerovo Oblast) are blocking the Trans-Siberian Railroad. They rejected the 7 million rubles (\$1.2 million) sent to them from Moscow as too little. More than 200 passenger and freight trains have been blocked (*Nezavisimaya gazeta*, 20 May). Kemerovo Governor Aman Tuleev said that the protests cost hundreds of thousands of rubles a day (*Segodnya*, 20 May). Miners in Inta (Komi Republic) were allowing only passenger trains to pass on the Vorkuta-Moscow train line. Miners in Rostov are blocking the North Caucasus railroad (*Izvestiya*, 16 May). In many cases, public sector employees joined in the protests.

... BUT GOVERNMENT PROMISES INSUFFICIENT HELP. During its meeting on 16 May, the Russian government promised to send 385 million rubles (\$64.2 million) to pay wage arrears and 47 million rubles (\$7.8 million) for children's benefits (*Nezavisimaya gazeta*, 19 May). These sums are clearly not enough and the government is likely to have to make other concessions to restore order in the coal mining regions. Kirienko listed three reasons for why the miners are not getting paid: the market for coal is flooded with at least 15 million tons of coal that have not found a customer, the cost of producing coal is higher than the selling prices, and consumers do not have money to pay for the coal that they buy (*Russkii Telegraf*, 19 May).

Owners of the unprofitable mines, which make up the vast majority of the industry, are usually close to the governors of the corresponding regions. The governors do not want to close the mines because such a move would create widespread unemployment. They prefer to shift the blame to Moscow (*Russkii Telegraf*, 19 May). In accordance with the World Bank-sponsored program, private companies must produce 45% of Russia's coal by the end of the year. By 2000, Russia is to stop subsidizing coal mining operations altogether. Up to 50,000 miners are to be laid off this year alone and little has been done to find them new jobs (*Moscow Times*, 19 May). Russia does not want to spoil its relations with the World Bank because it relies on funds from the bank to finance support for the coal industry as well as other projects.

KIRIENKO CRACKS DOWN ON REGIONAL LOBBYING. On 13 May Prime Minister Sergei Kirienko announced that he had annulled all government programs that were not given funds in the budget. He also said that he would not approve other expenditures unless a source of income was identified in the proposal. The measure is partly aimed at reducing such regional porkbarrel projects as creating the Osetiya economic development zone and providing state support for automobile assembly projects in Kaliningrad Oblast (*Izvestiya*, 15 May)

ITOGI: GOVERNORS BENEFIT FROM GOVERNMENT CRISIS. Although many had assumed that prominent regional executives like Novgorod's Mikhail Prusak, Saratov's Dmitrii Ayatskov, Samara's Konstantin Titov, and Mordoviya's Nikolai Merkushkin would join Prime Minister Sergei Kirienko's new cabinet, none did. Kirienko apparently offered these leaders and others jobs, but none were interested in serving in any position other than as prime minister, according to *Itogi*, 18 May. (See Center-Periphery Relations for an article about Tver's governor possibly serving in the cabinet.) Boris Nemtsov's transfer from Nizhnii

Novgorod governor to first deputy prime minister last year was considered a promotion, but governors now are no longer interested in giving up their positions.

According to correspondent Galina Kovalskaya, the government crisis has dramatically weakened Moscow's power over the regions. In the past, the governors had to take into account the presidential administration and the government because they had some independent standing when they were led by Anatolii Chubais and Viktor Chernomyrdin respectively. Currently, the presidential administration and government of technocrats have little influence in the regions. Both are entirely dependent on Yeltsin and he is often sick or not paying attention. As a result, the governors are the only real "party of power" in the country.

Kovalskaya argues that the regional elite have displayed amazing unity, much to the dismay of the Kremlin. The regional executives have generally avoided breaking into factions as they compete for scarce federal funds, are not divided into "red" and "white" camps, do not battle between rich and poor, and have avoided conflicts pitting the "industrial north" against the "agricultural south."

In 2000, the regional elite are planning to elect one of their own as president. Moscow Mayor Yurii Luzhkov, Kovalskaya argues, has strong support from key governors including Ayatskov, Titov, Merkushev, Prusak, Rostov's Vladimir Chub and Tatarstan's Minitimer Shaimiev.

AYATSKOV, NAZDRATENKO FORM ALLIANCE. Primorskii Krai Governor Yevgenii Nazdratenko and Saratov Oblast Dmitrii Ayatskov are likely to sign an extensive cooperation agreement in the near future for economic and cultural cooperation, but the main goal would be establishing a political alliance. In economic terms, Saratov will send grain to the Far East in exchange for sea food. Ayatskov sent an initial 40 train cars of grain to help feed miners in the city of Partizansk, although one of the cars disappeared en route. Given the fact that the two regions are nearly on opposite sides of the country, Ayatskov seems to be mainly interested in building up support for his recently-announced political party. However, Nazdratenko made clear that he has no intention of introducing laws in Primorskii Krai that would permit the buying and selling of land as Ayatskov has done (*Kommersant Daily*, 14 May). An additional contrast is that Ayatskov has relatively good ties with the administration while the Kremlin unsuccessfully tried to remove Nazdratenko from office last spring. Ayatskov also said that he was pleased with Lebed's victory.

SKINHEADS A GROWING PROBLEM IN RUSSIA. By 1997 there were approximately 10,000 skinheads in Russia, with major concentrations in Moscow, Krasnoyarsk, Tomsk, Irkutsk, and Vladivostok. (*Novaya gazeta*, 18 May)

ECONOMICS

NOVGOROD STARTS LAND SALES. The Novgorod City Administration will begin selling plots of land on 20 June, according to a statement released by the city's press department. This auction will be the first sale of land to be organized in North-West Russia. Novgorod will sell seven vacant parcels of land ranging from 7,000 to 36,000 sq. meters. Most of them will be in industrial areas. City leaders cite the land sales as part of their continued commitment to a systematic program of land privatization as a mechanism for attracting private economic investment. Novgorod is well situated on the important transportation corridor between Moscow and St. Petersburg and provides convenient access to both markets. Novgorod's policy of waiving regional and local taxes for investors until they turn a profit made the region extremely attractive to western producers such as the UK's Cadbury-Schweppes and Denmark's Stimorol. The Urban Institute, a US AID contractor, advised the city on the preparation of the land sale. (Further details about the auction are available on the city's web server: <http://www.adm.nov.ru/web/tempnvg.nsf>)

GOVERNORS PARTICIPATE IN G-8 CONFERENCE. Saratov Governor Dmitrii Ayatskov, Arkhangelsk Governor Anatolii Yefremov, and Murmansk Governor Yurii Yevdokimov accompanied Boris Yeltsin to participate in the G-8 conference in Birmingham, England. During the conference, Yeltsin presented Ayatskov as the future president of Russia, but the governor said that he would not run until at least 2004 (*Nezavisimaya gazeta*, 20 May). (According to *Kommersant Daily*, Yeltsin said simply that Ayatskov "is running for president.") The governors sought to attract foreign investment, stressing their mineral resources, favorable geographic location, and developed industrial bases, RIA Novosti reported 16 May. Saratov's Ayatskov stressed that recently-adopted regional legislation allows foreigners to lease land for 99 years. The EBRD has also launched a program to extract and process oil in the region.

SAMARA'S AVTOVAZ REMAINS LARGEST DEBTOR TO FEDERAL BUDGET. Samara Oblast's giant carmaker AvtoVAZ owes the largest sum in taxes to the federal government of all Russian enterprises. It owes 9.5 billion rubles (\$1.6 billion) including fines and penalties. The factory has not missed a payment to settle these debts in twenty months according to State Tax Committee Department head Vladimir Yevdokimov. However, the firm has yet to provide collateral to guarantee the restructuring of its debts. The other firms in the top 10 are: Yuganskneftegaz (3.7 billion rubles), Uraltransgaz (3.4 billion), Noyabrskneftegaz (2.9 billion), Mezhhregiongaz (2.9 billion), Mostransgaz (2.6 billion), Kuzbass Railroad (2.9 billion), Volgogransgaz (2.3 billion), Urengoigazprom (2.3 billion), Nizhnevartovskgaz (2.1 billion). There are 4,681 enterprises with major arrears and the amount of debt increased 5.4 billion rubles (\$900 million) last month. (*Izvestiya*, 14 May)

ST. PETERSBURG BANKS PLAN MERGER. Two St. Petersburg banks, Animabank and Inkasbank, are planning a merger that will make a new entity second only to the local leader, Baltiiskii Bank. Both of the future partner banks were profitable last year. The Central Bank's local representative, Nadezhda Savinskaya thinks that the merger will make the banks more reliable and expand their range of activities. The banks believe the merger will reduce their

costs and allow them to finance larger projects. The combined bank will have 10 branches in St. Petersburg and 5 in other regions, including Irkutsk and Orenburg. (*Finansovye izvestiya*, 19 May)

FLOODS AFFLICT SAKHA TOWN. About 70% of the Sakha (Yakutiya) city of Lensk is under water. Floods have made more than 90% of the city's residences uninhabitable and it is unlikely that they can be restored. Two thousand of the city's 38,000 residents have been evacuated, with many of those remaining preferring to stay on the upper floors of their residences or the roof. Much of the city infrastructure, including heat and electricity supplies, five bridges, eight dams, and telephone links, has been destroyed. Eleven people have died and at least 60 are missing, according to the National News Service (www.nns.ru). The flooding is a result of ice flows blocking the Lena river. The Russian airforce has bombed some of the larger obstructions, but the ice then collects again a few kilometers downstream. The water temperature is 6-7 degrees so it is impossible to survive immersion of more than a few minutes (*Izvestiya*, 19 May). Emergency Situations Minister Sergei Shoigu has arrived to personally monitor the rescue and clean-up operations. It is not clear why the regional authorities were unprepared for such a predictable event.

BUSINESS BRIEFS

-- The **KRASNYI OKTYABR** confectionery concern paid \$166 million for a 51% controlling stake in the **KOLOMENSKY** candy factory. Besides a **MOSCOW** plant, Kolomensky has 20 production facilities throughout the CIS. The deal increased Krasnyi Oktyabr's market share to 7% and shot its share price from \$7.20 to \$12 overnight. **CHASE MANHATTAN BANK** owns 10% of Krasnyi Oktyabr and approves of the deal (*Moscow Times*, 19 May). Krasnyi Oktyabr already has plants in Moscow, **RYAZAN**, **KOLOMNA**, **TULA**, and **TAMBOV**. Two weeks ago it purchased an additional factory in Yoshkar-Ole, [**MARI-EL**]. It is planning to increase the number of its regional outlets to 20 this year, building on the existing ten (*Russkii Telegraf*, 19 May)

-- The US firm **OBC** formed a joint venture with **CHEPETSKIY MECHANICAL PLANT (UDMURTIYA)**, taking advantage of a complex alloy technology which will be used in making batteries for electric car engines. The joint venture will employ 150 highly skilled workers and all its output will be exported to the US. (*Segodnya*, 19 May)

-- The Sakha-based **ALROSA** diamond producer signed a favorable agreement with the **US EXPORT-IMPORT BANK**, which will provide easy credit for Alrosa's small scale projects in addition to an earlier syndicated loan of \$72 million. The company can use the credits for both domestic projects and its ventures in Africa. (*Segodnya*, 19 May).

-- **TRANS WORLD GROUP (TWG)** decided to postpone shareholders meeting of the **BRATSK ALUMINUM PLANT (IRKUTSK)** for 1.5 months in order to prepare all the

needed paperwork to discuss the planned issue of the plant's American Depository Receipts. TWG controls over 50% of the company's stock. (*Russkii Telegraf*, 14 May)

-- **FORD MOTOR COMPANY** introduced a new compact car on the Russian market, Ford Ka, already widely sold in Europe and Brazil. The Russian model will be adopted to the country's unique weather and road conditions and it will be sold by all 16 Ford dealerships. (*Russkii Telegraf*, 15 May)

-- **DEUTSCHE BANK** has now opened a **MOSCOW** branch with \$50 million in starting capital and a 150-member staff. The new office will seek to help German companies doing business in Russia (*Moscow Times*, 15 May).

-- **DONALDSON, LUFKIN & JENRETTE** investment bank opened a Moscow office. The company plans to offer the usual set of investment services, including securities trading. (*Kommersant-Daily*, 15 May)

-- **GOLDMAN SACHS** investment bank will open its Moscow office on 18 June, staking out its own local presence in the face of competitors such as Merrill Lynch. The bank plans to provide investment services to large Russian companies in the oil and gas, electric power, and telecom sectors. Goldman Sachs also plans to manage **SAMARA**'s \$400 million Eurobond tranche this summer. (*Russkii Telegraf*, 15 May)

-- **VOLVO**'s board of directors will meet in Russia this week to discuss strategic partnerships with Russian companies. The company's top managers plan to meet with officials from the Economics Ministry, the Ministry of Transportation and the **MOSCOW** city administration. During Yeltsin's recent visit to Sweden Volvo agreed to cooperate with **OMSK OBLAST** in bus production. This time around the Swedes are scanning other regions for partners to build trucks. (*Russkii Telegraf*, 19 May)

-- Japan's **SUMITOMO** corporation opened its **ST. PETERSBURG** office last week, also signing an agreement with the city administration. According to the company's representatives, Sumitomo plans to invest in production of florescent lamps and, possibly in the future, **TOYOTA** cars. (*Russkii Telegraf*, 19 May)

-- Russia's **LUKOIL-PERM** and the US's **SOCO PERM RUSSIA, INC.** applied to the European Bank for Reconstruction and Development for a \$50 million loan to finance six new large oil extraction projects in **PERM OBLAST**. The projects' total cost will be close to \$200 million. (*Nezavisimaya Gazeta*, 15 May)

FRONT LINE REPORT

REBELS SEIZE, RELINQUISH STATE BUILDINGS IN DAGESTAN

by Nabi Abdullaev, *Novoe Delo*

MAKHACHKALA - Dagestan suffered a regional coup attempt on 21 May. The Republican Government and State Council have left the republican administration's building which was temporarily occupied by groups seeking the removal of the republic's current authorities.

Late at night on May 20 police in Makhachkala stopped a column of vehicles with Chechen licence plates headed by State Duma member Nadir Khachilaev, who is also the head of the Union of Muslims of Russia, and his brother Magomed, the chairman of the Coordinating Council of the Ethnic Movements of Dagestan. In the clash that followed, one policeman was killed and six were wounded. The men in the vehicles then sought refuge in Nadir Khachilaev's residence.

Police sealed off the residence and attempted to storm it at 9:00 on 21 May. As the fighting continued around 9:40, a group of approximately 250-300 men armed with machine-guns and bazookas entered the Central square of Makhachkala and attacked the building of the Republican administration. Several of the attackers and at least one policeman guarding the building were killed. Then the resistance faded and the attackers entered the building. Members of the administration managed to escape through the back exits. The shooting at Khachilaev's house stopped when the skirmish at the square began.

At 10:30 I visited the square. There were around 4,000 people there. Traders from the local marketplaces supported the attackers. Several days before the assault, they had been protesting against the city administration's plans to push them from the center of town into the suburbs.

Nadir Khachilaev addressed the crowd around 13:15 and denounced the republican government. Among his slogans were: "We don't need this State Council" "Down with State Council Chairman Magomedali Magomedov" and others. [Thousands of people on the square demanded the government's resignation and free presidential elections, according to the National News Service (www.nns.ru).

Later both Khachilaevs, Magomedov, and Prime Minister Hizri Shihsaidov conducted negotiations in the republican administration's vandalized building (the windows were broken, the computers and other electronic equipment was stolen, safes were smashed open, and a green Islamic banner replaced the republican flag on the roof of the building). Trying to prevent bloodshed, Magomedov declared that nobody would be punished for breaking into the building, but the ones guilty in the deaths of the two policemen would be prosecuted. He refused to consider the events as an attempted "coup d'etat." He had good reason to make concessions since 200 men with sniper guns, machine-guns and bazookas were occupying the best shooting positions in the building and controlling the area. Around 19:00 he managed to convince Nadir Khachilaev to leave the Square with his men. They all left unharmed and nobody dared to disarm them.

Now all the police and military in the republic are on heightened alert, according to television reports. But today all Dagestanis could see for themselves how ineffective the republican Interior Ministry troops are. In the course of 15 minutes, gunmen were able to take the building which it is their top priority to guard - the House of the State Council, Government and People's Assembly.

As of 22.00, supporters of Makhachkala Mayor Said Amirov occupied the square. He is the only person in the establishment who labeled the day's events a "coup d'etat" carried out by "bandits, nationalists and religious extremists." In an interview broadcast on local TV, he called for justice, demanding that the guilty stand trial. The rest of the people giving interviews - deputies of the People's Assembly, mufti, republican ministers - only asked the citizens to remain calm. Nobody gave an analysis of the events or expressed his attitude toward them. Some even said that the policemen's actions provoked the outrage and suggested that the republican administration apologize to the Khachilaevs.

In fact at the end of the day, State Council Chairman Magomedali Magomedov appeared on the TV and blamed the police for the conflict. He promised to punish the guilty parties and protect the innocent.

What will happen next? It's hard to imagine. If today's events were a dress rehearsal for a full-scale coup, it went very smoothly. Anyone who can manage 200-300 gunmen may be tempted to try. There is an excess of such people in the region.

PATTERNS OF REGIONAL DEVELOPMENT

LEBED WINS IN KRASNOYARSK. Lt. Gen. (ret.) Aleksandr Lebed defeated incumbent Governor Valerii Zubov in the 17 May runoff Krasnoyarsk gubernatorial elections by a margin of 57.84% to 38.7% with 63.83% turnout (<http://www.krasnoyarsk.org/>). As in the first round, Lebed won the election because he had the support of the electorate outside of the krai's capital city. The city of Krasnoyarsk was the only region to favor the incumbent; there the general trailed Zubov 43.45% to 52.69%. The city of Norilsk, home to the giant Norilsk Nickel plant owned by Zubov-supporter Uneximbank, set a record giving Lebed 86.04% to Zubov's 10.6%. Although Lebed seemed to have the victory sewn up after the first round, overall his victory was surprising for many observers because Krasnoyarsk is generally considered a donor region that typically supports Yeltsin. The Yeltsin administration early on predicted that Zubov could not withstand the general's assault and offered him very little support.

Lebed, who has no experience as a popularly-elected executive, has yet to announce who will serve in his cabinet and what his main priorities will be. During the campaign Lebed made clear that he would support his rural electorate. He compared the cities of Moscow and Krasnoyarsk, pointing out that both are capitals, whether of the country or the krai, and therefore take money from the outlying region. He said that under his rule, this situation will

change (*Russkii Telegraf*, 19 May). Despite the governor's rhetoric, however, the poor agricultural parts of the krai are supported by the industries grouped in the city of Krasnoyarsk. (*Russkii Telegraf*, 20 May)

Lebed also consistently criticized the power-sharing agreement that Zubov signed with Moscow last fall as allowing Moscow to rob the region. He is planning to renegotiate the deal. He has also promised to move 60,000 unemployed workers from the harsh conditions of Norilsk to latitudes more suitable for human habitation no matter what the cost to the federal and regional budgets. He proposed paying for this operation by freeing the plant from having to pay federal taxes for two years and indicated that it would be easier to deal with Moscow's opposition than the social explosion that would result from doing nothing.

In an interview with *Kommersant Daily* (19 May), Lebed said that he supported the adoption of a regional law on recalling the governor so that the people could remove him if they wanted to. The new governor said that he did not know anyone in Kirienko's government, but was willing to work with the new prime minister and his cabinet.

WHAT UNITES LEBED AND LUKASHENKO?

by Oleg Manaev, Director

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NEW YORK--Aleksandr Lebed's victory in the Krasnoyarsk gubernatorial race has caused much concern for the Kremlin establishment, the local *nomenklatura*, and the private sector alike. In contrast, Russian "democrats" have not made up their minds yet: some place on Lebed high hopes that have not been realized under Yeltsin, others are panicking, while the majority is still pondering. What is it about Lebed's triumph that causes such concern? Mostly, it is his personality, his rigid and crude manner, his primitive political program, his contradictory economic views, the motley crew of his allies (from former Yeltsin bodyguard Aleksandr Korzhakov to financial tycoon Boris Berezovsky), as well as his military background. Many politicians and analysts who are analyzing the reasons for Lebed's victory pay excessive attention to various "external factors," from Berezovsky's money to actor Alain Delon's charm. However, very few of them pay serious attention to those whose votes propelled the general to power in one of the largest and most resource-rich regions of Russia.

We know that Lebed's main base of support in the first round came from the rural areas and small towns of Krasnoyarsk Krai. First rounds are quite indicative of voters' real preferences, because in the second round they usually migrate to the remaining two candidates and, given their true candidate's loss, people often pick "the least of two remaining evils." In any case, who are the people who voted for Aleksandr Lebed? Because of the striking similarity between the Russian and the Byelarusan electorates, I can say that this group is dominated by pensioners, the poorly educated, and those who live significantly below the regional economic average. This demographic group is the one whose losses outweigh gains in the recent

transformations. For them the free market means predatory speculation and taking advantage of the common people, democracy means disorder and demagoguery, the West and NATO are still hostile forces, and human rights are subordinate to state-sponsored social protection. Their ideal is the USSR of the 1970s, when everybody could buy sausage for 2.20 rubles a kilo, the state took care of all social needs, and the rest of the world "respected" us as a superpower.

What kind of mandate have most of these people given Lebed with their votes? Did they authorize him to continue with reforms, strengthen democracy and civil society, further reduce government involvement in the economy, develop private initiative, and protect individual rights? No, they authorized him not to build a new democratic future, but to restore the Soviet past.

Some might say: It matters not how one gets to power, but rather what one does with that power. That was exactly the feeling in Belarus four years ago, when the old party boss and then prime minister Kebich, democratic leaders Shushkevich and Poznyak, and "Belarusan Robin Hood" Aleksandr Lukashenko clashed in a presidential campaign. At that time, the Belarusan electorate exhibited the same trends that could be detected in today's Krasnoyarsk: total mistrust in the existing regime and state structures and fear of radical reforms if "democrats" win. Additionally, Lukashenko was promising law and order, social stability and economic growth, free media and private initiative. His most popular campaign promise was to "do everything for the common people."

We all know what happened next. At first Lukashenko cracked down on political parties, independent labor unions, the media, private entrepreneurs, non-governmental organizations (NGOs) and think tanks. Then, he moved on to the parliament, the Constitutional Court, and the central electoral commission. In other words, he repressed everybody who expressed independent opinions, had democratic and free market aspirations, and was oriented toward Europe. Among the beneficiaries of his regime were those who dreamt of restoring the USSR and returning to the "golden era" of the 1970s, or anybody who openly supported the president. Consequently, Belarus split internally and faced international isolation. Lukashenko himself became a virtual hostage of his reactionary electorate and can only retain power by satisfying its aggressive conservative aspirations. Any possibility for a significant policy shift and reliance on a different segment of society is slipping away. It is no surprise that Belarus is often viewed as a source of instability and a detonator of revisionist tendencies in Russia, Ukraine and other CIS countries.

With virtually the same demographic group backing him, Aleksandr Lebed can easily become the Russian version of the Belarusan president. In addition to the electorate, the two men share many of the same views, at the basis of which is the aspiration to restore the great Russian or pan-Slavic state (*derzhava*), at the expense of liberal and democratic values. Many people remember General Lebed's successful peacemaking mission in Chechnya during his brief career as the Secretary of the Russian Security Council. But very few of them paid attention to another episode. When Lukashenko announced his intention to hold a constitutional referendum

in August 1996, he met with Aleksandr Lebed in Belovezhskaya Puscha, the site of the 1991 meeting of the Russian, Ukrainian and Belorussian presidents who signed an agreement dissolving the Soviet Union. Nobody knows what Lebed and Lukashenko discussed there. However, following the meeting Lebed publicly endorsed his new friend and even presented him with a Winchester rifle as a gift. In turn, the Belarusan president vocally supported Lebed and said in one of his subsequent interviews that "our peoples will never forgive those who ruined our great state at Belovezhskaya Puscha."

Unlike their Russian counterparts, Belorusan democrats have not forgotten that meeting. Which is why Lebed's victory in Krasnoyarsk causes us grave concern.

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CHALLENGER WINS KARELIYA'S TOP POST. Former Petrozavodsk mayor Sergei Katanandov defeated incumbent Viktor Stepanov in Kareliya's prime ministerial elections on 17 May by a margin of 49.48% to 43.16%. Speaking at an 18 May press-conference, Stepanov advised the new government to rely on professionalism and steer away from radical solutions. While he promised to congratulate the winner after he is sworn into the office, Stepanov did not believe that he would be invited to join the new government. He plans to take a vacation, which he has not had in four years. Stepanov alleged to have no concrete plans for the future.

At the same time, the republican Supreme Court will hear a petition filed against Katanandov alleging a variety of campaign violations. According to testimony from State Duma member Aleksandr Saliy, chairman of the commission on electoral integrity, Kareliya's electoral commission overlooked several violations, which were much more serious than the ones that caused the annulment of Nizhnii Novgorod's recent mayoral elections. Stepanov emphasized that the court appeal is not designed to call for another election, which would surely fail to produce a different result, but to insure procedural legitimacy. - Boris Matveev in Petrozavodsk

COURT UPHOLDS NIZHNIY MAYORAL ELECTION ANNULMENT. At a 15 May hearing, the Nizhnii Novgorod district court upheld the local electoral commission's decision to annul the election of Andrey Klimentiev as Nizhnii Novgorod mayor. One of the contenders in the previous election, Dmitry Bednyakov, an attorney and an oblast assembly member, told the press that he plans to run for mayor again if new elections are held. He is more than confident that elections will take place and the electoral commission's decision will be upheld by the oblast-level court as well. To keep his political options open in Nizhnii, Bednyakov has turned down several opportunities in Moscow. Should he run for mayor again, it will be Bednyakov's third attempt, and, in his opinion, this time he will succeed. - Yuriy Rodygin in Nizhnii Novgorod

CENTER-PERIPHERY RELATIONS

TVER GOVERNOR MAY JOIN KIRIENKO'S CABINET. Tver Governor Vladimir Platov has been offered the post of Industry and Trade Minister in Prime Minister Sergei Kirienko's new government, *Veche Tveri* reported on 15 May. The newspaper quoted unidentified sources as providing the information. The post is currently held by Georgiy Gabuniya who is the acting minister. The governor is apparently considering the offer even though he recently announced that he had no intentions of moving to Moscow. Deputy Prime Minister Boris Nemtsov and the Unified Energy System (EES) Director Anatolii Chubais made the flattering proposal during meetings in Moscow on 12 and 13 May.

During his meeting with Nemtsov, the governor succeeded in transferring 42.5% of the Tver train factory's shares to its workers. The government had given this packet of shares to Roseltrans in 1994. Roseltrans then carried out a series of intrigues to gain control of the factory's assets. The government has now set up a commission with representatives from the Transportation Ministry, the Ministry of State Property, the Federal Security Service, and the Procurator General to liquidate Roseltrans. Deputy Governor Sergei Polschikov represents Tver Oblast on the committee.

Chubais's EES wants to create a regional energy company that will merge Tverenergo and Vologdaenergo. Hopefully the new firm will be able to provide industrial and residential customers with cheaper energy, potentially increasing industrial production in the region. - Boris Goubman in Tver

FORMER GOVERNOR LAMENTS LACK OF POWER. Former Volgograd Governor Ivan Shabunin recently visited Volgograd from Minsk where he is now the first deputy to CIS Executive Secretary Boris Berezovskii. Shabunin was a Yeltsin - appointee who lost to Communist Nikolai Maksyuta in the 22 December 1996 gubernatorial elections. In explaining some of the decisions he made as governor, Shabunin said that he wanted to build a bridge across the Volga both to revive several Volgograd enterprises by giving them construction orders and to receive money back from the federal road fund (according to Shabunin, Volgograd Oblast paid 250 billion rubles to that fund, and received only 70 billion in return). Now construction has been halted. "They [Maksyuta's administration] have to work with Moscow, otherwise [the federal authorities] will continue trying to avoid financing the bridge".

Oblastnye Vesti correspondent Irina Starodumova asked Shabunin if it is possible "to do anything" on the regional level without changes in federal policy. The former governor answered that only large investment projects can make the region "relatively independent" from Moscow politics. During Shabunin's tenure, Volgograd nearly signed a mining deal with some German firms that would have brought billions of deutsche marks in investment to the region. However, the Communist victory in the gubernatorial elections in 1996 dissuaded the Germans from signing the final contract, even though Shabunin tried to persuade the Germans that they would have nothing to fear from the new leadership. - Ivan Kurilla in Volgograd

SPECIAL RESEARCH REPORT

CENTRALIZATION IN KOMI POLITICS

by James Alexander, Department of Political Science, Northeastern State University

Political struggles over the governance of regional entities have proven particularly competitive in post-Soviet Russia, both in terms of relations with central authorities and the construction of internal political institutions. While Chechnya and Tatarstan have stood out as the most extreme cases of conflict with federal authorities, numerous regions continue to challenge central leadership. One of the more persistent challengers has been the Komi Republic. (*IEWS Russian Regional Report*, 5 February)

Located in the northeastern corner of European Russia, Komi has great economic potential, with a large storehouse of natural resources (oil, gas, coal, timber, etc.) that would seem to indicate a rosy future. As for many Russian regions, however, an economic upsurge has yet to come. Nevertheless, the political struggle for control of Komi and its resources is instructive in trying to comprehend larger federal and regional political developments. Komi Chief Executive Yurii Spiridonov has gained political dominance through a carefully orchestrated political program that includes resistance to central directives and political maneuvering for local control. With the recent Russian Constitutional Court ruling invalidating Komi laws on local self-government, however, a new chapter in Komi political development is now being written.

Before October 1993, the Komi leadership was mildly resistant to central directives, but Yeltsin's violent clash with the national legislature sparked the Komi leadership to pursue a more consistent campaign in winning autonomy from Moscow. Then the preeminent of two regional political leaders, Spiridonov took advantage of his chairmanship of the Komi Supreme Soviet to construct his own political machine. For 15 months he resisted Yeltsin's October directive to dissolve the legislature. In this time, Spiridonov legislatively created a chief executive's position, in the process ignoring the failure of a similar referendum item added to the December 1993 ballot. Using a legal technicality requiring voter turnout to reach a 50% threshold (it had been less than 48%), Spiridonov exposed his clear willingness to adapt the law to his wishes. Unsurprisingly, he handily defeated his main challenger, former Chairman of the Council of Ministers Viacheslav Khudiaeov, in the May 1994 elections for the republic's highest office.

The process of creating a chief executive accompanied the larger development of the Komi Constitution in February 1994. Using his considerable legislative influence, Spiridonov created a political structure that would be amenable to his expected victory in executive elections. Under his leadership, the Supreme Soviet in the Fall of 1994 adopted the Komi Law on Executive Authority, creating a vertical authority structure with branches throughout the republic directly subordinate to the republican leader. Similar to Yeltsin's past practice of appointing governors, the law allowed the executive to appoint heads of administration to 20 Komi districts. Unaccountable to residents, the local executives report directly to Spiridonov.

With the political structure clearly defined, elections to the new State Council finally took place in January 1995.

The clientelistic system of executive appointments had a dramatic effect on the composition of the Council. With a significant advantage over their competitors in legislative elections, local heads garnered 13 of the 50 seats. Accompanying these "Spiridonov victories," was the election of 16 Komi industry "generals." While not under Spiridonov's direct authority, these business leaders have benefitted from a corporatist relationship with the Komi chief executive and have consistently voted for the executive's interests. Overall, "independent" deputies have claimed that more than 2/3 of the State Council is "in Spiridonov's pocket." When combined with the fact that the Council is a nonprofessional legislature - meeting but twice a month - there are few obstacles to executive rule.

When faced with challenges, Spiridonov has been a master of avoidance and delay. In 1996, for example, the federal authorities sought to enforce laws barring civil servants from serving in regional legislatures. To evade this directive, Spiridonov had Komi's legal definition of civil servant changed so as not to include the appointed heads of administration. (*Respublika*, April 1996) Ultimately, Spiridonov's dominance in Komi is best shown in his November 1997 reelection. While his impressive victory over his main challenger, State Duma Deputy Rita Chistakhodova, is a sign of his preeminence, the scheduling of the election itself is even more telling. Fearing the fallout from coming economic reforms – including the ruble re-denomination in January 1998 – Spiridonov sought to alter the regularly scheduled May 1998 elections, a move requiring a constitutional amendment. Needing the votes of 2/3 of the body to pass an amendment, 39 of 43 deputies present supported Spiridonov's request. (*Molodesh Severa*, August 1997) As this example illustrates, when unable to carry out his wishes legally, Spiridonov has been quite willing and able to use the legislature to change the laws.

Opposition to executive rule in Komi has been quite weak, although not entirely for lack of effort. While there are representatives of many national parties, opposition newspapers and some independent legislators, the policy influence of groups outside Spiridonov's circle has been negligible. This lack of influence has led a number of these groups to form alliances. One such alliance encompasses opposition groups writ large, ranging from the local branches of Yegor Gaidar's Russia's Democratic Choice to the Communists and Vladimir Zhirinovskiy's Liberal Democratic Party of Russia.

Since the release of the federal law on local self-government, a primary focus for local political groups has been the establishment of local self-government in Komi, something Spiridonov has consistently opposed. If implemented as the federal government and local opposition groups intend, local self-government would undermine regional executive authority through the popular election of the previously appointed heads of administration. In personal interviews, opposition leaders have come to the conclusion that this is the only way to break the executive monopoly.

Opposition success has been most apparent in the court system. Two particular rulings concerning local self-government are especially significant. First, in March 1997 the Komi Supreme Court ruled that Komi laws on local self-government clearly violated federal laws, and ordered elections by October of last year. This order was delayed, however, by a second, more wide-ranging, case brought before the Russian Constitutional Court. In its January 1998 ruling, the Constitutional Court argued definitively that the Komi Constitution and Komi Law on Executive Authority each violate the federal constitution and legislation. (*Respublika*, February 1998) Although Spiridonov was initially resistant, local self-government elections have been set for February 1999 to coincide with the scheduled State Council elections.

Despite the Constitutional Court's ruling, whether Spiridonov's executive stranglehold can be broken is still uncertain. It would seem that he is continuing the practice of legal delay and avoidance. Recent adjustments to Komi law allow Spiridonov's aging followers to continue working in government past age 60 (the heretofore mandatory retirement age in the Far North), while a recent amendment to the constitution permits members of the executive branch to hold positions in commercial and civic organizations (*IEWS Russian Regional Report*, 12 February). The amendment seemingly removes the legal separation between the state and private sectors, potentially providing even greater executive direction over Komi affairs. In both cases, Spiridonov appears to be further consolidating authority prior to the "challenge" of functioning local self-government. Thus, the struggle continues.

THE NEW GENERATION

TOP NIZHNI POLITICIANS CONSIDER OPTIONS. This week's *Monitor* magazine published the April rating of the top 100 most influential people in Nizhnii Novgorod and the oblast. President of GAZ automobile manufacturer Nikolay Pugin tops the list, followed by Governor Ivan Sklyarov and beleaguered mayoral candidate Andrei Klimentiev. The latter went down from first place in the March rating. Even though he had run a successful populist campaign for the mayor's office, his victory caused his arrest, which explains the slide in the rating. Among the top ten politicians is president of NORSI-OIL company Dmitry Saveliev, who was elected to the regional assembly and whose predecessor in the company is Russia's current prime minister. Rumor has it that Kirienko will nominate Saveliev to head the state-owned Rosneft oil company. A Moscow job could be in store for losing mayoral candidate Dmitry Bednyakov (14th place) and losing gubernatorial candidate Yurii Lebedev (52nd place), as well as Kirienko's other Nizhnii cronies.

Should that happen, Nizhnii will be left with a handful of politicians making inroads on the local arena. For example, the acting mayor of Nizhnii, Aleksandr Meleshkin (13th place), and former Kirienko Komsomol colleague and now head of the administration's economics and planning department, Sergei Obozov (84th place), are both taking their first steps in public affairs. In contrast to these newcomers, the presidential representative in the region Aleksandr Kosarikov (33rd place) is a seasoned politician who prefers to stay in the shadows, much to the approval of the current governor. Another promising figure on Nizhnii's political horizon is

Sergei Voronov (63rd place), director of the Institute of Inter-regional Economic Cooperation, now in fierce opposition to the governor. He had beaten a formidable Gazprom puppet in an assembly race and became one of Kirienko's advisors but refused to move to Moscow with his boss. Yet to reach his 30th birthday, Voronov might become a viable opponent to Governor Sklyarov should Lebedev leave Nizhnii. Much more photogenic than the governor, Voronov also happens to get along better with the media.

If Klimentiev agrees to drop his court appeals and run in another mayoral election, which he is set to win comfortably, Nizhnii residents will vote by the end of the summer. They will also have to replace assembly members who chose to move to Moscow in legislative by-elections. Come autumn, presidential campaigns will be underway, with the accompanying party organizing, media campaigning, and realigning of forces, as new political actors appear on the scene. - Yuri Rodygin in Nizhnii Novgorod

REGIONAL FOREIGN POLICY

DAGESTAN'S FOREIGN POLICY: CAUGHT BETWEEN ISLAM AND MOSCOW by Nabi Abdullaev, *Novoe Delo*

MAKHACHKALA--Because Dagestan is a young republic with undeveloped state structures, it is premature to point out an established set of priorities in its foreign policy. However, one can already detect clear tendencies and make certain extrapolations about the future. Dagestan's foreign policy is conducted via several agencies: the regional office of the Russian Ministry of Foreign Affairs, Dagestan's official establishment, and public organizations and movements (so-called "people's diplomacy"). We should also mention the Islamic Spiritual Agency of Dagestan which maintains diplomatic relations with the government of Saudi Arabia. Dagestan has official representations in Azerbaijan, Ukraine and Chechnya.

The main priority in Dagestan's foreign policy is staying out of Moscow's way. Any foreign relations initiative, event, visit or effort can be quickly canceled at the first sign of the federal authorities' disapproval. Consider the refusal of official Dagestani circles and most public organizations to participate in the Congress of the Peoples of Chechnya and Dagestan in Grozny in April. While Dagestan had been the Congress's driving force from the beginning, and the republican Ministry of Nationalities and External Relations participated in the planning along with several large Dagestani national movements, the republic pulled out of the proceedings four days before the Congress opened. We must remember that the leaders of public movements and organizations belong to the official republican establishment, and therefore the "people's diplomacy" often coincides with the official foreign policy lines.

There are several concrete directions in which Dagestan's foreign policy is currently developing:

(1) The Islamic direction. Together with the regional office of the Russian Ministry of Foreign Affairs, the Islamic Spiritual Agency of Dagestan has been successfully lobbying the Saudi government to sponsor the annual hajj by Dagestani Muslims to Mecca. Thousands of Dagestani pilgrims visit Saudi Arabia each year with all their expenses paid by the royal family. At the same time, the Islamic Spiritual Agency of Dagestan remains one of the most vehement critics of the Saudi regime, chastising it for the support it gives to the Wahhabi Muslims, whose activities allegedly damage the republic's religious unity, "to the benefit of Zionists and certain Western circles." The Islamic Spiritual Agency also handles religious education for young Dagestani men in Muslim countries.

Also active in Dagestan's relations with the Muslim world is Nadyr Khachilaev, the head of the Union of Russian Muslims and one of the key political players in Dagestan. Using his status as a State Duma member, Khachilaev has met with such Muslim leaders as Lybia's Muammar Quaddafi and Iraqi president Saddam Hussein, as well as others. However, being a member of Our Home is Russia (NDR), he took care not to irritate official Moscow in his foreign ventures. He was among the Duma deputies who headed to Baghdad during the recent standoff with the US, but later returned to Moscow after the plane was forced to wait in Yerevan. When he was among the organizers of a trip by America's Nation of Islam leader Louis Farrakhan to Dagestan, Khachilaev tried to use his moral authority to press border guards to let Farrakhan pass, despite the lack of a proper visa in Farrakhan's documents. He ultimately had to back off, however.

(2) The American direction. This effort is run exclusively by Gadzhi Makhachaev, leader of Avar national movement and president of the Dagneft-Rosneft oil company. He became deputy prime minister in the republican government in March. His main goal is attracting foreign investments, which is why Makhachaev mostly interacts with the business community. Last year the US MG-Export-Import Intl. and INTEX invested in the construction of a plant to produce plastic pipes in Dagestan.

(3) The Turkish direction. Interested in a cultural and economic expansion into Dagestan, Turkey seems to be much more eager to develop relations with Dagestan than the other way around. Turkey is the only foreign country with airlinks twice a week to Makhachkala. The local market is saturated with Turkish consumer goods, while the Turkish government pays for several hundred Dagestani students to study in Turkish universities. A joint college has opened in Makhachkala, staffed with Turkish faculty. Prompted by Turkish business circles, one of the local TV stations tried several times to broadcast Turkish programs, but had to cease each time after the local office of the Federal Security Service (FSB) and the republican Security Council complained that such programming violated the security of Dagestan's informational and ideological space.

Among the countries of the "near abroad," Dagestan maintains working ties only with Azerbaijan. So far no progress has been made in opening talks with Georgia on customs procedures and joint control over the border, while these issues have long been resolved with

Azerbaijan. The Azeri border with Russia was demarcated last year by a tri-partite commission (Russia-Dagestan-Azerbaijan). One factor favoring good relations with this country is the key place it has in Russia's foreign economic policy. Another factor is Islam, a common religion that unites both communities. Of course, Dagestan does not partake in the division of the Caspian oil, which is handled directly by Moscow and Baku. However, it supplies Azerbaijan with meat, in exchange for Azeri consumer goods and agricultural foodstuffs. Cultural exchange is also thriving.

Chechnya is a special case in Dagestani relations. Despite legal ambiguities, Dagestan must treat it as a separate state, separated by a border and an enforced customs regime. Official Grozny does not regard Dagestan as an equal diplomatic partner, while Dagestan takes care not to over-develop its relations with the rebellious republic, falling in line with Moscow's official refusal to recognize Chechnya's independence. For example, when Dagestan pulled out of the above-mentioned Congress of the Peoples of Dagestan and Chechnya, Chechen prime minister and former field commander Shamil Basaev publicly called Dagestani leadership "Moscow's obedient dogs." Thus, no real diplomatic relations between Dagestan and Chechnya are possible. At the same time, "people's diplomacy" between the two is thriving, its main objective being the return of kidnapped Dagestani hostages held for ransom in Chechnya. So, the republican Security Council often uses informal channels of private and family connections in resolving hostage cases.

To conclude, Dagestan's foreign policy can take several routes in the future. Should Russia overcome its mounting economic crisis and pursue extraction of Caspian oil, Dagestan will become its key outpost in the region. Russia will likely intensify its political and, possibly, military presence in the republic, virtually negating any independent foreign policy for Dagestan. On the other hand, if the crisis is not averted, Dagestan's economic dependency on the center will grow. In the course of the last nine years Dagestan has turned from a donor region to one that relies on federal subsidies for 80% of its budget. Such economic dependency will stifle political and diplomatic independence as well.

Only a change in the Dagestani government can provide for greater sovereignty, but the current regime has already prepared groundwork for extending its lease on life for another four years. The republic's current leadership is likely to resist the growth of Dagestani sovereignty, which Moscow negatively interprets as "separatism."

SOCIAL ISSUES

ECONOMIC CRIME THRIVES IN SIBERIA, AS POLICE LOOK AWAY. On 11 May Irkutsk Oblast Governor Boris Govorin met with regional law-enforcement officials to address the conflict between the prosecutor's office and the oblast police. During the April performance review, the prosecutor's deputy sharply criticized the work of the police's economic crime unit as inferior and too skewed toward small businesses, while the majority of economic crimes takes place at larger enterprises.

The economic crime unit's main line of work involves auditing small retailers and businessmen, while the largest economic crimes take place in big business, banking and state-owned enterprises. For example, 584 billion old rubles (\$97 million) has disappeared from the Northern Supply fund, and about 400 billion old rubles (\$67 million) from the road-infrastructure fund, yet no investigation into these matters has been launched. Public funds are channeled toward personal enrichment by officials in forms of illegal loans. In some cases, money is stolen outright. During the mayoral elections in the city of Bratsk, the Irkutsk police received materials implicating the previous city administration in a variety of crimes, but the documents were transferred to the Bratsk police office, controlled by the then mayor. Obviously, nothing was done about the case.

The few criminal cases that were opened dealt with fictitious companies, forged bankruptcies, non-payment of debt, and money-laundering. For example, in 1994 the East-Siberian Fund for Residential Construction was established with the oblast government's tacit support. About 200 people invested their money into the fund, but none of them have seen improvements in their living conditions. The prosecutors' office has investigated the matter, but a court ruling is a long way off. In another example, many valuable items from a German humanitarian aid shipment for local orphans were stolen as they went through customs. The district police found nothing.

Out of 800 economic criminal cases launched last year, only 114 made it to court. Governor Govorin warned the law-enforcement officials against hiding the real state of affairs behind statistics. The head of the oblast police complained about the high turnover of staff on his force, caused partially by irregular salary payments. He also faulted the previous oblast administration for hampering criminal investigations. The governor believes that the oblast must help the police in its efforts by stabilizing the budget, thus providing the police force with technical equipment, timely wages, and resources to retrain officers. Additionally, civil servants must be educated in civic culture in addition to efficiency and law enforcement, the governor said. - Galina Solonina (Teleinform) in Irkutsk

ECONOMIC ISSUES

BRYANSK CUSTOMS HEAD RESTORED IN SCANDAL AFTERMATH

by Alex Levinski

BRYANSK--Former head of Bryansk customs office Gen. Anatoly Lyulin has resumed his duties with the approval of the State Customs Committee. His return followed the oblast procurator office's decision to drop criminal charges against him and restore Lyulin to his job.

In December 1994, Bryansk's Interior Department (police) accused Lyulin, a former KGB officer turned customs official, of smuggling goods across the Russian border. As the investigation developed, the police opened another criminal case, this time accusing Lyulin of

abusing power, embezzlement, bribery and illegal possession of weapons. Lyulin was detained and jailed from December 1994 to September 1995, when he was freed after expert psychiatrists found him legally insane. His four alleged accomplices, also jailed, were never formally accused, and the court ordered an additional 10 not to leave the oblast.

Observers speculate that the entire criminal case resulted from a bureaucratic feud between the police and the customs office. Gen. Lyulin crossed the head of oblast police Gen. Aleksandr Rusakov, but their personal conflict reflected a larger inter-agency rivalry. Until 1992 customs collection was under the KGB's purview, but after its collapse into several separate agencies, the Russian customs office became an independent law-enforcement organization, empowered to conduct investigations. Thus, it encroached on the traditional turf of police, who used to handle many smuggling cases. On the other hand, the police was put in charge of controlling the border during the transition period and grew fond of being able to transport any kind of cargo across Russia's international boundary.

It is no coincidence that the conflict ensued on Bryansk soil. Communist candidate Yuriï Lodkin was elected oblast governor in 1993, beating "democratic" contender Vladimir Karpov. However, following Lodkin's vocal support of the October 1993 anti-Yeltsin insurrection in the parliament, the president dismissed the governor and appointed Karpov in his stead. Karpov brought a whole team of cronies with him as well as people close to one of his key backers, businessman Oleg Kibalchich. As a result, companies run by Kibalchich began to thrive, taking advantage of various benefits granted to them by the oblast, including the right to appraise automobiles imported through the Bryansk customs office.

In October 1994 Kibalchich had a confrontational conversation with Gen. Lyulin, soon after which the oblast police accused the latter of stealing a shipment of alcohol and other goods in transit from Holland to Ukraine. Over 3 billion old rubles (\$500,000) worth of goods disappeared after the shipment passed through Bryansk customs. Specifically, the police alleged that Lyulin changed the shipment's official destination from Ukraine to Bryansk and then helped it "disappear" in Moscow, making a 300% profit for those involved. However, a special investigation from Moscow found Lyulin's actions in accordance with regulations and no evidence of his involvement in the cargo's disappearance was ever presented.

Meanwhile, as a result of numerous political scandals and opposition from a united front that brought together such diverse forces as the Communists and Gaidar's Russia's Democratic Choice activists, Vladimir Karpov was removed from his post as oblast governor. At the same time, Kibalchich faced criminal accusations of threatening to murder the deputy governor and had to flee prosecution. Some claim he disappeared to Iowa, USA.

Four years after the start of the investigation into the "Lyulin affair," the Prosecutor General's Office decided to drop the smuggling case. The second criminal case about bribery and embezzlement was dropped due to lack of evidence, and the confiscated gas mace was returned to the beleaguered general. Meanwhile, the head of police Aleksandr Rusakov

managed to retire from his job and, thus, from responsibility. Most recently, court-appointed psychiatrists found Lyulin in perfect health.

FOREIGN TIES

WESTERN INVESTORS HIGHLY IMPRESSED BY NOVOSIBIRSK

SECURITIES. Representatives of several leading Western financial institutions such as Citibank and Credit Suisse visited Russia to explore the opportunities available in regional and local sovereign debt markets. Visiting experts studied government securities issued in Moscow, St. Petersburg, Novosibirsk, Yekaterinburg, and Kazan. They found Novosibirsk Oblast's debt most attractive, Ekho Moskvyy radio reported. Director of Credit Suisse Management Jana Benesova positively noted the high liquidity of Novosibirsk securities. Their weekly turnover averages around \$2 million, the highest among all Russian sovereign debts issues on the regional and local levels. Another important factor was their easy accessibility to small investors: 70% of their holders are individuals.

In Novosibirsk the European guests, led by Citibank's chief economist for Eastern Europe and the CIS Nicholas Sandstrom, met with Deputy Governor Vasily Kiselev as well as with the management of Siberian Interbank Currency Exchange and Sibekobank, which happens to be Citibank's agent in Siberia. The visitors were very impressed by Novosibirsk's securities, despite the reports of payment arrears on some of them in the first quarter of 1998. Sandstrom suggested that while the current visit was purely exploratory in nature, the delegation might return to Siberia in the summer to open concrete talks. - Konstantin Kanterov in Novosibirsk

KOMI EXPANDS ECONOMIC COOPERATION WITH FRANCE. As a part of a delegation led by Federation Council speaker Yegor Stroev, chief executive of Komi Republic Yurii Spiridonov visited France on 12 May. His main priority was to introduce French partners to Komi's economic potential. Currently, the scope of the republic's economic interaction with France is limited to importing foodstuffs, pharmaceuticals, machinery, construction materials and furniture. French imports account for only \$3 million out of Komi's \$159 million worth of total imports. However, bilateral ties grow stronger each year and to date there are five joint ventures with France registered in the republic. The largest one is the SeverTEK oil extracting company, established in 1997 together with Elf Aquitaine; it has \$20 million in charter capital. Last year Total won a license to develop the Kharyaginsk oil deposit where it plans to invest \$1 million. Total might joint Elf Aquitaine in exploring several potential deposits in Komi Republic and in Arkhangelsk Oblast and in building another oil pipeline between Kharyaga and Usinsk.

Several French banks will also become more actively involved in Komi. In October 1996 the republic signed an agreement with bank Credit Commerciale de France on financing exports, identifying investment projects attractive to foreign partners, and establishing a partnership between the bank and Komi's own Ukhtabank. In November 1997 Komi Republic signed a five-year \$35 million credit agreement with Bank Societe Generale Vostok,

Respublika reported (12 May). The money thus raised will be used to develop local infrastructure and finance local enterprises producing consumer goods and processing agricultural produce and timber. Competing for this money, many regional enterprises have already submitted business plans to the Economics Ministry for review. - Yurii Shabaev in Syktyvkar

REGIONAL PROFILE: REPUBLIC OF NORTH OSETIYA-ALANIYA

President: Aleksandr Dzasokhov

Aleksandr Dzasokhov defeated incumbent republican President Akhsarbek Galazov on 18 January 1998 by a margin of 77% to 10%. During the campaign, he had the support of young people, veterans, the local intelligentsia, and half the members of the republican legislature. Reportedly, over two thirds of the men serving in Russia's military, police, and border forces in the republic voted for him.

Dzasokhov was born in Vladikavkaz, the republican capital, in 1934 and is Osetin by ethnicity. In 1957, he graduated from the North Caucasus Institute for Mining and Metallurgy and started working as a full-time Komsomol functionary. From 1967 to 1986 he worked for the Soviet Committee for Solidarity with the Countries of Asia and Africa, eventually becoming its director. He served as Soviet ambassador to Syria for two years, after which he took over the leadership of his native republic as first secretary of the republican Communist Party committee. In July 1990, during the 28th Congress of the Communist Party of the Soviet Union, he was elected as a Politburo member and secretary of the Central Committee.

Dzasokhov was a member of the Soviet Congress of People's Deputies from 1989-1991 where he headed the committee on international affairs. In 1992, he was elected to the Russian Congress of People's Deputies and then to the State Duma in 1993 and 1995. In the current Duma, he was a member of Nikolai Ryzhkov's pro-Communist Popular Power faction.

Despite his ties to the opposition, he enjoys the support of the presidential administration. After his election, Yeltsin's spokesman Sergei Yastrzhembskii said that Dzasokhov's pro-Moscow orientation is more important than his reputation as a Communist.

Other Local Leaders

Chairman of the Parliament -- Vyacheslav Parinov, elected 1995

Brief Overview

The republic is located in the south-eastern part of the Northern Caucasus and borders Stavropol Krai, Kabardino-Balkariya, Ingushetiya, Chechnya, and Georgia. The largest portion

of its inhabitants are Osetins (53%), followed by Russians (about 30%), Ingushs (5.2%), Armenians (2.2%), Georgians (1.9%), Ukrainians (1.6%), and Kumyks (1.5%).

Almost half of the republican territory is mountainous with peaks approaching 4,600-4,700 meters; plains make up the northern part of the republic. North Osetiya is fairly rich in mineral resources, boasting deposits of zinc, lead, tin, silver, granite, marble, and mineral waters. Additionally there may be oil within the republic's territory.

Almost half of the republican GDP (42.2%) comes from industry, followed by agriculture (23.8%), transportation and communication (18.1%), and construction (7.3%). Regional industries include non-ferrous metallurgy, machine building, metal-processing, timber-working, chemicals, small-scale production, glass, and food processing. The agricultural sector focuses on vegetables, fruit, grain, and grapes for wine-making.

Almost all republican exports (90%) are raw materials. The region has economic contacts with over 30 foreign countries, among them Germany, Cyprus, Turkey, Bulgaria, China, Great Britain, Italy, Ukraine, Kazakhstan, and Lithuania.

According to estimates by *Ekspert* magazine, the republic's investment potential decreased by 20 points (the greatest drop in the country) since 1996, while investment risk rose 16 points (the 4th largest decline in the country).

Basic Facts

Population (as of Jan. 1, 1997): 665,200 (0.45% of Russian total)

Urban population (1989 census): 69.5% (Russia overall: 73.0%)

Student population (1996): 300 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 26.99% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 13.3% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 28.8% (Russian average: 29.9%);

Agriculture: 12.2% (12.8%); Trade: 8.1% (9.1%); Culture: 16.7% (13.6%); Management: 3.0% (2.3%)

Average monthly personal income in 1996: 448,000 rubles (Russian average: 764,000 rubles)

Average monthly personal expenses in 1996: 365,000 rubles (Russian average: 753,000 rubles)

Average monthly subsistence requirement in 1996: 325,900 rubles (Russian average: 369,400 rubles)

Consumer price index (as of Dec. 1996): 105.75 (Russia overall = 100)

Industrial production as percentage of all Russian production (1996): 0.10%

Proportion of loss-making enterprises (1996): 51% (Russia overall: 56%)

Number of enterprises which have wage arrears (1996): 250 (2.05% of total number of regional enterprises)

Agricultural production as percentage of all Russian production (1996): 0.32%

Number of private farms (as of Jan. 1, 1997): 972 (0.35% of Russian total)

Capital investment (1996): 587,100 rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): federal budget: 33.5% (Russian average: 9.2%); regional budget: 15.3% (9.6%); enterprises: 25.3% (66.3%)

Number of joint ventures (as of Jan. 1, 1997): 7 (0.04% of Russian total)

Fixed capital investment in joint ventures and foreign companies (1995): 13,408 million rubles

Number of small businesses (as of Jan. 1, 1997): 1,267 (0.15% of Russian total)

Number of telephones per 100 families (1996): in cities: 46.9 (Russian average: 48.7); in villages: 34.6 (19.7)

According to a 1997 survey by *Ekspert* magazine, the republic is ranked 60th among Russia's 89 regions in terms of investment potential and 82nd in terms of investment risks. A 1995 survey by Bank Austria ranked the republic 84th in terms of investment climate.

Electoral History

1996 Presidential Election

Zyuganov: 62.33%/52.82% (first round/second round)

Yeltsin: 19.28%/43.00%

Lebed: 9.60%

Zhirinovskiy: 3.23%

Yavlinskii: 1.80%

Turnout: 68.95%/70.44% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Communist Party of the Russian Federation: 51.67%

Liberal Democratic Party of Russia: 10.22%

Our Home Is Russia: 5.97%

Communists -- Workers' Russia: 4.64%

Congress of Russian Communities: 2.75%

Agrarian Party of Russia: 2.59%

Women of Russia: 2.17%

Derzhava: 2.02%

In a single-member district: 1 independent

Turnout: 62.97% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 51.00% "No" -- 49.00%

1993 Parliamentary Elections

Communist Party of the Russian Federation: 36.06%

Liberal Democratic Party of Russia: 17.47%

Russia's Choice: 7.81%

Democratic Party of Russia: 7.03%

Party of Russian Unity and Concord: 5.99%

Women of Russia: 5.94%
Yabloko: 5.04%
Agrarian Party of Russia: 3.94%
In a single-mandate district: 1 independent
Turnout: 59.81% (Russia overall: 54.34%)

1991 Presidential Elections

Ryzhkov: 41.86%
Yeltsin: 27.34%
Zhirinovskiy: 11.16%
Makashov: 7.69%
Tuleev: 6.37%
Bakatin: 2.24%
Turnout: 84.01% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [*Russian regions on the eve of 1995 elections*], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [*Results of the 17 December 1995 elections, regional breakdown*], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [*State Duma elections 1995*], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [*Governors of Russia*], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regioni Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.

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BREAKING NEWS

POLITICS

YELTSIN SACKS MITINA AS KEY REGIONAL OFFICIAL IN PRESIDENTIAL ADMINISTRATION... President Yeltsin fired Deputy Chief of Staff Viktoriya Mitina as the key person in charge of relations with the regions on 25 May. She lost her job despite the fact that she had close personal ties to Yeltsin's family and daughter Tatyana Dyachenko. According to *Kommersant Daily* (26 May), it was obvious after two months that she was not up to the job. Mitina joined the administration in November 1997 after Aleksandr Kazakov lost his

position for allegedly taking an improper book advance. Mitina offended many of the Kremlin staff with her abrasive approach. Under her stewardship, the Kremlin's grip on the regions weakened. The election of a candidate with a criminal past in Nizhnii Novgorod in late March was the last straw and Aleksandr Lebed's victory in Krasnoyarsk sealed her fate. Yeltsin also fired his advisor on the regions, Anatolii Korabelytsikov.

...REPLACES HER WITH PUTIN. Mitina's replacement is St. Petersburg's Vladimir Putin, formerly the head of the presidential administration's State Oversight Department. He is now Chief of Staff Valentin Yumashev's first deputy, while Mitina was only a deputy. A former KGB lieutenant-colonel, Putin is much more likely to take a harder line with the regions than did Mitina who constantly said that she "loved all the regions without exception." (*Kommersant Daily*, 26 May)

Putin's early career is connected closely with former St. Petersburg Mayor Anatolii Sobchak, whom he first met as a student at Leningrad State University's Law Department. Upon graduation in 1975, he joined the KGB and worked as an intelligence officer for 17 years, including service in Germany. After Putin worked for a time in the foreign affairs department of Leningrad State University, Sobchak appointed him chairman of the Committee on Foreign Affairs in the mayor's office. While working for the mayor, he helped set up a hard currency exchange in the city and signed a large consulting agreement with the Anglo-Dutch accounting firm KPMG in 1992. He also helped a number of German banks open in the city, including BNP-Dresdner Bank, one of the first foreign banks in Russia. Sobchak left Putin in charge of city affairs during his numerous trips abroad, and by March 1994 Putin had become first deputy chairman of the St. Petersburg government. According to the Panorama research group, many considered Putin the "grey cardinal" of the St. Petersburg administration. He played an instrumental role in adopting the city budget in 1995. He also helped oversee the operation of the power ministries in the city and relations with social groups.

Putin organized the Our Home is Russia's campaign in St. Petersburg during the 1995 Duma elections and then managed Sobchak's unsuccessful mayoral campaign in 1996. During the Duma campaign, the city was plastered with expensive posters for the "party of power," drawing criticism from local observers who wondered where all the money was coming from. After Sobchak's defeat, Putin left the St. Petersburg government. In September 1996, at then Chief of Staff Anatolii Chubais's recommendation, Yeltsin appointed Putin deputy business manager in the Kremlin, under Pavel Borodin. Yeltsin appointed him to the Oversight Department on 26 March 1997 replacing Aleksei Kudrin.

SARATOV'S SECURITY COUNCIL'S INFORMATION GATHERING RAISES CONCERN. In recent months the Saratov Oblast Security Council has been sending letters to various raion-level officials, including heads of administration, procurators, tax collectors and policemen, asking them to provide confidential information on how other officials are performing their jobs. In response, the regional procurator sued the Saratov Security Council for violating the officials' rights by collecting this kind of secret information. The court ruled that the Council did not have the right to review candidates for jobs in the regional law enforcement agencies and judicial organs and that the Council did not have the right to collect such confidential

information. Despite these setbacks, Saratov Security Council Secretary A. K. Miroshin hopes to use the Saratov Council as a model for other regions. *Izvestiya* (23 May) commented that to understand the future consequences of asking officials to "denounce" each other, it was necessary only to remember the past. Saratov Governor Dmitrii Ayatskov said that the operations were necessary to gather information on the law enforcement agencies.

NEWSPAPER CLOSED IN TATARSTAN. A local court has closed the Ittifak Party of National Independence's newspaper *Altyn urda* (Golden Horde). However Ittifak leaders say that the paper will continue to be produced. The paper, published since 1993, is critical of Tatarstan Mintimer Shaimiev's policies, claiming that he has sold out to Moscow, and advocates the establishment of an independent Tatarstan. It is based in Naberezhnye Chelny, the center of the nationalist movement in the republic and the headquarters for the troubled giant KamAZ truck maker. The court cited the paper for calling for the overthrow of the republican government and insulting Shaimiev. (*Kommersant Daily*, 20 May)

SECRET CITY AGAINST LEBED. Besides the capital of Krasnoyarsk, the formerly closed city of Zheleznogorsk (Krasnoyarsk-26) backed incumbent Governor Valerii Zubov over his victorious challenger Aleksandr Lebed, 55%-41% in the 17 May runoff elections in Krasnoyarsk. The residents of the city used to work on nuclear bombs, but now hope for aid from Moscow to develop silicon plates which they believe will revolutionize the Russian electronics industry. They believe that the project would only continue under a governor who had good relations with Moscow. Lebed had promised to work closely with Moscow to help the city, but the residents did not believe him. Now they fear that he will not work with them because they did not support his candidacy. Despite the residents' concerns, Lebed has said that he will honor all of Zubov's commitments to the city. Zheleznogorsk is also hoping for help from the American government which wants to ensure that the laboratories' nuclear materials do not fall into the hands of terrorists. (*Nezavisimaya gazeta*, 22 May)

LUZHKOVA LEADS REGIONAL RANKINGS. Moscow Mayor Yurii Luzhkov leads the list of regional executives who have the greatest influence over the federal government during the period 10 April to 10 May, according to a survey of experts compiled by *Nezavisimaya gazeta*. The list excluded Chechen President Aslan Maskhadov because he is the leader of a rebellious region and Federation Council Chairman Yegor StroeV (also the governor of Orel Oblast) since he is considered a national figure. Rounding out the top ten were Bashkortostan's Murtaza Rakhimov, Tatarstan's Mintimer Shaimiev, Saratov's Dmitrii Ayatskov, Sverdlovsk's Eduard Rossel, Samara's Konstantin Titov, Ingushetiya's Ruslan Aushev, Kemerovo's Aman Tuleev, North Osetiya's Aleksandr Dzasokhov, and St. Petersburg's Vladimir Yakovlev. (*NG-Regioni*, 19 May)

YELTSIN SIGNS MORE POWER-SHARING TREATIES. President Boris Yeltsin signed power-sharing agreements with Marii El, Amur, Voronezh, Ivanovo, and Kostroma, bringing the total number of agreements signed to 45. Yeltsin said that the country has more than four years of experience with the treaties and that they have served as a "reliable instrument for

strengthening the federation." (*Segodnya*, 21 May) On 26 May, Yeltsin met with the leaders of Russia's regional associations, hoping to close what he called a "breach" between the president and governors. He said that he hopes to meet with all governors by the end of June. (*Izvestiya*, 27 May)

KIROV GOVERNOR SEEKS "RENEWED SOCIALISM." In an interview with *Izvestiya* (27 May), Kirov Oblast Governor Vladimir Sergeenkov described himself as an advocate of renewed socialism. The Communist governor was able to convince unpaid workers in his district that blocking the railroads would not speed up the flow of money and so the region was relatively quiet during the recent miners' protests. To prevent rioting, the governor pays 20-25% of the population's wage arrears with food products. Through state orders he keeps the factories working despite the lack of cash. He advocates ending the system of mutually cancelling debts (*vzaimozachet*) while increasing the money supply as a way to solve the country's economic problems. He believes that the resulting inflation would be less of a problem than the current non-payments crisis. Additionally, he advocates a state monopoly on the sale of vodka since during the Soviet era, he claimed, vodka sales covered 37% of the budget, the amount needed for social support. He particularly favors high import duties on imported chicken ("Bush legs") in order to protect domestic poultry farmers. He warned that Prime Minister Sergei Kirienko's cabinet would not win respect if it did not break free of the IMF's influence.

Despite their different philosophies, Sergeenkov had a favorable impression of Kirienko, and found him a "thoughtful person" who seemed to understand his responsibilities in a recent meeting. The governor also felt that he could work with him to solve concrete problems. Kirov's economy is based on defense industries, forestry, and light industry. Reviving the defense sector requires help from Moscow which has not been forthcoming, but forestry could provide hope to the oblast. Its production has increased in the last year and the price of forest products, in contrast to gas and oil, are going up. The governor recognizes the value of forests as a renewable resource and is seeking markets in Asia and Europe, including Iran, where he sees enormous demand for forest products. He expects the share of foreign investment in Kirov Oblast to jump from 1.5% in 1997 to 15% in 1999. He sees that Russia's main enemies of the future will be countries without their own raw materials and supports the Zhirinovskiyite fear that the Chinese will try to take control of Russian resources.

PRUSAK SEEKS INDIRECT PRESIDENTIAL ELECTIONS. Novgorod Governor Mikhail Prusak advocates changing the constitution so that the president will be elected by representatives of the regions rather than by the population as a whole. He believes that such a procedure will make the president more responsive because he will have to answer to concrete people. He said that he does not think that the Federation Council, which is made up of the top executive and legislative officials in each region, is the appropriate body to elect the president (*Segodnya*, 26 May). In the past, Prusak has noted with great pride that the regional legislature in Novgorod Oblast has no political party members, but rather is dominated by pragmatic legislators who get things done. Although the governor is still able to charm western investors, some are beginning to question his commitment to liberal values.

ECONOMICS

ELF AQUITAINE STILL INTERESTED IN WEST SIBERIA. Despite the collapse of YUKSI, the proposed merger between the YUKOS and Sibneft oil companies, France's Elf Aquitaine remains interested in developing West Siberia's Sugmut field. On 6 March, Elf has signed a framework agreement to buy 5% of YUKSI for \$528 million, but is now likely to continue working with Sibneft which owns the rights to develop the field. Elf's president believes that developing the deposit requires a \$1.5 billion investment, but could begin producing 200,000 barrels a day as early as 2002. (*Kommersant Daily*, 26 May)

KIA MARKS ONE YEAR IN KALININGRAD. Since starting production in Kaliningrad on 16 May 1997, South Korea's Kia Motors has assembled about 4,000 light cars and sold 3,300 of them, *Finansovye izvestiya* reported on 21 May. (The factory made only 2,160 cars according to *Russkii Telegraf* on 20 May.) The company is currently producing 450 cars a month, but needs to make at least 850 to be profitable. The fate of the Kaliningrad plant depends to a large extent on whether Kia can raise funds to address its own problems. Kia is now only providing \$20-25 million worth of parts, a fraction of the \$150 million a year initially planned, because of the financial crisis in South Korea. Avtotor, Kia's local partner, is seeking a \$50 million credit to purchase the parts necessary to increase production. The Kaliningrad plant hopes to increase its market share by reducing the prices it charges for its cars by 17% since the beginning of the year. In the summer, the Kaliningrad plant hopes to produce low cost models (\$10,000 to \$15,000) that will help it compete with cars assembled by Daewoo in Rostov and domestic models.

A major problem for the plant is "grey dealers" who import Kia cars from Korea, where the financial crisis has caused their prices to fall dramatically, and from Arab countries. Estimates suggest that three to four thousand of these cars have already entered Russia. They do not work well in Russian conditions because they are not designed for poor road conditions or the Russian climate. Problems with these cars could damage Kia's reputation in Russia.

NIMONOR WINS TWO COURT RULINGS IN LENINGRAD OBLAST. On 15 May, the Cyprus-based, British-controlled Nimonor Investments won a ruling in the Arbitration Court of St. Petersburg and Leningrad Oblast against the trade union of the Vyborg Cellulose and Paper Combine, of which Nimonor owns an 87% stake. The company bought the firm for 187 million new rubles (\$32 million) and a commitment to invest \$25 million on 27 October 1997. However, workers blocked the new owner from entering the plant after Nimonor announced plans to cut the size of the staff. According to the current managers of the plant, Nimonor has only paid 22 million new rubles (\$3.7 million), but the investors are expected to pay the rest of what they owe when they take control of the plant and put their own security force in place. The plant is currently protected by an opposing guard force. The court will likely have to ask the local police to enforce the ruling to allow the British investors access to the plant. (*Russkii Telegraf*, 19 May)

AMERICANS, JAPANESE PARTICIPATE IN OIL SLICK REMOVAL

EXERCISES NEAR SAKHALIN. American and Japanese ships and planes participated in an exercise to deal with oil spills near Sakhalin Island on 20 May. A Russian-American cooperation agreement to deal with such incidents has been in effect since 1989, but this was the first chance to give it practical content. Sakhalin has vast hydrocarbon reserves, but the resources are located in an extremely ecologically fragile area (*Izvestiya*, 20 May). On the way back from the exercises, the American ship helped the Russians stop Chinese poachers in Russian territorial waters by providing the exact location of the intruders. In the incident, two fishermen died and two were injured. Russian border guards opened fire on Japanese poachers in 1996, but then only slightly injured one fisherman (*Izvestiya*, 27 May). The Chinese have protested the incident.

REGIONS BAND TOGETHER TO HELP BANKRUPT ENTERPRISES. Governors of 11 regions agreed to contribute funds to a foundation called Alliance Group that would provide crisis support to enterprises in Russia and countries of the CIS. Ziya Bazhaev, the former president of the Sidanco Oil Company, is the director of the foundation. The founders are Saratov, Leningrad, Novgorod, Murmansk, Irkutsk, Magadan, Chita, Novosibirsk, and Voronezh oblasts and the republics of Udmurtiya and Buryatiya. Enterprises in Irkutsk, Saratov, and Voronezh have already asked for help. The fund currently has 600 million rubles (\$100 million). The governors and presidents of the regions believe that close cooperation between the regional administrations and enterprises will provide the most effective aid. As many as 80% of Russia's enterprises are bankrupt by international standards and the governors want to revive as many of them as possible to build up their tax base. Alliance Group will provide management consulting and help enterprises attract investment. (*Finansovye izvestiya*, 21 May)

NIZHNI OFFICIALS WANT HIGH-SPEED RAILROAD LINK TO MOSCOW. The Director of the Gorkii Railroad Omari Sharadze believes it will be possible to raise the \$6 billion considered necessary to build a high-speed railroad between Nizhnii Novgorod and Moscow. The Railroads Ministry had earlier cancelled the project for lack of funds. The train should be able to cover the 450 km in less than 3.5 hours. The only other high speed railroad project under way in Russia today is one linking St. Petersburg and Moscow. This project has run into trouble because it is feared that it will destroy the ecology of Tver Oblast, particularly of the Valdai National Park, which stands between the two cities. (*Kommersant Daily*, 20 May)

DECREE STOPS TRAFFIC AT RUSSIAN-FINNISH BORDER. The Russian government has cancelled a decree that was blocking trade between Russia and Finland. On 13 May, Russian border officials began enforcing a decree that required Finnish trucks carrying cars, furniture, televisions, and chocolate to pay for security escorts from the border to their final location. The fees amounted to \$655 for trucks going to St. Petersburg and \$749 for trucks going to Moscow. On 18 May Helsinki blocked all Russian trucks carrying similar cargo and demanded that the Russian government drop its demands on Finnish trucks. Russia cancelled the decree on 23 May, but border guards had not been notified as of 25 May. (*St. Petersburg Times*, 26 May)

FEDERATION COUNCIL APPROVES LAND LAW WITH NO PRIVATE

PROPERTY. On 20 May, the Federation Council approved a land code that does not provide for the buying and selling of land. The measure passed by a vote of 97-21. President Yeltsin is unlikely to sign the bill. Saratov Governor Dmitrii Ayatskov warned that all who voted against it would take the issue to the Constitutional Court since the constitution guarantees the right to buy and sell land (*Kommersant Daily*, 22 May). Despite the upper house's approval of the bill, Ayatskov is organizing the next auction of Saratov Oblast land for late June in Moscow (*Russkii Telegraf*, 23 May). The vote will provide another cause for conflict between the president and the parliament.

OIL, GAS EXPORTS DROP. Due to slumping world oil prices, the value of Russia's oil exports fell 24.5% in the first quarter of 1998 to \$2.9 billion in comparison to the first quarter of 1997. The physical quantity of the exports actually rose 8.9% from 29.5 million tons to 32.1 million tons. The price of oil fell from \$128.4 a ton during the first quarter of last year to \$89.1 during the first quarter this year. The value of natural gas exports dropped 14.7% from \$5.07 billion in the first quarter of last year to \$4.3 billion in the first quarter of 1998, although actual exports grew by 1% to 60.7 billion cubic meters. (*Russkii Telegraf*, 22 May)

LUKASHENKO BUILDS TIES TO REGIONS. Belarusian President Aleksandr Lukashenko and Orenburg Governor Vladimir Yelagin signed an agreement on 20 May in Minsk to increase trade between Belarus and the region one third by the end of the year to \$100 million. Belarus will open a trade representation in the region in a few months. After their talks, Yelagin said that he supported many aspects of Belarus's economic policy and suggested that Russia follow its neighbor's lead. Lukashenko stressed that he still has strong control over the Belarusian economy unlike the Russian government. However, because of the financial difficulties in both regions, most of the trade will be conducted on the basis of barter. Belarus is particularly interested in Orenburg gas and has already struck a deal with Gazprom President Rem Vyakhirev to ensure continuing supplies.

The federal government no longer has much time to worry about the governors' foreign activities even though it had tried to control these in the past. Lukashenko hopes to build a relationship with the regional elite to supply his country with cheap goods and build a base that might help him win the presidency of a Russian-Belarusian union. (*Russkii Telegraf*, 21 May) During his visit, Lukashenko also signed an agreement with the Central Russia regional association, the RFE/RL Newslines reported 25 May.

PETERSBURG, LENINGRAD AUTHORITIES DIVIDE UP TV CHANNEL 5.

St. Petersburg Governor Vladimir Yakovlev and Leningrad Oblast Governor Vadim Gustov signed a joint decree dividing up the Petersburg Channel 5 TV station. St. Petersburg now owns 38% of the station, Leningrad Oblast got 13%, Petersburg's Promstroibank - 17.5%, BaltUNEXIMbank - 17.5%, and MENATEP-St. Petersburg - 14%. While the two regional governments maintain a 51% controlling stake, they expect considerable investment from the banks. (*Segodnya*, 21 May)

BUSINESS BRIEFS

-- In 1997 **MAGADAN OBLAST** produced 26.1 metric tons of gold. Almost 8 tons of came from the Kubak mine where the American firm **CYPRUS AMAX MINERALS** owns 50% of the capital. (*Finansovye izvestiya*, 21 May)

-- **ALMAZY ROSSII SAKHA** has received a \$25 million syndicated credit from a group of banks including Eurofinance, France's Eurobank, Sberbank, the Foreign Economic Bank, Moscow People's Bank, and Austria's Donau Bank. (*Finansovye izvestiya*, 21 May)

-- The UK's **ROTHMANS** has begun producing 500 million cigarettes a month at its \$80 million factory in **ST. PETERSBURG**. (*Russkii Telegraf*, 22 May)

-- The Dutch **ABN-AMRO** has won the right to trade **ST. PETERSBURG** and **ORENBURG** regional government securities on the St. Petersburg Hard Currency Exchange. Until now the role of foreigners in the regional debt market has been small. **ING BANK-EURASIA** is also applying for status as a dealer. (*Russkii Telegraf*, 22 May)

-- The city of **MOSCOW** has postponed its second Eurobond float valued at 350 billion Italian lira and its next \$500 million dollar credit package because of the unstable market conditions. (*Segodnya*, 21 May)

-- **ROSNEFT** is close to signing agreements with **EXXON**, **MOBIL**, and **TEXACO** on recovering oil in the **SAKHALIN-3** project. Mobil is reportedly ready to start work this summer. (*Segodnya*, 23 May)

-- Sweden's **VOLVO** has begun producing the first of the 109 buses it currently plans to build in **OMSK**. The overall project is worth \$16 million (*Finansovye izvestiya*, 26 May). The firm is also pressing ahead with a \$100 million investment plan to build 20-30 service stations throughout Russia. Volvo also has a preliminary agreement to build production facilities in Pavlovsk (**LENINGRAD OBLAST**). Volvo President and CEO Leif Johansson believes that the tax breaks offered to firms investing more than \$250 million are attractive and is seeking a way to implement them. (*Moscow Times*, 21 May)

-- The US's **PACIFIC PETROLEUM** has formed a joint venture with **INGUSHETIYA** to recover and refine oil and gas for the region. The Houston-based firm will own 55% of the venture which will be called South-Pacific Petroleum. Most of the oil will be sold on the Russian and Western markets. (*Moscow Times*, 23 May)

-- Italy's **BREDA COSTRUZIONI FERROVIARIE** and **MOSCOW OBLAST** have signed a \$200 million joint-venture agreement to produce 1,350 buses during the next five years. The Russian side will contribute land and facilities, while the Italians will provide cash.

The Yakhroma repair plant and Mosavtotrans, the likely buyer of the buses, are the two Russian partners. The project is expected to replace the region's aging bus fleet and help build up its industrial infrastructure. (*Moscow Times*, 23 May)

-- **LUKOIL** and **BASHKORTOSTAN** ended a long-standing feud and signed an agreement in which Russia's largest oil company will make it a priority to invest in the republic. Among other things, LUKoil will supply oil to the republic's refineries and help modernize them. (*Izvestiya*, 27 May)

-- As an experiment, **ST. PETERSBURG** is planning to replace its taxes on land and property with a single tax on real estate. It is also considering lowering its profit tax. (*Finansvie izvestiya*, 26 May)

-- Standard and Poor's has given the **YAMAL NENETS AUTONOMOUS OKRUG** a BB-rating, the same as Russia's (*Finansvie izvestiya*, 26 May). Among the problems the rating agency pointed out were the constant tension in the okrug's executive office and its almost exclusive reliance on the gas industry for income.

-- The Slovenian pharmaceutical firm **KRKA** is planning to begin construction of its own factory in **MOSCOW OBLAST** in June. In 1997, the firm produced \$8 million worth of medicines with local partners in Russia. It sold \$50 million worth of products on the Russian market last year. The plant will have a capacity of producing \$30-50 million worth of pharmaceuticals. (*Finansvie izvestiya*, 26 May)

-- South Africa's **DE BEERS** is planning to spend about \$50 million looking for diamonds in **ARKHANGELSK'S** Lomonosov deposit during the next year and a half. (*Russkii Telegraf*, 26 May)

PATTERNS OF REGIONAL DEVELOPMENT

DAGESTAN'S ETHNIC ELITES

by Nabi Abdullaev, *Novoe Delo*

MAKHACHKALA--The seemingly unexpected events in Makhachkala on 21 May, when some 200 armed fighters seized the republican government building and held it all day, should have come as no surprise (see *IEWS Russian Regional Report*, 21 May). Chairman of the State Council Magomedali Magomedov has long tried to postpone such a turn of events with a careful policy of checks and balances, but an outbreak like this was only a matter of time.

To begin with, there are no political parties in Dagestan, only numerous national fronts and movements. Their leaders belong to the official establishment, protected by parliamentary immunity that comes with membership in the Popular Assembly formed through an ethnic quota system. An elaborate web of patronage gives them and their supporters access to cushy jobs in the executive branch or in local administrations. They also control the few profitable sectors of

the economy: fishing, oil, gas, winemaking, etc. Moreover, the State Council manages the distribution of budgetary sources, 80% of which come from federal subsidies.

Today Dagestan is virtually militarized, as every sizable ethnic movement reserves the right to keep its own independent militia. Depending on the situation, a typical national leader can mobilize from several hundred to several thousand fighters, armed with the most modern weaponry, communications equipment, and vehicles. The first leader to acquire such a praetorian guard in early the 1990s was Magomed Khachilayev, the leader of Laksk national movement "Gazi-Kumukh." At that time authorities wanted to return Akkin Chechens, who had been deported by Stalin, to the district currently populated by the Laksk, thus displacing the latter. Only Khachilayev's armed forces were able to stabilize the growing conflict and forced the government to adopt a more reasonable long-term resettlement program.

Overall, some Dagestanis condemn the ethnic armed formations as unconstitutional and in violation of the Criminal Code, which prohibits possession of firearms. Others strongly support the idea of ethnic paramilitary groups, which in their view guarantee Dagestan's national security internally and externally. The latter often cite the December 1997 Buinaksk events as an argument in their favor (see *IEWS Russian Regional Report*, 8 January). Then a group of unidentified terrorists attacked a military outpost and only the local Avar paramilitary force offered any resistance, preventing a repeat of the Pervomaysk hostage ambush. The weakness of the official "power structures" is often used to justify the existence of ethnic militias. Neither regular armed forces nor the police have been able to protect local villages or even themselves from Chechen attacks.

While nominally members of the republican establishment, the national leaders *de facto* rule Dagestan because of their clan status. They administer justice and can easily free anybody detained by official law-enforcement agencies. Dagestanis must petition them for protection and material help, in the best traditions of "The Godfather." The state's role is reduced to managing a precarious balance among different ethnic groups through distribution of patronage spoils.

Given this as a background, what exactly happened on 21 May? When a prominent Laksk leader was kidnapped and taken to Chechnya, his outraged Laksk clansmen blocked the road to Chechnya. As usual in these situations, brothers Magomed and Nadir Khachilayev, the Laksk leaders, arrived to pacify their people. On the night of 20 May, traffic police stopped Nadir Khachilayev and his armed escort, with allegedly hostile intentions. Of course, had this been a real hostile act, the police would have simply strafed the cars with gunfire from a safe distance, without bothering with the routine road check procedures. In any case, as a result of the incident two police officers were killed and five were wounded, while Khachilayev's people retreated to his house. Needless to say, the police was furious and, after surrounding the house, engaged the besieged in a pitched gun battle.

As a necessary digression, we must mention another aspect of this problem. For over a month the new mayor of Makhachkala, Said Amirov, the leader of the Dargins, Dagestan's most influential ethnic group, has been waging a battle against unlicensed retailers in the city. The latter resisted his attempts to move over 2,000 kiosks from the city center to the periphery. The retailers held rallies, blocked traffic and violently resisted policemen who tried to enforce the city policy. They also happen to belong to the Avar ethnic group, which allies itself with the

Laksks, for both suffered equally in the confrontation with the Akkin Chechens. Of course, Magomed Khachilaev took the retailers' side in the conflict with the city.

On the morning of 21 May, he was able to mobilize his own fighters and Avar retailers to storm the main republican government building, smashing everything inside. The police immediately concentrated all their forces in a nearby location. The Khachilaevs, meanwhile, lost control over their people, who began to ruthlessly beat up guards, blow up safes, break windows and loot expensive equipment. Many employees trapped in the building had to evacuate through second or third floor windows. Later, the Prosecutor General's Office estimated the total damage at 5 million new rubles (\$800,000). Eventually the attackers found alcohol in the cafeteria storage room, and soon enough the building was full of drunk armed people, shooting at furniture. When I called the building to get a comment out of somebody, a clearly drunk voice answered the phone:

"Who is speaking," I asked.

"The people," he replied.

"Can I talk to somebody else?" All I heard after that was swearing, and I hung up the phone.

By noon, the main square in front of the building was full of people and reporters. At this point the Khachilaevs tried to present what obviously was an act of criminal looting as a political demonstration of popular will. They addressed the crowd, demanding the government's resignation and calling for direct presidential elections. These statements are especially surprising coming from the two brothers, since they had never before expressed such views, despite numerous opportunities. Additionally, Magomed Khachilaev voted to extend the powers of State Council chairman Magomedali Magomedov's at the March session of the Popular Assembly. As the looting went on, the square was being surrounded by the troops and armored vehicles of the Rostov detachment of OMON special forces.

At 1:00 PM Magomedov arrived in the building, directly from Moscow where he had been attending a Federation Council meeting. He gave the Khachilaevs an ultimatum: "Either you kill me now or we negotiate on my terms. Either way, I am not leaving." As the talks ensued, the attackers tried another way to cover up the criminal nature of their actions, this time by playing the Islamic card: they substituted the green flag for Dagestan's banner on the building's flagpole. Some even tried to organize religious rituals on the square, but received no support from the onlookers.

The events of the following days were even more farcical. On 22 May the State Council held an emergency session, with Russian Interior Minister Sergei Stepashin and representatives of the armed forces and of the Prosecutor General's Office present. Also present was Magomed Khachilaev. At that meeting, the republican interior minister was replaced with the former chief of police forces. Stepashin met privately with Nadir Khachilaev, who reportedly gave him his word as a State Duma deputy "to keep the people from anarchic actions" in the future. Right after the meeting the Khachilaevs retreated to their home village in the mountains.

Two days later, the minister of nationalities and external affairs, Magomedsalikh Gusaev, told reporters that only the wisdom of Magomedali Magomedov and Nadir Khachilaev saved the republic from a bloody conflict. On the same day, Magomed Khachilaev praised

Magomedov for his efforts on TV. Additionally, Gusaev discouraged the republican press from describing the attackers as "bandits" or in similar terms.

We can interpret the government's actions in different ways. On the one hand, peace is paramount for Dagestan and it is worth compromising to achieve it. On the other hand, compromise only postpones the resolution of fundamental problems. Demilitarization of Dagestan, recently proposed by the government, is an empty dream. The demoralized police forces are too scared to deal with unruly armed thugs. Writ large, the last compromise is indeed a betrayal of those who died, were wounded, or suffered material losses in the conflict. It is also a betrayal of Dagestani society, as the state refused to guarantee its future security, leaving the initiative in the hands of ambitious nationalist leaders. Given the situation, the lack of any punishment for those doing violence to Dagestan's statehood spells a significant victory for them.

BRYANSK CIGARETTE MAKER FACES BANKRUPTCY

by Alex Levinski

BRYANSK--Having successfully granted an alcohol production monopoly to one of the governor's financial backers, the oblast administration is now trying to take control over the local tobacco company, the Pogarsk Cigarette and Cigar Factory. The company makes cheap filter-less cigarettes for domestic consumption as well as cigars that enjoy popularity in France, Belgium, Holland, and Germany. Until recently the factory was thriving, but now it is in the middle of a bankruptcy hearing at the Bryansk Oblast Arbitrage Court because it owes 12 million new rubles (\$2 million) in taxes. Of the total debt, 41% is owed to the pro-reform raion administration and 1% to the Communist-controlled oblast government, and the interests of both creditors have collided in this bankruptcy case.

The oblast administration recommended that the court appoint a former agricultural executive, Sergei Novitskii, as the company's interim manager and the court complied. However, this appointment was met with fierce opposition from smaller shareholders, mostly the company's staff and former employees. Some time ago they fought an attempt by another governor (the "democratic" Yeltsin-appointee Vladimir Barabanov) to replace the popular director, Vladimir Gnevushev, who had been running the company for 18 years. Meanwhile, the raion administration developed a crisis management program, which deferred debt payments to the local budget in exchange for a seat on the company's board for the head of the local administration, Kurban Ibragimov. The regional bankruptcy authority approved the plan. However, the oblast administration blocked both the initiative and Ibragimov's candidacy.

Gnevushev has since lost his popularity and small shareholders blamed him for the current crisis at the 22 April shareholders meeting. Some even proposed freezing his disproportionately large share of company stock and paying dividends to the rest of the shareholders. The director himself stated that the factory's supplies have been "blockaded" by criminal elements desiring to replace him in retaliation for his refusal to deal with "bandits."

Compared to other large oblast enterprises, the Pogarsk Cigarette and Cigar Factory has been doing pretty well. Since 1993 it has laid off only 16% of its workforce, while all raw materials and parts have been obtained through barter. Production declined by 30%. However, until very recently the company was not only a large donor to the local budget, but

also managed to provide its employees with many privileges. In the early 1990s, the plant's equipment was beginning to deteriorate, but at that time Moscow, facing a country-wide shortage of every imaginable consumer good, kept demanding more output. Clients from all over the USSR offered all kinds of barter goods in exchange for cigarettes, and the company chose consumption instead of technological restructuring. As of last year, the workers' monthly salary was among the highest in the oblast and was never late.

Today small shareholders blame the director for trading away the plant's cigarettes in questionable barter deals and failing to implement an effective investment program. Despite the criticism, however, last year he invested 2 billion old rubles (\$333,000) in production facilities, modernizing the plant and installing some new equipment. As passions flared, the raion council sent an open letter to the governor, the speaker of the oblast дума, the President's representative, and the head of the regional bankruptcy authority. The letter claims that the entire Pogarsk affair is designed to incite a financial crisis, depriving the raion of its main revenue source and thus destabilizing the local political situation. As with many struggles in Russia today, this one has yet to come to a conclusion.

CENTER-PERIPHERY RELATIONS

MINERS' STRIKES COME TO AN END, FOR NOW. Nation-wide coal miners' strikes shook Russia last week, halting not only coal extraction, but also paralyzing major transportation arteries. As a part of their protest action, miners blockaded key railway lines and highways, preventing transportation of cargo and passengers for days. In Kemerovo Oblast around 13,000 miners struck demanding 18 months of unpaid wages and over 600 of them blocked the Trans-Siberian Railway with their bodies. Novosibirsk Oblast miners paralyzed the entire West Siberian Railway line, cutting off central parts of Russia from the country's east. The miners in this region were also joined by teachers who blocked the Novosibirsk-Pavlodar highway. Similarly, in Rostov Oblast miners blocked the North Caucasus Railway line as well as the Rostov-Moscow highway (*Nezavisimaya gazeta*, 22 May). Likewise, protesters blocked the Krasnoyarsk Railway line, key to the Siberian and Far Eastern infrastructure network, preventing the delivery of foodstuffs to the krai (*Segodnya*, 22 May).

When the country-wide scope of the crisis became clear, the government finally responded. President Yeltsin asked the strikers not to go overboard with their protest actions and promised to downsize the federal bureaucracy in order to free up money to pay back wages (*Kommersant Daily*, 23 May). Deputy Prime Ministers Boris Nemtsov and Oleg Sysuev visited Rostov-on-Don and Kemerovo Oblast respectively on 22 May, where they met with often jeering crowds of miners and local officials and promised to use emergency measures to pay back wages (*Izvestiya*, 23 May). Meanwhile, Economics Minister Yakov Urinson spoke to the Komi strikers, but his honest admission that the government plans to privatize most of the mines was met with hostility (*Kommersant Daily*, 26 May).

As a part of the government's response to the crisis, Prime Minister Sergei Kirienko had the State Duma pass an amendment to the 1998 budget which cut down on personnel in the federal government and used the 526 million rubles (\$88 million) worth of savings toward miners' needs (*Segodnya*, 21 May). Additionally, the Security Council asked Boris Nemtsov

to head a task force charged with restructuring the coal-mining industry. Moreover, the government announced a comprehensive financial inspection of all mining companies to find why most of previous federal transfers had never reached the miners (*Kommersant Daily*, 26 May). By 25 May most railway routes were open as miners left the tracks, temporarily satisfied with short-term payments and government promises.

During the course of the crisis, 317 cargo trains and 385 passenger trains were halted, costing the railroad industry 200 million rubles (\$33 million). Other sectors dependent on railroad supplies suffered as well: the metallurgical sector lost 100 million rubles (\$16 million), and several heating power stations in Chelyabinsk had to be closed. Miners hurt themselves as well, as some of their clients switched to Polish or Finnish coal during the strike (*Izvestiya*, 26 May). Finally, the Procurator General's office plans to study all instances where miners illegally blocked railway lines (*Segodnya*, 23 May). Given Russia's severe economic problems, it is not clear whether the government will be able to keep its short-term promises and how long the miners will stay on their jobs. - Natan Shklyar

SOCIAL ISSUES

NIZHNI OBLAST ASSEMBLY BATTLES CIVIL CODE. Joining the debate over payment arrears, the Nizhnii Novgorod Oblast Legislative Assembly has sided with industrial enterprises against the federal government. The enterprises have long complained that paying off tax debts to the government precludes them from paying salaries to workers on time. At first, the Russian government allowed enterprises to use 30% of their income toward wages. When this policy was finally revoked, the State Duma declared that salaries took priority over tax debts. This decision was in force for nearly two years until the government and the tax police challenged it in courts. Finally, the Constitutional Court overturned the policy as in contradiction to the country's Civil Code, which clearly prioritizes tax payments over salaries.

The "taxes vs. salaries" debate could have led to a serious social crisis at individual enterprises and in the oblast as a whole as managers would have been forced to stop salary payments altogether if they had to divert all their revenue to tax payments. However, two solutions were found for the problem. Some law-savvy managers advised their employees to take their respective companies to court for not paying salaries. Such pleas usually were resolved in the plaintiffs' favor and the Civil Code stipulated that payments for court rulings took priority even over taxes. In this way workers managed to circumvent the law and get their salaries back.

Nizhnii Novgorod took another route: with the backing of the oblast government, the Legislative Assembly passed a resolution enabling companies to use half of their incomes toward salaries. However, this decision was largely ignored by local tax authorities and commercial banks, which are responsible for salary transactions. The latter simply refused to pay salaries of companies with outstanding tax debts. So, the oblast policy was never fully enforced, and soon enough the oblast prosecutor challenged it in court where it was promptly overturned. Foreseeing such an outcome, the assembly has prepared another draft resolution to replace the overturned one, and plans to pass it next week. The document is identical to the previous draft, except for changes in title and some wording. Assembly members know full well

that the new resolution will again be challenged in court by the prosecutor's office, but at least the inevitable court case will buy another 3 months period for oblast enterprises. At the same time, the banks will still refuse to comply with the new resolution, provoking another ineffective scolding from the oblast government. - Yurii Rodygin in Nizhnii Novgorod

JEWISH CEMETERY DESECRATED IN IRKUTSK. In an act of barbarism unprecedented in scale, 149 graves were desecrated at a local Jewish cemetery in Irkutsk on the two consecutive nights of 10 and 11 May. In March, vandals painted swastikas on 14 graves at another local cemetery. None of the perpetrators have been apprehended.

Local observers attribute this spree of destruction to an organized group of at least 10 physically strong individuals, as they must have used heavy iron bars to crush gravestones and monuments. The larger non-Jewish Irkutsk community is also shocked that among the damaged graves were those of World War II veterans, defiled only days after the Victory Day celebration.

Oblast and municipal authorities have not commented on the event yet. However, police sources say that a joint task force of law-enforcement agencies, including the Federal Security Service (FSB), is investigating the matter. Additionally, hidden operatives are patrolling the crime scene in hopes of apprehending the perpetrators. While authorities look into the matter, the regional branch of the Russian Jewish Congress called a meeting on 15 May to file a protest petition with Governor Boris Govorin and Mayor Vladimir Yakubovsky, and send evidence of the crimes to Moscow. - Teleinform Newsagency in Irkutsk

ECONOMIC ISSUES

BANKRUPTCY SPELLS RELIEF FOR TVER SYNTHETIC FIBER PRODUCER.

The first large enterprise in Tver to become officially bankrupt, the Tverkhimvolokno chemical fiber plant, is well positioned to turn its misfortune into a chance for revival. Many industrial giants in the region remain on the brink of bankruptcy for prolonged periods of time, with workers unpaid and enterprise finances in shambles. After all, the top managers who now own these enterprises profit from the difficulties, blaming the crisis on "objective economic conditions" and on the government's mistakes.

In contrast, under the leadership of acting manager Nikolay Machalaba, Tverkhimvolokno took a different route: it filed for bankruptcy to insure its long-term survival. During Machalaba's short tenure, the firm has continued production and its 1,200 workers have been paid on time. He is certain that the sale of the company's assets will create a new firm that could become a leading producer of chemical fibers in the country (*Veche Tveri*, 21 May). With all that, the creditors' interests will be kept in mind in the upcoming sale of company's assets. According to Machalaba, the first priority will be to shed the unnecessary plant and equipment, and then offer the remaining assets to creditors in lieu of debt payments.

A key priority will be convincing the creditors that they should keep the company together. Machalaba, who hopes to hold on to his managerial post as long as possible, believes that he needs to develop a comprehensive strategic plan. Machalaba places high hopes on the Armros subsidiary, which makes fibers essential for the defense industry. This is why he plans

to invest 28 million new rubles (\$4.7 million) in the expansion of Armros's production line and in research and development. This summer the plant will launch new equipment for making aldehydofuran resin, crucial for rolling steel. Orders have already come in from the KamAZ, VAZ and AZLK truck and car makers. Machalaba also reclaimed the company's unfinished production facility complex for the production of polysulfon, a material used for filtration in artificial kidneys. He thinks he can easily find a foreign investor who would put up the \$10 million necessary to complete the complex. He also has plans to begin producing synthetic fibers for the aircraft industry. Meanwhile, Tverkhimvolokno continues producing fibers used in making consumer goods. Machalaba has the trust of his employees, who are convinced that their firm's bankruptcy has so far ridden them of incompetent management and can lead to economic success in the future. - Boris Goubman in Tver

FOREIGN TIES

NIZHNIĬ OPENS GERMAN REPRESENTATION IN SEARCH OF PARTNERS.

The Nizhniĭ Novgorod Oblast administration and the German company Ferrostahl AG have launched a joint venture. Under its auspices the oblast will open a "cooperation office" in the city of Essen which will sell the products of Nizhniĭ factories, import German equipment, and form other kinds of cooperative ties. Among the top priorities for both sides are: road construction, river port development, airport reconstruction, shipbuilding, chemical and petrochemical industries, food and oil processing, power production, and environmental protection. The work of the Essen office will not be limited to Ferrostahl and its associates, rather the office will become Nizhniĭ's outpost in Germany and in Europe at large. At first, the costs will be shared equally by both sides: the Germans will partially subsidize personnel costs and provide office space. However, the subsidy will run out after a year, at which point the office must be self-supporting.

Of course, the German partner is not driven by pure altruism. Ferrostahl AG is a part of the MAN industrial giant, which is currently negotiating a cooperative arrangement with Pavlovsk Bus Plant. Similar talks are under way between Germans and Nizhniĭ's RUMO manufacturer of gas pumping and power equipment. In other words, the project will help German industrialists to cut their costs, if they succeed in shifting some production to Nizhniĭ. After all, the oblast boasts a cheap and highly educated work force in addition to its large industrial capacity, while its relative proximity makes it an ideal partner for Germany. - Yurii Rodygin in Nizhniĭ Novgorod

CORRECTION. Last week the RRR incorrectly reported that Baltiiskii Bank is the largest in St. Petersburg. According to a recent Interfax-AIF ranking, which used assets as the criteria for size, the largest are Promstroibank-St. Petersburg, Credit Lyonnais-Russia, BNP-Dresdner Bank, Petrovsky, BaltUneximbank, the Bank of St. Petersburg, and Baltiiskii Bank.

REGIONAL PROFILE: AGIN-BURYAT AUTONOMOUS OKRUG

Governor: Bair Zhamsuev

Bair Zhamsuev was elected governor on 23 February 1997 with 44.5% of the vote. An ethnic Buryat, he was born in 1959 in an okrug village. In 1980 he graduated from the Chita State Pedagogical Institute and started working as a teacher. A year later, he was recruited as a full-time functionary first for regional komsomol and later for the Communist Party organization. He ultimately reached the rank of second secretary of the okrug CPSU committee. In July 1991, Zhamsuev was appointed deputy administration head where he served until winning a seat in the State Duma in December 1993. In the Duma, Zhamsuev joined the New Regional Policy fraction and served as a chairman of the committee on nationalities. He was reelected to the Duma again in 1995.

Other Local Leaders

Chairman of the Okrug Duma -- Dashi Dugarov, elected in November 1996

Brief Overview

The Agin-Buryat Autonomous Okrug is located in the southern part of East Siberia about 6,200 km from Moscow. It is located within the territory of Chita Oblast. Ethnic Buryats make up about 55% of the okrug population, while Russians, the second largest ethnic group, account for slightly over 40%.

Although there are few geological studies of the okrug, some gold, tin, coal, copper and other metals have been discovered. Seventy percent of the region's GDP comes from agriculture which is mostly oriented toward cattle-breeding. Local industries include non-ferrous metallurgy, mining, forestry and timber-working, as well as food-processing and light industry. The only large industrial enterprise, which produces 40% of region's total industrial output, is the Orlovskii Mining and Processing Works.

China is the region's largest foreign trade partner. All regional exports, 98% raw materials and 2% equipment, are shipped there.

According to *Ekspert* magazine, the okrug was ranked 8th according to most favorable legislative conditions for investment for Russian businesses and 7th -- for foreign investment.

Basic Facts

Population (as of Jan. 1, 1997): 78,400 (0.05% of Russian total)

Urban population (1989 census): 32.4% (Russia overall: 73.0%)

Student population (1996): 20 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 18.45% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 4.8% (Russia overall: 11.3%)

Industrial production as percentage of all Russian production (1996): 0.001%

Proportion of loss-making enterprises (1996): 92% (Russia overall: 56%)

Number of enterprises which have wage arrears (1996): 40

Agricultural production as percentage of all Russian production (1996): 0.17%

Number of private farms (as of Jan. 1, 1997): 398 (0.14% of Russian total)
Capital investment (1996): 24,600 rubles (Russia overall: 370 trillion rubles)
Sources of investment (1996): federal budget: 23.2% (Russian average: 9.2%); regional budget: 3.2% (9.6%); enterprises: 49.2% (66.3%)
Number of joint ventures (as of Jan. 1, 1997): 1 (0.006% of Russian total)
Number of telephones per 100 families (1993): in cities: 13.8 (Russian average: 48.7); in villages: 1.8 (19.7)

According to a 1997 survey by *Ekspert* magazine, the okrug is ranked 88th among Russia's 89 regions in terms of investment potential and 83rd in terms of investment risks. A 1995 survey by Bank Austria ranked the okrug 71st in terms of investment climate.

Electoral History

1996 Presidential Election

Yeltsin: 44.73%/49.16% (first round/second round)
Zyuganov: 35.74%/47.23%
Zhirinovskiy: 5.68%
Lebed: 5.34%
Yavlinskii: 2.60%
Turnout: 69.06%/66.24% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Agrarian Party of Russia: 32.32%
Communist Party of the Russian Federation: 18.02%
Liberal Democratic Party of Russia: 8.94%
Communists -- Workers' Russia: 7.25%
Women of Russia: 4.45%
Our Home Is Russia: 3.76%
Power to the People: 3.06%
Party of Workers' Self-Government: 1.56%
Russia's Democratic Choice: 1.42%
Yabloko: 1.20%
Trade Unions and Industrialists of Russia -- Union of Labor: 1.19%
Derzhava: 1.08%
In a single-member district: 1 independent
Turnout: 71.14% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 65.54% "No" -- 34.46%

1993 Parliamentary Elections

Agrarian Party of Russia: 21.49%

Party of Russian Unity and Concord: 19.22%
Liberal Democratic Party of Russia: 14.38%
Communist Party of the Russian Federation: 9.75%
Russia's Choice: 9.50%
Women of Russia: 9.02%
Democratic Party of Russia: 5.65%
Yabloko: 4.00%
In a single-mandate district: 1 independent
Turnout: 63.27% (Russia overall: 54.34%)

1991 Presidential Elections

Ryzhkov: 47.58%
Yeltsin: 17.45%
Tuleev: 10.86%
Zhirinovskiy: 6.11%
Bakatin: 3.93%
Makashov: 2.91%
Turnout: 79.91% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regioni Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.

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BREAKING NEWS

POLITICS

YELTSIN MEETS BRIEFLY WITH MAYORS. President Boris Yeltsin met briefly with his Council on Local Government on 29 May and then, citing his need to call U.S. President Bill Clinton, turned the meeting over to Prime Minister Sergei Kirienko. The main issue discussed was the development of a federal program to support local government. The mayors are

particularly keen to obtain federal financing to carry out tasks that were devolved to them. The current laws are unclear on the division of responsibilities and the local governments are strapped for cash. Meeting participants also discussed the idea of giving cities greater control over the police. (*Kommersant Daily*, 30 May)

KREMLIN SEEKS WEAPONS AGAINST LEBED. Yeltsin has appointed Krasnoyarsk Mayor Petr Pimashkov to the presidential Council on Local Government in a clear signal that the Kremlin hopes to use him to check the power of newly elected Krasnoyarsk Governor Aleksandr Lebed. The Kremlin has supported mayors to limit the power of regional executives in several regions including Udmurtiya and Primorskii Krai. The strategy of limiting the governors' power "from below" can be more effective than direct attacks from the Kremlin because criticism from Moscow often has the undesired result of generating popular sympathy for the governor. (*Izvestiya*, 3 June) After the 1996 presidential elections, then Chief of Staff Anatolii Chubais assembled the country's mayors and encouraged them to join the federal government's efforts against the governors' lobby. Last year's law on financing local government sought to give the local governments greater independence from the regions in which they are located.

Conflicts between the capital cities of regions and the governors are common because the cities contribute money to the regional budget and governors want to redistribute those funds to needy rural areas. Such a conflict may be particularly acute in Krasnoyarsk because Lebed won much of his support from rural voters, while those in the capital city voted against him. During the campaign, Mayor Pimashkov publicly supported incumbent Valerii Zubov. Lebed has also indicated that he is ready for a fight in Krasnoyarsk. During his campaign, he claimed that the city soaks up money from the rest of the krai in the same way that Moscow takes money from the regions.

During a quick visit to Moscow last week, Lebed avoided meetings with the press, a normal practice for newly elected governors. Lebed met with members of Yeltsin's administration and apparently left a good impression, stressing that he wanted to have constructive relations with the federal authorities, *Kommersant Daily* reported on 28 May. So far he is apparently "playing by the rules."

LEBED WANTS CONTROL OF SIBERIAN AGREEMENT. After Novosibirsk Governor Vitalii Mukha sent Lebed a congratulatory telegram, he found out that Lebed wants his job as head of the Siberian Agreement regional association. Lebed believes that the association is ineffective and wants to turn it into a powerful lobby capable of changing government policy in Moscow. Mukha said the best position Lebed could hope for was deputy chairman of the association. Lebed will have to demonstrate that he can improve the situation in Krasnoyarsk before he takes control of the regional association, Mukha said. (*Nezavisimaya gazeta*, 28 May)

AGRARIAN PARTY WINS IN ALTAI REPUBLIC DUMA BY-ELECTION...

Agrarian Party Chairman Mikhail Lapshin won a State Duma seat by-election in Altai Republic on 31 May, barely defeating former Deputy Finance Minister Andrei Vavilov, taking 42 percent of the votes to Vavilov's 40 percent. Lapshin's victory was unexpected. Six months ago, Republican President Semen Zubakin won office, albeit with a narrow 208-vote margin, as the only regional executive who is officially a member of Yegor Gaidar's Russia's Democratic Choice. Vavilov, who had strong support from Gazprom, where he is an advisor to Chief Executive Officer Rem Vyakhirev, was expected to be a close ally of Zubakin. But Lapshin's nostalgic appeals and the visits of Communist Party leader Gennadii Zyuganov apparently were enough to turn the liberals' earlier slim margin of support in favor of the left. Lapshin failed to win a seat in the 1995 Duma elections because his party unexpectedly failed to clear the 5 percent barrier in party-list voting. Vavilov's failure shows that good connections in Moscow and strong financial backing are not enough to win a Duma seat.

... WHILE OUR HOME IS RUSSIA WINS IN CHUKOTKA. In contrast, Our Home is Russia organizer Vladimir Babichev easily won a Duma by-election in Chukotka. (*Izvestiya*, 2 June) The former representative from Chukotka, Tat'iana Nesterenko, resigned her seat to take a position in the Finance Ministry, where she will serve as a close ally to Chukotka Governor Aleksandr Nazarov. Vladimir Etylin -- a Chukchi politician who served as chairman of the Chukotka Soviet, was a deputy in the USSR Congress of People's Deputies, and took second place in the 1996 gubernatorial elections -- trailed with only 21 percent of the vote. Babichev also had strong support from Gazprom. (*Kommersant Daily*, 2 June) He will spend most of his time in Moscow. He said that his strongest impression from Chukotka, the Russian region farthest from Moscow, was a newspaper announcement offering to exchange a three-room apartment in the village of Providenie for a ticket to Moscow. Babichev's campaign slogans included the line: "Some say that Chukotka is far from Moscow but, as a person from the North, I think that Moscow is far from Chukotka." (*Nezavisimaya gazeta*, 2 June).

AYATSKOV PROPOSES ELECTING POLICE CHIEFS. Saratov Governor Dmitrii Ayatskov proposed in a recent meeting with President Yeltsin that Russian municipalities have the right to elect their police chiefs. The Ministry of Internal Affairs currently appoints the chiefs. Ayatskov argued that power should be transferred from the Kremlin to the local level and that electing police chiefs would increase popular respect for them. Yeltsin reacted positively to the idea, which will now be further developed. (*Kommersant Daily*, 2 June)

STAVROPOL COURT DECLARES RNE IS NOT FASCIST. A Stavropol court has ruled that Aleksandr Barkashov's Russian National Unity (RNE) is not a "fascist organization that is guided by fascist ideology." The Stavropol newspaper *Stavropolskaya pravda*, which dubbed the organization "fascist," must now pay the local branch of the organization 6,000 rubles (\$1,000) and print a retraction. The ruling was the first to make such a determination. (*Izvestiya*, 30 May) The group's offices are decorated with swastikas and they have published a plan for taking power in three years.

KIZNER HOLDS PUBLIC HEARINGS ON CHEMICAL WEAPONS

DESTRUCTION. The Green Cross organized public hearings about chemical weapons destruction in Kizner, Udmurtiya, where 14.2 percent of Russia's chemical weapons stockpile is stored. Mayor Vladimir Alekseev, a scientist from Izhevsk, has agreed that the weapons will be destroyed on site and hopes to win as much federal money in compensation as possible. Local authorities hope to use the funds to construct housing, hospitals, roads, and other infrastructure projects. Thus far, the foundation has been laid for only one apartment house. The seminars included specialists from the USA, Great Britain, Italy, Switzerland, and representatives of other regions where the weapons are stored. (*Izvestiya*, 30 May) (For further information on chemical weapons destruction in Russia, see the SIPRI web page at www.sipri.se).

NEW MOSCOW OBLAST DUMA HASN'T ADOPTED 1998 BUDGET. The Moscow Oblast Duma elected last December is made up of various economic managers who generally seek a much more cooperative relationship with Governor Anatolii Tyazhlov than their predecessors. Yet they have still been unable to adopt a 1998 budget. The Duma is broken into two factions: "For the social and economic rebirth of Moscow Oblast" and "Our Moscow Oblast (*Podmoskove*)". The former generally supports the governor, while the latter is more critical and favors more leftist views. They have not been able to adopt a budget largely because of economic disputes over the budget's 50 percent deficit. The debates call into question the region's development strategy. The difficulty in approving the budget shows that the region's problems are so complicated that they can't be easily resolved even with good relations between the two branches of power. (*Nezavisimaya gazeta*, 28 May)

MURDER SUSPECT CLAIMS NAZDRATENKO ORDERED HIT. Aleksandr Brekhov, a former member of the Primor'ye-Prom board of directors who is accused of murdering Primor'ye-Prom Director Andrei Zakharenko in 1995, claimed that Governor Yevgenii Nazdratenko approved the crime. Brekhov offered no evidence for his claim and Nazdratenko angrily denied it. (*Moscow Times*, 28 May) However, the issue is being hotly debated in Vladivostok. Brekhov said that a battle for control of the company's stocks was being waged in 1994 between two groups, Brekhov and the krai procurator Valerii Vasilenko on one side, and Nazdratenko and the now -deceased criminal *avtoritet* Sergei Baulo on the other. The murder helped Nazdratenko's group, according to Brekhov. Vladivostok Mayor Viktor Cherepkov, a bitter enemy of Nazdratenko, called on the Russian Procurator to protect Brekhov while the claims are investigated.

ECONOMICS

YAROSLAVL LACKS COHERENT DEVELOPMENT STRATEGY. The Yaroslavl Oblast administration has been unable to define its economic priorities and therefore its policies lack clear focus, according to an analysis in *Finansovye izvestiya* (28 May). The region maintains its current stability merely on the basis of the existing industrial plant. As long as the existing factories continue to function and attract domestic and foreign investment, the oblast's population can continue to live at a relatively high level. The various goals of developing an

independent export base, advancing an investment program, and supporting agriculture are more like "competing ideas and intentions" than a coherent economic policy, the paper argues. As a result, the region's long-term economic development remains in doubt.

The administration's current plans call for building on the oblast's internal resources. However, the administration apparently has not decided on what kind of relationship it wants with Moscow even though that relationship will likely be the key determinant of regional economic performance. Oblast Government Chairman Vladimir Kovalev claims that while in principle the region should receive subsidies from Moscow, in reality it must live off its own resources. Yaroslavl Duma Chairman Sergei Vakhrukov believes that the region could be self-sufficient if it could keep a greater share of the taxes collected in the territory.

In general, the officials believe their own efforts to stimulate the regional economy will not be sufficient because Yaroslavl's fate is intricately tied to the economy of Russia as a whole. The region's relation with Moscow is likely to change for the worse in the near future because Moscow is demanding cash payments while cash surrogates and barter payments remain in the region. Since 1996, 59 percent of the oblast's income has come in non-cash payments.

RYBINSKIE MOTORY BUILDING STAFF. The American firm General Electric is interested in working with Yaroslavl's Rybinskie motory to produce equipment for the energy industry. The firm, which makes most of its money building aircraft engines, is hiring new engineers, scientists, and designers to increase its ability to compete in the energy equipment sector. Among the key hires was the director of industrial gas turbines, Aleksandr Snitko, the former deputy general designer at Perm's Aviadvigatel, one of Russia's largest producers of aircraft engines, gas turbines, and ships. Last year the company was profitable and increased production. It now employs 23,000 workers. (*Finansovie izvestiya*, 28 May)

SITUATION CRITICAL IN SAKHA AFTER THREE WEEKS OF FLOODING. Flooding began in Sakha on 11 May and the situation remains complicated. The flooding affects an area that is populated by half a million people. The waters have covered 171 population centers and forced the evacuation of 51,055 individuals, according to official statistics. There have been 15 officially reported deaths, but that figure is expected to rise. In terms of property, 15,245 apartment buildings, 456 public buildings, 914 industrial buildings, 312 bridges, 213 dams, 335 transformer substations, and 130 boiler houses have been submerged. Only a bombing campaign to redirect the flow of the Lena river saved the 200,000-inhabitant city of Yakutsk, the capital of the republic. Receding water often reveals yet more destroyed homes. The republican administration does not have the money to pay the rescue workers, much less compensate residents for their losses. The flooding is also complicating the transport of supplies to cities in the republic's north. The rivers are only navigable until about 20 September, and all work must be completed by then. (*Izvestiya*, 2 June)

MOSCOW GAINS AIRLINE. The city of Moscow has acquired a 25 percent plus 1 share of the Atlant-Soyuz airline, a company worth \$90 million, according to a Price Waterhouse

survey. Moscow Mayor Yuriy Luzhkov wanted the airline as a way of denoting the city's power, *Kommersant Daily* (30 May) reported. Luzhkov is also trying to acquire ownership of Sheremetevo airport and to build a business airport at Khodynok.

RUSSIA PREPARES TO SELL 10% STAKE IN LEBEDINSKII. The federal government is preparing to sell its 10 percent stake in the Lebedinskii Mining and Concentrating Combine (Belgorod Oblast). The plant is Europe's largest producer of raw materials for the ferrous metallurgy industry. The sale is expected to raise between \$20 million and \$100 million. The Rossiiskii Kredit bank, which owns 46 percent of the shares of the plant is competing against an alliance of the Novolipetsk Metallurgical Combine and the Oskolskii Elektro-metallurgical Combine, which currently controls 41 percent of the shares. The winning side will have a controlling stake. The two factories want the government to sell the 10 percent share as one parcel, while Rossiiskii Kredit wants the government to sell the shares in two 5 percent lots. The state also owns a 4.63 percent stake that is currently under court control. (*Kommersant Daily*, 29 May)

TRANS WORLD GROUP SEEKS TO RETURN TO RUSSIAN MARKET. In the last year the British Trans World Group (TWG) lost control of the Novolipetsk Metallurgical Combine and the Sayansk Aluminum Factory, although it retains control of the Bratsk Aluminum Plant. The firm is now trying to rebuild its former empire. The state will sell off a 14.85% stake in the Novolipetsk plant and a approximately a 15% stake in Sayansk. TWG could win control of Novolipetsk again because it currently owns a 36% stake. The firm lacks a lobbyist in the federal government (former Deputy Prime Minister Oleg Soskovets had served this role in the past) and therefore is counting on building up relations with regional leaders.

Its key interests are focused on Lipetsk, Novosibirsk, and Krasnoyarsk. The firm is offering credits to the regional budgets in exchange for support. However, the local governors are not keen to help. The Lipetsk administration said that while it is happy to have TWG as an investor it will not help solve problems at the plant. In Novosibirsk, Governor Vitalii Mukha recently tried to pry the Novosibirsk Electrode Factory from TWG. In Krasnoyarsk, newly elected Governor Aleksandr Lebed has close ties to Krasnoyarsk Aluminum Factory Director Anatolii Bykov, who threw TWG out of the plant. (*Kommersant Daily*, 28 May)

SIBNEFT CHANGES ADDRESS TO AVOID OMSK TAXES. Sibneft has reregistered its official address to avoid paying Omsk city taxes, some of the highest in Russia. The steep levies result from a variety of initiatives adopted by the city soviet. Many of the taxes are illegal and at least five have been overturned in the last year. A tax adopted in 1996 forcing all companies to pay 2 percent of their turnover to clean up the city was the last straw for Sibneft. The oil company and 18 other large companies in the city have fought the tax in court for the last year, but have not been unable to win a favorable decision. Twenty-four other companies have left Omsk in the last two years. All the companies leaving Omsk have reregistered elsewhere in Omsk Oblast. (*Nezavisimaya gazeta*, 29 May)

BUSINESS BRIEFS

-- **LENINGRAD OBLAST** signed a cooperation agreement with **SURGUTNEFTEGAZ** under which the firm will help refurbish the Kirishi oil refinery, a project that is likely to cost \$800 million. Kirishi is already the largest contributor to the oblast budget. Once complete, the plant will have the capacity to process 15,000 tons of oil a year. The oblast will free the refinery from paying customs duties and value added tax when production begins. Surgutneftegaz will also invest \$30 million in the construction of an oil terminal at Batareinaya Bay. Additionally, the firm will contribute \$15 million to the construction of a pipeline between the refinery and the port. (*Finansovye izvestiya*, 2 June)

-- The Moscow government on 26 May gave the **MOSCOW TELECOMMUNICATIONS COMPANY** (Komkor) the exclusive right to develop a fiber optic cable network that will link 3 million customers by 2004 with high-speed Internet connections at a cost of \$940 million. Palo Alto, in California's Silicon Valley, is the only other city attempting such a project. In the last six years, the company laid 1,500 km of cable and hooked up 30,000 users. The Moscow government will cover half the cost of the project (\$480 million) and user fees will cover the other half. (*Finansovye izvestiya*, 28 May)

-- Canada's **SNS-LAVELIN INTERNATIONAL** is seeking investment for a high speed tram system to link Sheremetevo airport with the new **MOSCOW CITY** business center. The company is working on a similar project in Malaysia. The tram will take about 20 minutes to get to the City project, making stops at Moscow metro stations. (*Finansovye izvestiya*, 28 May)

-- **PHILIP MORRIS** began construction of its \$335 million cigarette factory near Bolshaya Izhora in **LENINGRAD OBLAST**. The plant will be able to produce 25 billion cigarettes a year. The project is Philip Morris' largest investment in the CIS and the largest foreign investment project in the region. The American tobacco giant went ahead with its investment after it produced up to 5 million Chesterfield cigarettes yearly at a facility in the converted Volna defense enterprise in **ST. PETERSBURG**. Philip Morris is continuing to refurbish a \$60 million plant in **KRASNODAR**. (*Finansovye izvestiya*, 2 June)

-- **GAZPROM** President Rem Vyakhirev, Norway's **STATOIL** President Harald Norvik, and **NORSK HYDRO** Vice President Turleif Enger have signed an agreement to search for hydrocarbon deposits in the Pechora and Barents Seas. Increased oil output in the northern seas in the next four to five years is expected to compensate for declining yield in Western Siberia. The agreement includes plans to build refineries in **ARKHANGELSK** and **MURMANSK** oblasts so oil does not have to be transported to central Russia for refining. Eventually, a fleet of tankers will carry the fuel to export markets. (*Nezavisimaya gazeta*, 29 May)

-- America's **LOCKHEED MARTIN** is the firm most likely to win a contract to destroy hard-fuel rocket engines in the city of Votkinsk (**UDMURTIYA**), where they were produced.

The project will destroy 916 engines and 319 SS-24, SS-25, and SS-N20 rockets at a cost of \$54 million. However, an environmental impact report has not been completed and residents of Votkinsk are petitioning the republican legislature to hold a popular referendum on how to deal with the Cold War weapons. (*Nezavisimaya gazeta*, 28 May)

-- The Russian government has approved a 10-year, \$10 million **EBRD** credit to modernize **NOVOSIBIRSK'S** Tolmachevo's airport. The airport will contribute \$6.7 million of its own funds. (*Russkii Telegraf*, 3 June)

-- The government of Tatarstan has begun privatization of **TATENERGO**. The utility is unique in Russia because it is not part of Unified Energy System (EES) and is wholly state owned. The firm owes 500 billion old rubles (\$83 million) to the federal government and 2.5 trillion old rubles (\$417 million) to Gazprom. The **TATARSTAN** government will retain 50 percent plus 1 share, the workers will get 20 percent, parts suppliers 5 percent, 5 percent will be put up for sale on the market, and Gazprom and EES will each get 10 percent. (*Russkii Telegraf*, 3 June)

-- **AK BARS**, the authorized bank of **TATARSTAN**, now has 2 billion rubles (\$333 million) in assets and is one of the five largest banks in Russia. The bank is now planning to sell its stocks on the Russian and foreign markets. (*Russkii Telegraf*, 2 June)

-- **INKOMBANK** and **ALFA-BANK** won a competition to work with **NIZHNI NOVGOROD** Oblast on developing small business in the region. The city will transfer \$1.5 million to each of the banks for credits to support small businesses. (*Russkii Telegraf*, 2 June)

-- A proposed deal between Sweden's **ERICSSON** and **NIZHEGORODSVYAZINFORM** for \$12 million to produce communications equipment has been postponed. Nizhnii Novgorod Governor Ivan Sklyarov last year convinced Most bank to provide a \$25 million credit for the project, but the bank quickly lost interest. (*Russkii Telegraf*, 2 June)

CENTER-PERIPHERY RELATIONS

RUSSIA URGENTLY NEEDS A NEW, EFFECTIVE REGIONAL POLICY. That was the central theme of a talk given at Hokkaido University's Slavic Research Center on 3 June by Vyacheslav Seliverstov, the director of the Siberian International Center of Regional Studies in Novosibirsk and chief editor of the journal *Regions: Economics and Sociology*.

Dr. Seliverstov argued that in effect Russia has no regional policy at all. In the Soviet era, policy towards different geographical territories was driven by a desire to develop an integral national-industrial system. Since the collapse of central planning, however, no new policy structure has emerged to fill the vacuum. As a result, necessary investments in transport infrastructure have ceased and regional inequalities have massively increased, such that per capita incomes in the poorest regions (such as Tyva or Altai) are one-tenth of those in the

richest regions (such as Moscow City and Tyumen). Russian federalism has been destabilized by the phenomenal enrichment of Moscow city. Moscow has most of the nation's financial capital and extracts "colossal rents" from natural resource exports because the corporations that run those industries are headquartered in Moscow. The ownership of many major industries is very unclear, but Seliverstov surmises that most of the lucrative aluminum industry, for example, is now in foreign hands.

These developments have hit Siberia particularly hard, Seliverstov noted. Although Siberia is the source of 80 percent of the nation's oil and gas along with many minerals, the hike in railway tariffs and lack of investment in new transport routes leave s Siberia effectively "shut off" from both the west and east. For example, of the three branches of the Trans-Siberian railway running west from central Siberia, the southern two lines run across Kazakstan, which is an increasing source of problems for the free flow of goods. Seliverstov argued that Russian federalism is essentially a "myth." The system is so haphazard, he said, it does not deserve the name "federalism." He noted that no other country on earth tries to run a federation with 89 separate subjects - the coordination problems are simply insuperable. Only if regions are grouped into fewer, larger entities will a more coherent, rational policy be possible - but, Seliverstov acknowledged, the regional governors and presidents do not want to give up the power they currently enjoy. They might be willing to move in that direction only if the federal center had a lot more money to give them. Federal transfers to the regions amounted to just 4.1 percent of GDP when the new subsidy fund was introduced in 1994, but by 1996 they had slipped back to just 1.8 percent of GDP.

Seliverstov listed the many flaws of Russian federalism, such as the asymmetry between regions and republics; the anomaly of some subjects nesting within others (such as Yamalo-Nenets within Tyumen oblast); the reliance on ad hoc and unequal treaties between the government and federation subjects (many with secret clauses); and the chaotic system of federal budgetary transfers, with at least seven different funds funnelling money to regions under different rubrics. Regional policy is split between multiple federal agencies - three different departments in the Economy Ministry and three more in the Ministry for Regional and National Policy, plus the Finance Ministry's Territorial Budgets Department and the State Committee on the North.

Seliverstov saw some grounds for optimism. He noted that the trend towards growing regional inequality has been slightly reversed since 1995. The resource-rich regions, such as Tyumen and Krasnoyarsk, suffer from a lack of investment and Seliverstov argued that they are beginning to understand the need for an integrated, national development strategy. He was skeptical that Aleksandr Lebed could turn Krasnoyarsk into a wealthy and independent fiefdom. Seliverstov is convinced that the fate of Russia's multiple and distant regions will be decided together. - Peter Rutland in Hokkaido

PATTERNS OF REGIONAL DEVELOPMENT

POOR PERFORMANCE FORCES DZERZHINSK MAYOR'S RESIGNATION.

Dzerzhinsk Mayor Aleksandr Romanov resigned on 29 May with one-and-a-half years remaining in his term. He had been elected to the position in December 1995. Dzerzhinsk is one of the most polluted cities in Russia owing to its high concentration of chemical plants. Romanov refused to comment on his resignation. But Nizhnii Novgorod Oblast First Deputy Governor Aleksandr Batyrev, who went to Dzerzhinsk to deal with the situation, said: "The mayor's decision was a wise one. Romanov has done a lot for the city, but unfortunately he lacks the necessary experience to handle all of Dzerzhinsk's problems." In accordance with the city charter, the first deputy mayor will assume Romanov's duties until new elections are held. One probable contender for the job will be Sintez General Director Sergey Trofimov, who is also a member of the oblast assembly. Even though no official statements have been made in the oblast capital, the main reason for Romanov's resignation seems to be criticism from the regional administration regarding his inability to solve municipal problems. As Dzerzhinsk City Duma Speaker Sergey Leskov put it: "The city is indeed in a crisis, as the constant teachers' and doctors' protests testify. Unfortunately, the mayor has failed to find a way out." - Yuri Rodygin in Nizhnii Novgorod

TATARSTAN'S LEADERSHIP RESHUFFLE SHOWS INCIPIENT PLURALISM

by Midkhat Faroukshine, Kazan State University

As has been long expected in Tatarstani political circles, the republican State Council (legislature) elected former prime minister Farid Mukhametshin as its speaker on 27 May, replacing Vasily Likhachev, who had been appointed Russian ambassador to the European Union. While Mukhametshin's election was not a big surprise, the consequences are potentially controversial: after all, the top three people in the republic (president, prime minister, and speaker of the parliament) will all be ethnic Tatars. However, this is not unprecedented and was the case between 1992 and 1995.

Three aspects of these developments deserve special attention. First, for the very first time in authoritarian Tatarstan, where the docile legislature usually serves as an old Soviet-style rubber-stamp, the parliament actually refused to approve the president's choice right away. Instead, it decided to consider a pool of six candidates. Mukhametshin had to compete with such formidable figures as former Prime Minister Mukhamet Sabirov and Naberezhnie Chelny Mayor Rafkat Altinbaev. The other three candidates eventually dropped out of the race. Sabirov too dropped his candidacy and called on the members of the parliament to back Altinbaev, but not after criticizing President Shaimiev for sacking Mukhametshin as prime minister. Unlike the president's favorite candidate, Altinbaev presented a comprehensive program of action that he promised to implement, if elected speaker. Twice during the session, the president's representatives tried to make Altinbaev drop out of the race, but he consistently refused. In the end, Mukhametshin defeated Altinbaev by a vote of 77-50. In other words, for the first time, Tatarstan saw a truly competitive election, where the President was not sure until the last moment that his candidate would be chosen. While Shaimiev's position in the republic is still strong, he is increasingly forced to consider the opinions of others.

Second, the authorities still try very hard to conceal the truth from the people. The President has never explained why he removed Mukhametshin from his post as prime minister. Shaimiev only told the parliament that Tatarstan is about to face a difficult period in its external relations, especially vis-a-vis the federal center: the original power sharing agreements are expiring soon, and Mukhametshin is too closely tied to Moscow to make an effective negotiator. Such arguments are hardly persuasive, because any prime minister needs strong Moscow ties to effectively lobby for the region.

In any case, the president has already quietly prepared Mukhametshin's replacement--Finance Minister R. Minnekhanov, allegedly connected to Shaimiev through old friendship and family ties. Before heading the finance ministry, Minnekhanov ran one of the rural districts and is known for his tenacity and drive. However, he also has a reputation for being unsophisticated and narrow-minded. In part because many in the republic's establishment see him as a rural hick catapulted to power ahead of his peers, most industrial, banking and parliamentary leaders have privately expressed their disapproval of the president's choice. This is why so many deputies wanted to keep Mukhametshin in his old place. So, at the State Council meeting the president refused to openly name the next prime minister, despite numerous requests by the deputies to do so. Instead, he said that the Constitution names him the head of state as well as the head of the executive branch, and that he plans to carry out the duties of prime minister for the time being.

When in 1995 then chairman of Tatarstan's Supreme Soviet Mukhametshin became prime minister, many saw it as a promotion. Indeed, the prime minister has much more real power than does the speaker of the parliament. So, is the most recent move a demotion? More importantly, what are the real reasons behind the decision? Either it was a desire to promote Minnekhanov or dissatisfaction with Mukhametshin's performance. Maybe it was a combination of both, or maybe there was a third reason: given the harsh financial and economic conditions, the president might want to preserve Mukhametshin for the future by removing him from the spot-light. However, this third scenario is least likely: Shaimiev has vocally criticized the government and the prime minister in the past, and he is not likely to save Mukhametshin's skin by jeopardizing Minnekhanov.

Third, I do not believe that Shaimiev seriously plans to act as prime minister. For one, the situation in the republic has not improved in the last 2-3 years and he is not accustomed to being in the center of public criticism, especially on the eve of his likely reelection for a third term. He is more comfortable reigning above the political fray, acting as the higher arbiter for all branches of government. Additionally, we know that in order to clear the way for Mukhametshin's confirmation, he offered Altinbaev the job of prime minister 30 minutes before the parliament's session commenced. The latter declined.

NIZHNY MAYORAL CANDIDATE SENTENCED TO AN ADDITIONAL 4.5 YEARS IN JAIL. A Nizhnii Novgorod court has sentenced Andrei Klimentiev, whose 29 March victory in the Nizhnii Novgorod mayoral elections was overturned, to serve an additional

4.5 years in prison in addition to the one and a half years he has already served during the course of the investigation and confiscation of his property. One of his accomplices, the former head of the Oka Ship-building Plant in Navashinsk, Aleksandr Kislyakov, received a 5-year prison sentence, which was suspended in exchange for one year of parole. The two were tried for embezzling \$2.9 million of company funds and for misusing a government credit Oka had received.

After the trial, the defense attorneys charged that the entire court case was a political farce, and that Klimentiev's fate was essentially sealed on 2 April when his victory in the Nizhnii Novgorod mayoral race was overturned. While the defense team is skeptical about its chances in the Russian Supreme Court, the attorneys are preparing an appeal to the European Court of Justice.

In his commentary on the case, Judge Vasiliy Popov cited several procedural violations during the investigation. He also instructed the prosecutors to search for further accomplices who helped Klimentiev embezzle the money. Popov denounced numerous violations by former Governor Boris Nemtsov in handling the government credit to the Oka company, particularly the fact that Nemtsov concealed the deal from the oblast finance department. Similarly, the judge's ruling criticized then Deputy Prime Minister Boris Fyodorov for making a unilateral decision to grant a \$30 million credit to Oka. There was never any oversight on the flow of money in the Finance Ministry, the oblast administration, or at NBD-bank which managed the transactions. At that time, NBD was headed by Boris Brevnov, a Nemtsov protege and, until recently, chief executive of the Unified Energy System electricity monopoly.

In his closing statement during the proceedings, Klimentiev told the court: "Just wait until the year 2000." Maybe by then the political turmoil bound to hit Russia will set this "political" prisoner free. - Yuri Rodygin in Nizhnii Novgorod

KOMI MINER STRIKES MARK NEW LEVEL OF PROTEST. Having become almost an everyday occurrence, miners' strikes usually provoke little reaction from the government. However, the May wave of protests was the most serious set of strikes since 1989, exacerbated by the effects of the miners' blockade of major railway routes. On the surface, the miners were protesting the non-payments crisis: they have not received their salaries because coal consumers do not pay for the fuel they buy. However, the real situation is much more complex and unique in each particular case, such as in Pechora coal basin, where the railroad blockades began earliest and lasted the longest. In Pechora, while coal consumers owe the miners considerable sums, the government owes them the most. Moreover, the debt mounts each year while government support dwindles. If government subsidies accounted for 71.4% of the expenditures in Vorkuta in 1993, then in 1997 subsidies dropped to 28.3%. In the city of Inta the subsidies fell from 70.3% in 1993 to a mere 19.3% in 1997. (*Respublika*, 15 May)

As a part of the Pechora basin's restructuring program, many mines have been shut and productivity has increased dramatically, to 1.5 times higher than the industry average. However,

the government has failed to fulfill its obligations under this program beyond the first year. The IMF credit set aside for this program never reached the Komi miners, and no effort has been made to relocate Far North residents to other areas, while the mines continue to shut down. After a January industrial accident, the Central mine in Vorkuta is to be closed ahead of the scheduled date in 2001. In Inta, the government set aside over half of its 107 million ruble transfer to shut down the Glubokaya mine. (*Respublika*, 21 May)

The miners were also angry at the government's decision to revoke federal subsidies for "northern benefits," higher salaries for working in the region's extreme climatic conditions. Labor unions protested the failure to provide children living in the Far North with promised summer vacation trips. Another point of contention is the Railroad Ministry's tariff policy which increases the coal's ultimate price. Because of the prices it has established, it is cheaper to transport coal from Kemerovo Oblast to Russia's western border than from Vorkuta to St. Petersburg, even though the distance is much shorter. The situation is complicated by the fact that different mines belong to different and competing companies. This is why the republic has proposed integrating all mines into one Pechora coal company (*Respublika*, 3 May).

Because the miners' strikes hit very close to home in Komi, the republican government made a great effort to meet the strikers' demands. For one, the republic announced that it will virtually forfeit any tax debts the mines might have to the regional budget. Also, the republican government took out a 21 million rubles (\$3.5 million) loan from the Russian Savings Bank to aid the miners. These decisions will hit Komi hard soon, as the federal subsidies have stopped and the recent financial crisis has shot interest rates to 150% annually. However, the republic lacked its own resources to deal with the crisis and had to push Moscow to help. Komi's chief executive Yurii Spiridonov attended the 19 May meeting of the special inter-agency task force chaired by Boris Nemtsov, which focused on the coal industry's ails. In addition to Nemtsov's verbal promise to help miners, Spiridonov met with Finance Minister Mikhail Zadornov, who also promised Komi a low-interest loan. Finally, Economics Minister Yakov Urinson visited the republic and talked with the government as well as with Inta and Vorkuta leaders. However, neither Moscow's promises nor high level visits pacified the strikers. On 25 May Yurii Spiridonov came to Inta, where he signed an agreement with labor union leaders ending the railroad blockade. On the same day he talked to Prime Minister Sergei Kirienko and the two agreed that Moscow will keep its subsidies to Komi on last year's level and the Economics Ministry will develop a comprehensive program for solving Vorkuta's problems together with local mine management (TV Komi gor, 27 May). Thus, the miners' strikes have facilitated a greater role for the republican government in solving Pechora's problems, most likely resulting in the creation of an integrated regional coal company in the near future. - Yurii Shabaev in Sytktyvkar

SOCIAL ISSUES

BRYANSK OBLAST SUFFERS FROM POLLUTION. The environmental conditions in Bryansk Oblast, which suffered the most among Russian regions from the Chernobyl nuclear

disaster, remains a cause for grave concern. According to the oblast procurator's office, many companies guilty of environmental violations go unpunished, partly due to poor coordination among various law enforcement agencies. Last year, the Ecology Committee issued over 88 million rubles (\$14,000) worth of fines to companies guilty of chemical or radiation pollution, but only 250,000 rubles (\$40) have thus far been collected. Housing executives in the city of Klinty were pardoned after being convicted of polluting nearby forests.

In addition to housing 18.8% of Russia's chemical weapons arsenal, Bryansk is also planning to process chemical weapon materials from Udmurtiya, according to an oblast administration official handling environmental issues. The greatest concern for experts is burying the resulting waste: every ton of chemical materials produces four tons of waste. Additionally, the local authorities are trying to move the processing site outside their raion. Another cause for concern is the oblast's location on the border, especially since there is still no system of customs control to prevent the importation of dangerous materials. - Alex Levinsky in Bryansk

ECONOMIC ISSUES

VOLGOGRAD PLANT DECLARED BANKRUPT IN OWNERSHIP DISPUTE. The federal government, ostensibly determined to take stronger action against firms that have not paid their tax debts, on 29 May announced the bankruptcy of Volgograd's Volzhskii Pipe Factory (*Volzhskii trubnyi zavod* - VTZ) and two other enterprises. However, the current financial crisis is not the real reason for this move. According to the weekly *Delovoe Povolzhie*, the regional tax service's initiative to bankrupt VTZ came "from above." Before the bankruptcy announcement, the Russian Federal Property Fund (RFFI) tried several times to convert 40 percent of the plant's shares back into state property. In 1996, the state sold the 40 percent stake to the Malakhit firm, which then resold the shares to three firms of the Rosprom financial group, of which Malakhit is also a member. The Federal Arbitration Court ruled that although the initial sale was illegal, Malakhit's resale was conducted in accordance with existing laws so the three firms, which now own the largest stake in VTZ, do not have to return it to the state. Given this situation, the initiation of bankruptcy proceedings may simply be the state's latest attempt to regain ownership.

One of the most interesting features of the conflict is the position of the workers. According to a statement from the plant's trade unions, they support the current owners. After VTZ joined the Rosprom group in 1996, its finances began to improve. Wages are now paid on time and 800 jobs have been restored. In 1997 pipe production was 62 percent higher than in 1996, while contracts with Exxon and several other foreign firms prove that the output meets international standards. Thus, economic conditions alone do not explain the decision to declare the firm bankrupt. However, trade-union leaders are concerned that the proceedings may affect the firm's future performance. - Ivan Kurilla in Volgograd

KARELIYA'S PITKYARANTA CELLULOSE PLANT IN TROUBLE. If last year the Pitkyaranta Cellulose Plant did not function for a total of 34 working days, it has already

accumulated 54 dormant days in the first five months of this year. In the last two weeks the plant produced no output and is barely staying afloat. According to General Director Mikhail Selyuzhitskiy, the plant lacks timber, fuel oil, and money. Because of the dramatic drop in world prices for cellulose products, the plant has suffered huge financial losses, which today amount to 15 million new rubles (\$2.5 million). But even if Pitkyaranta had cash, it would still lack pine-tree wood to process. Together with Segezhabumprom, the plant annually consumes 1.1 million cubic meters of timber, while Kareliya is now only producing 500,000 cubic meters a year. Additionally, all the media and government attention usually focuses on the problems of Segezhabumprom, which was recently abandoned by its Swedish strategic partner AssiDoman, leaving Pitkyaranta out in the cold when it comes to supplies of limited timber resources. During the elections the authorities ordered the local suppliers to give their output to Segezhabumprom. In this situation the Pitkyaranta has had to improvise and compensate for the deficit with timber from Novgorod, Vologda, Murmansk, Arkhangelsk, and Leningrad oblasts. Ironically, these supplies turned out to be less expensive than the materials available in Kareliya because the firms in the republic incomprehensibly raise their prices well above market levels.

Because of financial difficulties, many residential buildings in the city were deprived of hot water. The plant has no money for fuel oil, plus the city owes the plant about 5.5 million new rubles (\$900,000) for utility services. To cover its debt, the city government has transferred 15,000 tons of fuel oil to the plant, which is still not enough. Unfortunately, Pitkyaranta's employees have not been paid yet even for January. With the average salary at 1,000 rubles (\$167) a month, the total wage arrears amount to 3.6 million rubles (\$600,000). Many workers sue the company and claim their wages through court. However, the general director disapproves of this tactic because, on a mass scale, it could shut the plant down completely. Indeed, to comply with the courts' rulings, the company must surrender its accounts and most liquid equipment (computers, vehicles, copiers, etc.) to debt collectors. If the Pitkyaranta Cellulose Plant is forced to close, one tenth of the city's population will be jobless. The plant supplies the city with heat and water as well as with a significant portion of the local budget revenues.

Finally, Mr. Selyuzhitskiy supports the initiative of the newly elected Kareliyan Prime Minister Sergei Katanandov who has proposed instituting rigid government oversight of timber production and supporting local industry. - Boris Matveev in Petrozavodsk

FOREIGN TIES

TELECOM MONOPOLIST BLOCKS DAEWOO PROJECT IN ROSTOV OBLAST.

In August 1997, South Korea's Daewoo-Telecom signed a \$2 million contract to build a new telephone station with Svyaz telecom in Volgodonsk (Rostov Oblast). However, even though the deal was guaranteed by the city administration, Svyaz might not be able to fulfill its end of the bargain: the new telephone station, which was supposed to go into operation in March 1998, is not ready yet.

The contract with Daewoo angered the oblast's monopolist, Roskomsvyaz (a partner of Germany's Siemens), which felt threatened by the South Korean competition. Roskomsvyaz took advantage of a legal loophole to get government telecom regulators to halt the construction of the phone station since Svyaz had failed to get the monopolist's approval for this kind of work. Subsequently, 40 Svyaz employees, led by the director and the chief engineer, went on hunger strike. Svyaz representatives met with the head of the telecom regulatory agency in Rostov Oblast, but were unable to make any progress. The conflict has become a source of irritation not only for the city administration, but also for local consumers. Meanwhile, Svyaz met with another South Korean delegation on 22 May and is currently incurring losses, waiting for a formal license to begin construction. - Milana Slinko in Volgodonsk

REGIONAL PROFILE: TVER OBLAST

Governor: Vladimir Platov

Vladimir Platov was elected governor on 17 December 1995. He received over 50 percent of the vote, defeating incumbent Vladimir Suslov.

Platov was born in 1946 in Vladimir Oblast into a family of peasants. In 1966, he graduated from the Vladimir Technical School for Aeromechanics. After graduating, Platov moved to the town of Bezhetsk, where he lived until he was elected governor. Except for two years in the military and several years working at other companies, he devoted his career to the Bezhetskselmash Works, where he started as an engineer in 1967 and rose to the position of director 20 years later.

In 1992, Platov took over the administration of the town of Bezhetsk and the Bezhetsk district of Tver Oblast. He had been a member of the Communist Party but quit in 1990. In December 1993, he failed in his bid for a seat in the new Russian parliament, the State Duma. He ran as the top candidate on Yabloko's regional list during the 1995 Duma elections, but withdrew his candidacy after deciding to run for governor. On the Federation Council, Platov is a member of the Committee on Social Policy. He generally supports President Yeltsin, including his decision to disband the parliament in the fall of 1993. However, Platov advocates greater state regulation of the economy, in particular, regulating prices and indexing wages.

Brief Overview

Tver Oblast (Kalinin Oblast until 1990) is located in the basin of the upper Volga River and borders Novgorod, Pskov, Vologda, Yaroslavl, Smolensk, and Moscow oblasts. The City of Tver was founded in the 12th century and around 1240 became the capital of the Great Tver Kingdom -- one of the political and cultural centers of Russia at that time.

Many important trade routes linking Moscow and St. Petersburg cross the oblast, stipulating its industrial development. Forests cover half of the oblast's territory. It has over 600

lakes, including Seliger Lake, and over 800 rivers, including the upper Volga, Dnepr, and Western Dvina, with a total length of 17,000 kms. The oblast is rich in raw materials including: peat, limestone, brick clays, gravel, and charcoal. It also has reserves of medicinal mineral waters.

Oblast industry is well diversified. Regional enterprises produce machines, equipment, synthetic fibers and leathers, glass, timber, and other goods. The Konakovo Hydroelectric Power Plant and the Kalinin Nuclear Plant are the oblast's largest industrial enterprises. Cattle breeding and flax dominate the oblast's agriculture, with over 30 percent of the country's flax grown in Tver Oblast.

According to *Ekspert* magazine, the oblast had the 6th greatest decline in investment climate (by 14 points) since 1996. However, its legislation favors both domestic and foreign investors and includes special laws on domestic investment and several legislative provisions for foreign investment.

Basic Facts

Population (as of 1 Jan.1997): 1,643,500 (1.11% of Russian total)

Urban population (1989 census): 72.4% (Russia overall: 73.0%)

Student population (1996): 118 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 30.09% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 8.8% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 32.8% (Russian average: 29.9%);

Agriculture: 14.6% (12.8%); Trade: 8.8% (9.1%); Culture: 11.3% (13.6%); Management: 2.6% (2.3%)

Average monthly personal income in 1996: 488,000 rubles (Russian average: 764,000 rubles)

Average monthly personal expenses in 1996: 410,000 rubles (Russian average: 753,000 rubles)

Average monthly subsistence requirement in 1996: 293,600 rubles (Russian average: 369,400 rubles)

Consumer price index (as of Dec. 1996): 98.69 (Russia overall = 100)

Industrial production as percentage of all Russian production (1996): 0.66%

Proportion of loss-making enterprises (1996): 64% (Russia overall: 56%)

Number of enterprises with wage arrears (1996): 1,176 (4.95% of total number of regional enterprises)

Agricultural production as percentage of all Russian production (1996): 1.24%

Number of private farms (as of 1 Jan. 1997): 3,746 (1.34% of Russian total)

Capital investment (1996): 1,879,600 rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): federal budget: 21.3% (Russian average: 9.2%); regional budget: 4.5% (9.6%); enterprises: 65.1% (66.3%)

Number of joint ventures (as of 1 Jan. 1997): 40 (0.25% of Russian total)

Fixed capital investment in joint ventures and foreign companies (1995): 1,190 million rubles

Number of small businesses (as of 1 Jan. 1997): 4,496 (0.53% of Russian total)

Number of enterprises privatized in 1996: 74 (1.48% of Russian total), including former municipal property: 87.8% (Russian average: 67.1%); regional property: 6.8% (14.3%); federal property: 5.4% (18.6%)

Number of telephones per 100 families (1996): in cities, 27.8 (Russian average: 48.7); in villages, 15.4 (19.7)

According to a 1997 survey by *Ekspert* magazine, the oblast is ranked 35th among Russia's 89 regions in terms of investment potential and 21st in terms of investment risks. A 1995 survey by Bank Austria ranked the oblast eighth in terms of investment climate.

Electoral History

1996 Presidential Election

Yeltsin: 32.11%/50.16% (first round/second round)

Zyuganov: 33.59%/43.65%

Lebed: 17.14%

Yavlinskii: 6.95%

Zhirinovskiy: 5.52%

Turnout: 74.23%/71.63% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Elections

Communist Party of the Russian Federation: 27.18%

Our Home Is Russia: 8.33%

Congress of Russian Communities: 8.01%

Liberal Democratic Party of Russia: 7.18%

Agrarian Party of Russia: 5.97%

Yabloko: 5.61%

Women of Russia: 4.65%

Communists -- Workers' Russia: 4.49%

In single-member districts: 2 Communist Party of the Russian Federation

Turnout: 70.97% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 50.04% "No" -- 49.96%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 25.48%

Russia's Choice: 14.13%

Agrarian Party of Russia: 13.87%

Communist Party of the Russian Federation: 12.46%

Women of Russia: 7.72%

Democratic Party of Russia: 7.71%

Yabloko: 6.04%

Party of Russian Unity and Concord: 5.65%

In single-mandate districts: 2 Communist Party of the Russian Federation

>From electoral associations: 1 Agrarian Party of Russia

Turnout: 63.92% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 43.67%

Ryzhkov: 24.82%

Zhirinovskiy: 10.93%

Tuleev: 9.12%

Makashov: 4.07%

Bakatin: 3.55%

Turnout: 80.35% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regioni Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.

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POLITICS

ADMINISTRATION'S NEW REGIONAL COORDINATOR STARTS

CAREFULLY. In his first public statements, First Deputy Chief of Staff Vladimir Putin, who recently replaced Viktoriya Mitina as the presidential administration's regional coordinator, apparently decided to go easy on the regions in an attempt to calm governors' fears that he

would take a hard line. (*Kommersant Daily*, 5 June) He said that a governor's political party membership was irrelevant to the president. What matters most is the governor's ability to get things done and play a stabilizing role as a member of the Federation Council.

Putin said there would be no new approach toward dealing with the regions and that he did not see any opposition members among the recently elected regional leaders. However, under questioning, he admitted that Krasnodar Governor Nikolai Kondratenko was "peculiar (*svoeobraznyi*) and emotional." Kondratenko recently gained considerable notoriety for anti-Semitic statements. Putin said newly elected Krasnoyarsk Governor Aleksandr Lebed has clearly stated his desire to cooperate and that at Lebed's request he sent a commission led by the new head of the administration's Main Oversight Department to Krasnoyarsk to investigate the work of former Governor Valerii Zubov. Former Federal Security Service General Nikolai Patrushev has just taken over the Main Oversight Department, the position Putin held prior to taking his current job. Putin also said that in the near future Yeltsin is expected to visit Vologda, Kostroma, Novgorod, Murmansk, and Nizhnii Novogorod. (*Izvestiya*, 5 June)

LEBED INAUGURATED. Aleksandr Lebed took the oath of office as Krasnoyarsk governor on 5 June. At the ceremony, Lebed was escorted by pop singer Alla Pugacheva, Krasnoyarsk Aluminum Factory Director Anatolii Bykov, one of the campaign's financial backers and Krasnoyarsk Mayor Petr Pimashkov. Nikolai Patrushev, the newly appointed head of the presidential administration's Main Oversight Department, attended the ceremony on behalf of the president. Lebed had hoped to include a number of prominent Russian bankers and businessmen and local industrialists at a investment seminar, but none of the national business leaders showed up and only half of the regional industrialists he had hoped for were present. Only Boris Berezovsky came to Krasnoyarsk, but just for a few hours on the eve of the inauguration and did not attend the ceremony (*Kommersant Daily*, 9 June). Among the international community, only Japan's Marubeni, long active in the region, attended the seminar. MFK Renaissance's Boris Jordan attended the ceremony.

Highly respected Tomsk Governor Viktor Kress gave a speech that was sharply critical of the federal authorities. Echoing Lebed's campaign pronouncements, he complained that the country's financial system, laws, and policies were oriented towards helping Moscow at great cost to the other regions. He called on Lebed to raise the Siberian Agreement Regional Association to a new level of effectiveness and stressed that the general's pugnacity would help all of Siberia. According to *Izvestiya* (6 June), many governors are hoping to use Lebed to wring greater concessions from the federal government.

Lebed intends to impose effective one-man rule over the region, abandoning earlier plans discussed by his supporters in the krai legislature of creating a krai government that would place the governor and legislature on more equal footing. Chairman of the krai Legislative Assembly Aleksandr Uss played only a ceremonial role in the inauguration.

In cooperation with the management of Norilsk Nickel, Lebed has set up three working groups to deal with problems at the plant and throughout the krai. The plant produces 13% of the world's nickel, but the prices for the metal is now very low on world markets (*Finansovye izvestiya*, 9 June). One group will examine ways to develop local industry by increasing the use of metals produced at Norilsk. A second group will examine ways to move pensioners and those no longer able to work from the northern Taimyr Autonomous Okrug, where Norilsk is located, to more hospitable climates. The third group will focus on financial relations between the krai, the city of Norilsk, and the Taimyr Autonomous Okrug. In particular, that group will discuss the distribution of Norilsk Nickel's taxes between the okrug and krai. (*Kommersant Daily*, 3 June)

PRIMORSKII KRAI SETS VLADIVOSTOK ELECTION DATES. The Primorskii Krai court has set the Vladivostok mayoral elections for 5 July and the city Duma elections for 12 July, one week later. Yet chaos surrounding the election scheduling is casting doubt on whether the elections will be held. The absurd and costly schedule of not combining the elections is the result of political wrangling between Vladivostok Mayor Viktor Cherepkov and authorities loyal to the mayor's archenemy Yevgenii Nazdratenko. Cherepkov last fall unexpectedly resigned and set the mayoral elections for 29 March, but then he changed his mind and postponed the elections until the fall. However, the krai electoral commission determined that the mayor's term ended in July and elections should be held then. The city electoral commission then set the city Duma elections for 12 July without first obtaining the mayor's agreement. In turn, Cherepkov issued decrees disbanding the commission, creating a new one, and scheduling both the Duma and mayoral elections for 5 July. The old city commission protested the move to disband it and the decision to set the Duma elections for 5 July, but not the decision on the mayoral election. The court sided with the old commission, restoring its authority and setting the Duma, but not the mayoral, elections for 12 July. So far the two committees, which are both functioning, have registered 14 mayoral candidates, including Cherepkov. (*Kommersant Daily*, 3 June)

ORENBURG MINERS CONTINUE TO BLOCK TRAINS. Although most of the striking coal miners who were blocking Russia's major rail links agreed to return to work around 25 May, when the government paid some of their overdue wages, miners in Orenburg Oblast continue to block railroad tracks leading to Bashkortostan. The miners are demanding full payment of their salaries, an end to the use of middlemen in selling coal, significant changes in the overall course of reform, and the resignation of President Yeltsin. (*Izvestiya*, 5 June)

SAMARA FINANCIAL INDUSTRIAL GROUP SEEKS INFLUENCE THROUGH TITOV'S SON. The Volgopromgaz Association for Business Cooperation, one of the strongest financial-industrial groups in Samara Oblast, has named 24-year-old Aleksei Titov, son of Samara Oblast Governor Konstantin Titov, as the chief executive officer of Samara's Gazbank. The group's director, Vladimir Avetisyan, hopes that the appointment will improve its situation in the oblast, according to local observers. (*Kommersant Daily*, 3 June)

PERM DEPUTY GOVERNOR ACCUSED OF EMBEZZLEMENT. The Perm Oblast Ministry of Internal Affairs has accused Deputy Governor Veonid Valko of embezzling 6 billion old rubles. The police arrested him several months ago, but Governor Gennadii Igumnov had him quickly released. He continues to carry out his duties. In similar cases in other regions, the Tula Oblast court is examining charges that former Tula Governor Nikolai Sevryugin took bribes. Former Vologda governor Nikolai Podgornov is facing similar charges. Tver Oblast Deputy Governor Viktor Volkov is being investigated for accepting a \$250,000 bribe, while Tver Deputy Governor Anatolii Stepanov was just sentenced to five years in jail for taking a bribe from Chechen businessman Ramzan Taramov. In March the Kemerovo Oblast procurator filed charges against former Governor Mikhail Kislyuk for inappropriately using a 17 million ruble (\$2.8 million) credit. (*Kommersant Daily*, 4 June)

BEPPAEV CALLS BALKAR REPUBLIC DECISION A MISTAKE. The leader of the Balkar national movement, Sufiyan Beppaev, said that the November 1996 Congress of the Balkar People which declared a Balkar Republic separate from the current Republic of Kabardino Balkariya was a mistake. He blamed the decision on the machinations of ethnic Balkars who had obtained high offices (the Balkar nomenklatura). They believed that a radical decision would strengthen their positions and give the authorities cause to disband the movement. He stressed that the north Caucasus should remain in Russia and that he did not want to put his people through any more difficulties. (*Nezavisimaya gazeta*, 3 June)

MINISTRY OF FOREIGN AFFAIRS CONCERNED ABOUT GOVERNORS' FOREIGN ACTIVITIES. The Ministry of Foreign Affairs has created a special department, and opened 26 regional representations and two branches to deal with the Russian regions' forays into making foreign policy. In particular, the ministry is extremely concerned about the regions taking foreign policy initiatives without Moscow's consent. The ministry is stressing that it is seeking to "regulate rather than forbid" regional initiatives and is lobbying for a federal law that would allow for greater coordination of the regions' foreign activities. The Duma approved the bill, but the Federation Council, made up of Russia's regional elite, has sent it to a consultative committee.

The ministry is upset about regional activities that go against Russian policies. Many regions bought fruit from Abkhaziya, the separatist region in Georgia, incurring the wrath of Tbilisi. The ministry was also embarrassed when representatives of Bashkortostan, Dagestan, Sakha (Yakutiya), Tatarstan, Tyva, Khakasiya, and Chuvashiya participated in an Istanbul conference that recognized the Turkish Republic of North Cyprus. Ministry officials also complain about Saratov Governor Dmitrii Ayatskov's overtures to German Chancellor Helmut Kohl. The ministry wants to focus regional foreign activities more narrowly on economic issues.

A meeting of the consultative committee on 3 June stressed the need for better laws regulating border trade. The committee suggested Russia soon sign the 1980 European framework convention on transborder cooperation. The committee also sees the creation of CIS-regions similar to Euroregions as a way to reanimate the CIS. Having signed 55

agreements with Russian regions, Belarus is the leading CIS country in forging cooperative ties at the subnational level. (*Russkii Telegraf*, 4 June)

YELTSIN MEETS WITH REPUBLICAN PRESIDENTS. President Yeltsin met with the leaders of Russia's ethnic republics on 5 June. Although the president criticized the republican presidents for passing laws that violated federal legislation, he also mentioned several ideas more to their liking. The president suggested transferring several enterprises from federal to regional ownership. Yeltsin also suggested that he would accept revised power-sharing treaties with the republics in a way that would give them more power than the oblasts and kraia have received. The original treaties did give the republics more privileges, but then oblasts and kraia won treaties that gave them similar rights. Now Yeltsin may grant additional rights to the republics to keep separatist tendencies in check. (*Kommersant Daily*, 6 June)

Yeltsin has been meeting with the regional leaders in different groups. Besides meeting with the republican presidents, he has met with the heads of the regional associations and with other governors. By breaking the regional leaders into groups such as these, Yeltsin is able to exploit the differences between the regions so that they cannot make a united front against him. However, if he gives additional benefits to the republics, he will undoubtedly incur the wrath of the oblasts and kraia.

YOUNG REGIONAL POLITICIANS SEEK VOICE TRAINING. Twenty young regional politicians who are planning on running for the Duma in 1999 are taking voice training lessons at the Bagratid center for voice development. Psychologists have shown that good orators have a much greater chance of being elected. Krasnoyarsk Governor Aleksandr Lebed has the best voice among Russian politicians today the center believes. His deep bass is the result of a trachea operation performed in his youth. Prime Minister Sergei Kirienko's voice, in contrast, is relatively weak. (*Izvestiya*, 9 June)

"RUSSIAN REGIONS" FACTION HOPES TO BECOME LEADING CENTRIST BLOC FOLLOWING 1999 DUMA ELECTIONS. Last week the "Russian Regions" Duma faction elected Oleg Morozov as its leader in accordance with faction rules calling for a leadership rotation every year. Candidates from the group running in the 1999 State Duma elections will have to sign a charter of principles, but there won't be strict party discipline. The next Duma is expected to have more parties represented, so Morozov believes that there will be a strong role for centrists. Like President Yeltsin, the faction supports electing all deputies from single-member districts rather than the current system in which half are elected in single-member districts and half are elected by party list. Moscow Mayor Yuri Luzhkov visited the group's meeting on 3 June and the deputies discussed possible cooperation with the executive of the largest region. In particular the faction may support Luzhkov's initiatives in the Duma (*Nezavisimaya gazeta*, 9 June).

In the 1990's, there have been several attempts by parties to win public support by presenting themselves as centrists, but they have all been failures. However, attractive the

appeal of avoiding extremes, centrist parties by their nature lack well-defined programs and have considerable difficulty appealing to voters.

ECONOMICS

FINANCIAL CRISIS MEANS LESS MONEY FOR THE REGIONS. The federal government is planning to sign agreements with all regions but Chechnya on the use of federal funds by 5 July to carry out Yeltsin's decree of 5 May on improving budget oversight. Prime Minister Sergei Kirienko has already approved a model agreement that will be tailored for each of the regions (*Finansovye izvestiya*, 9 June). To receive further federal subsidies, the regions will have to reduce their expenditures and cut their staff. The government is continuing to stress that it wants cash rather than money surrogates. Additionally, the federal government is trying to reduce its expenses by cutting the amount of money that it sends to the regions to pay for housing and municipal services. Last year the regions cut their expenditures in this area by 2.5%. However, the federal government has not been able to impose discipline. The 1997 budget law said that regional subsidies would be cut if the regions did not follow federal housing policy guidelines, but none of the regions that ignored these standards has suffered any consequences. Now, however, the regions may have to be more cooperative because the government is prepared to take more drastic and unpopular measures. (*Russkii Telegraf*, 5 June)

The government is also offering a carrot. If regions are successful in improving their financial situation, the government will not only give them further grants, but may also transfer federal property to their ownership. All these conditions will be part of the agreements to be signed.

FEDERAL GOVERNMENT TO CRACK DOWN ON REGIONAL CREDITS. The government is preparing a presidential decree that would prevent regions from taking loans without the approval of the Finance Ministry. Moscow Oblast's decision to take a \$800 million credit from two western banks at 23% interest was the reason for the proposed crackdown. The government believes that it doesn't make sense for the regions to take a loan at such high interest rates. (*Russkii Telegraf*, 9 June) Most regions seek credits with approximately 10% interest rates.

GAZPROM AVOIDS GAS CUT OFF TO SAMARA. Mezhtregiongaz and Samaraenergo signed an agreement on 3 June that allows Samaraenergo to restructure its debt to the gas supplier (*Russkii Telegraf*, 5 June). The Samara Oblast administration said that the details are still being worked out. Gazprom had been prepared to cut gas supplies to Samaraenergo because the electricity generator owes it 1.5 billion rubles (\$250 million). Samaraenergo's customers in turn owe it 3.5 billion rubles (\$583 million). Samaraenergo is considering plans to cut off energy to firms that more than two months of debts, including such regional giants as Sameko, the Kuibyshev Railroad, and AvtoVAZ. (*Finansovye izvestiya*, 4 June)

NEW LAND MINISTRY TO START FUNCTIONING IN JULY. A new Ministry of Land Policy, Construction, and Housing will begin operating in July and will spearhead land reform in Russia. Ilya Yuzhanov, the former head of the State Committee on Land, will lead the new ministry, which has broad powers over land issues, such as survey work, establishing titles, and determining the use of buildings. The priorities of the new ministry will be selling off state land and realizing its potential through regulated turnovers and the use of mortgages. Last year alone, Russia registered 800,000 land deals, so there is already plenty for the new ministry to do. Yuzhanov noted that past land sales have contributed significant sums to regional budgets in areas where they are legal, such as Saratov Oblast. (*Finansovye izvestiya*, 4 June)

There is no progress on adopting a federal land code, however, since Yeltsin has returned the latest version approved by the Duma and Federational Council without signing or vetoing it. Yeltsin cited procedural irregularities in the adoption of the bill, claiming that it was not a new bill since his suggestions had not been taken into account.

RUSSIA SEEKS TO DEVELOP DOMESTIC COTTON SUPPLIES. With the collapse of the Soviet Union, Russia lost a great deal of its domestic cotton supply, much of which came from countries like Uzbekistan. Now the country is trying to develop domestic sources in southern regions like Astrakhan. Last year the region had 80 hectares of cotton, and this year the total has grown to 700. As it becomes less profitable to grow melons and vegetables, the region is turning to cotton. The region is seeking help from Krasnodar and Bulgaria, which boast some of the world's northernmost cotton producing regions. (*Finansovye izvestiya*, 4 June)

REGIONS FAIL TO COVER BONDS. Chita Oblast became the first of several regions to default on payments of its "agricultural" bonds. Oblast officials said they were counting on receiving a 45 million ruble (\$7.5 million) transfer from the federal government to cover their debts, but the money never arrived. Representatives of the Finance Ministry said that they were not going to help. If the problem is not resolved, the credit ratings of other regions could fall as well and regional governments will face greater difficulties obtaining credits. Almost all regions issue such bonds and their total value is 9 billion rubles (\$1.5 billion). The debt is held by major Russian and foreign investment banks. They are planning to sue where it is impossible to work out a deal. Following Chita's failure to make good on its debts, Orenburg, Tambov, and Kalmykiya also defaulted, according to *Russkii Telegraf* (6 June) and *Kommersant Daily* (3 and 9 June).

ULYANOVSK AIRCRAFT-MAKER IN TROUBLE. Ulyanovsk's Aviastar, the country's largest aircraft-building enterprise, partially constructed three planes last year without completing any of them, incurring losses of 37 million rubles (6.2 million). Nevertheless, the board of directors hopes to build 56 Tu-204s by 2000 and develop a new superplane with Airbus Industries. (*Kommersant Daily*, 3 June) The federal government is considering regulations that would force Russian carriers to support domestic producers rather than buy planes abroad from Boeing or Airbus. Russia is expected to need up to 700 new aircraft in the next 2-3 years as the current planes become obsolete. (*Finansovye izvestiya*, 9 June)

RUSSIAN AUTO MARKET FULL. The output of Russian cars is likely to stabilize in five years, with the production of 3 million cars annually. Foreign companies will produce approximately half of those cars in Russian plants. The projects announced so far include: General Motors and AvtoVAZ in Samara and the Yelabuga Automobile Factory in Tatarstan; Daewoo and Doninvest in Rostov; Fiat and GAZ in Nizhnii Novgorod; Renault and Moskvich in Moscow; Ford and Russkii Dizel in Leningrad Oblast; Kia and Avtotor in Kaliningrad; and Hyundai and Khimeksmash in Saratov, as well as several other locations. Potential deals include Skoda and Izmash in Udmurtiya, and Peugeot and SeAZ and Daimler-Chrysler with UAZ in Ulyanovsk. There are currently 110 cars per 1,000 individuals in Russia, up from 80 two years ago but still far short of the 400 in western countries. (*Kommersant Daily*, 3 June)

BUSINESS BRIEFS

-- **GAZPROM** is planning to build a new \$200 million gas pipeline connecting Torzhok (**TVER OBLAST**) and **KALININGRAD**. The pipeline will run through Minsk, Vilnius, and Kaunas. Gazprom will build a 900 MW power station and underground gas facility at the terminus of the pipeline in Kaliningrad. The **EBRD** has agreed to provide \$300 million for construction of the storage facility. **GAZ DE FRANCE** and Germany's **PREUSSAG WARNER** will also contribute. (*Energy and Politics*, 4 June)

-- Sweden's **ERICSSON** will provide \$1.3 million worth of telephone equipment to **YAROSLAVL OBLAST'S YARTELECOM** to modernize the telephone network in the Rybinsk Raion of the oblast. (*Finansovaya izvestiya*, 4 June)

-- **VIDEO INTERNATIONAL** has announced plans to sell regional ads on the Russian Television network. In **ST. PETERSBURG** the firm **MEDIA INTERNATIONAL** will sell one-minute ads for \$950 after the soap opera Santa Barbara and before the Vesti news program. The ads will be seen in the city and neighboring parts of **LENINGRAD OBLAST**. A one-minute ad on the national network ranges from \$20,000 to \$50,000. **PREMIER SV** is about to undertake a similar project in St. Petersburg for Russian Public Television (ORT). (*Kommersant Daily*, 3 June)

-- **VOLVO** has produced the first of 23 buses its plans to assemble this year in **OMSK**. The bus sold for the relatively high sum of \$200,000, but the price will likely drop to \$120,000 to \$130,000 once serial production begins. Next year the plant plans to produce 150 buses and eventually raise the content of Russian-produced parts to 80 percent. (*Kommersant Daily*, 3 June)

-- The Dutch firm **PHILIPS** has opened a representative office in **NOVOSIBIRSK**. In the past, the company has given the oblast a considerable amount of X-ray equipment, and now the oblast buys all such devices from Philips. Last year Philips set up a joint venture in the region to produce electric shavers. (*Nezavisimaya gazeta*, 3 June)

CENTER-PERIPHERY RELATIONS

MILITARY FACES TOUGH TIMES IN VOLGA REGION... Anatolii Sitnov, the chief of weapons procurement for the armed forces, shocked listeners at the 21 May meeting of the Great Volga inter-regional association meeting in Nizhnii Novgorod by revealing that even with the Defense Ministry's lowered purchasing orders for 1997, the military made only 14.6 percent of its planned purchases and only 12.2 percent of the funds appropriated for research and development were distributed. The debts of the Defense Ministry now total 18.6 billion rubles (\$3.1 billion). The government promised to make good on the debts by early summer, but that promise only applies to paying salaries and not to funding equipment or research.

A number of oblasts, including Nizhnii Novgorod, have already signed agreements in which the Defense Ministry promises to pay off the debts to their defense workers. Yet regions that sign such agreements may not get their money, since the Defense Ministry has only 40 percent of the funds needed to pay off its wage debts.

Military reform will eventually affect the defense industry. Russian military equipment is becoming increasingly obsolete: in the past three years, the air force has not bought a single new airplane.

Among the first steps will be closing a large number of enterprises. Undoubtedly, the process will have unpleasant social consequences for regions in the Great Volga association, where the defense sector makes up 30 percent of the economy. Rising unemployment seems unavoidable. Most likely, there will not be enough money to sustain factories that are left open. If the government must slash the budget by 12.2 percent as expected because of lower than anticipated revenues, the Defense Ministry will immediately lose 30 percent of its financing, leaving only enough money to pay for half of its orders.

The defense establishment has no real plans to deal with these problems. After telling regional leaders about the problems facing the Defense Ministry, Anatolii Sitnov recalled that following the Russo-Japanese War, an All-Russian Society for the Support of the Army and Navy was organized to raise donations for the military. If the key regions today each contributed about 100 million rubles (\$16.7 million), Sitnov suggested, the military would receive enough money to pay for its orders. The leaders of the regions, who are hoping to win funds from the military themselves, had no reaction to that proposal. - Yurii Rodygin in Nizhnii Novgorod

... WHILE VOLGA SEEKS STRONGER LOBBY IN MOSCOW. Despite numerous economic discussions, the main result of the meeting was political. Samara Oblast Duma Chairman Leon Kovalskii summarized the leaders' mood: "If we rely on the government, we will not solve our problems but only make them worse." Saratov Governor Dmitri Ayatskov added, "we need to join forces and suggest (*podskazyvat*) to the government and president how to

bring the country out of this crisis." In Nizhnii Novgorod, the regional leaders in the Great Volga association thus established their own faction to defend regional interests on the federal level.

The existing state management system does not address the needs of the regional elites. The problem is not simply that the political ambitions of the oblast governors or the republic presidents can not be accommodated, but that the center does not address the economic problems of the regions and, in many cases, acts against their interests. For example, the regional leaders are particularly upset about Moscow's alcohol policies. Nizhnii Novgorod Governor Ivan Sklyarov has said repeatedly that raising duties and the minimum price for hard liquor has caused the oblast numerous problems. The government's desire to reduce finances for higher education by 40 percent has provided the regional leaders another cause for concern. The regions are also worried about the distribution of taxes and rising energy prices. Again, the federal government has slashed the budget, and the regions must deal with the consequences.

The Nizhnii Novgorod conference of the Great Volga showed that by uniting their forces, regions are in a better position to solve their economic problems and perhaps also to successfully lobby Moscow. The association now intends to nominate two candidates for the position of first deputy speaker of the Federation Council, a post that opened up when former Krasnoyarsk Governor Valerii Zubov lost to Aleksandr Lebed. Appeals and letters to the government and president about such matters are demands that Moscow take regional interests into account. Rallying behind the slogan "We cannot live like this!" the regional leaders intend to turn the situation to their favor. - Yuri Rodygin in Nizhnii Novgorod

PATTERNS OF REGIONAL DEVELOPMENT

TATARSTAN: ECONOMY SHRINKS, BUREAUCRACY GROWS. The economic situation in Tatarstan continues to deteriorate. In addition to the giant 2.2 billion rubles (\$367 million) in wage arrears, a sum which makes Tatarstan one of the "leaders" among all Russian regions, the size of pension arrears is also growing. For the first four months of the year, the republic only collected 59% of the income that was expected for the consolidated (regional and local) budget, and only 47% of the income anticipated for the republican budget. Standard & Poor's has reduced the credit rating of the republic. According to the local press, republican oil monopolist Tatneft's financial status is extremely difficult. Moreover, Gazprom has gradually began to turn off gas supplies to those who have not paid their bill, including 183 enterprises on 6 June. Forecasts suggest that Gazprom will cut supplies to the republic by 50%.

But there is growth in Tatarstan: the number of state employees is rapidly expanding. Since 1988, the number of republican level employees (not counting those working on the local level) has increased seven-fold and the number of managerial departments has risen from 18 to 52. In the last two years, the amount spent to support the state managers in Tatarstan grew more than 2.5 times. The number of foreign cars owned by bureaucrats has also risen. The sight of so many foreign models, including jeeps, parked in front of the Cabinet of Ministers led one

local journalists to conclude that "you don't even see such a wide selection of imported cars, included those with tinted windows, on a car dealer's lot." - Midkhat Faroukshine in Kazan

ULYANOVSK DUMA ANGRY OVER MAYOR'S UNILATERAL BORROWING.

The members of the Ulyanovsk City Duma have accused the mayor's office of borrowing 7 million rubles (\$1.2 million) and using municipal property as collateral without first obtaining the Duma's approval. Accordingly, in a symbolic move, the body refused to approve the credit agreement the mayor had already signed with Inkombank and Svyazbank to secure financing to pay the salaries of public sector employees.

The Duma's action has no legal consequences; the money has already been used to pay teachers and doctors and it would be senseless to demand its return. The Duma could challenge the mayor's actions in court but it has no intention of doing so. The Duma's action simply serves as a warning that in the future the mayor should take the Duma's opinion into account.

The Duma stands on firm legal footing in its conflict with the mayor. The federal law on financing local government allows the city executive to take credits (up to 5 percent of the total expenditures of the budget), but only with the agreement of the city legislature. But Yurii Zaitsev, an assistant to the mayor, explained that the credit was taken in "emergency conditions" because it was necessary to "extinguish an outburst of discontent." The problem was that the teachers' protests became much stronger in April and May. They picketed the city and oblast administrations and even held a hunger strike in the mayor's office, demanding that their back salaries and textbook allowances be paid. Discussions about obtaining a credit began then, because the city's tax income could not cover the salaries.

Zaitsev and the head of the mayor's Financial Department, Vladimir Fedoseev, pointed out that it was hard to get things done through the Duma, which requires several sessions to approve the credit. Duma members rejected the implication that they are inefficient.

Zaitsev argued that nothing terrible had happened and that the money would be returned on time. Fedoseev pointed out that the bankers consider the mayor's office a reliable borrower. Svyazbank even released 3 million rubles before the paperwork was completed. That money is guaranteed by using the city-owned Iceburg restaurant as collateral. The collateral for the 4 million rubles from Inkombank is the city-owned Venets hotel.

Shortly after the city received the credit, the Central Bank doubled its refinancing rate (the level at which it loans money to other banks). However, neither bank has raised the interest rate that it is charging the city. - Sergei Gogin in Ulyanovsk

ETHNIC CONFLICT AND REGIONAL SEPARATISM

TVER ETHNIC GROUPS SEEK ACTION AGAINST EXTREMISTS. The leaders of Tver's ethnic associations have sent an open letter to the heads of the regional law enforcement

agencies (the procurator, Federal Security Service, and Ministry of Internal Affairs) discussing the events that took place in the city of Udomol on the night of 9-10 May 1998. (*Veche Tveri*, 4 June) On that night, a group of drunken young people shouting "beat the blacks" destroyed a number of kiosks used by Azerbaijani merchants (see *IEWS Russian Regional Report*, 14 May). The letter stated that a group of Udomol citizens played the "national card" to discredit the authorities now in power. Crime and the drug trade are major problems in the city, and some young people decided that individuals from the Caucasus region were responsible for those problems, the letter stated. Those young people decided to take violent actions. The letter also noted that law enforcement agencies, particularly the police, increasingly do not treat people of Caucasian ethnicity correctly. The letter requested the leaders of the law enforcement agencies to investigate the causes of the problems and prosecute those responsible for the problems. Members of Azerbaijani, Armenian, Tatar, Baskir, Checheno-Ingush, Karelian, Jewish, and Cossack organizations signed the letter.

The appeal was timely, since at the 14 May session of the raion council with jurisdiction over Udomol, Deputy Vladimir Yamskoi, the chief doctor at the raion's hospital, declared that the "brotherhood of peoples is a pack of lies." He suggested that it would only take 100 members of Aleksandr Barkashov's extreme nationalist Russian National Unity (RNE) to impose order. Many applauded his speech and other speakers supported his ideas. (*Veche Tveri*, 3 June) In an interview published by the newspaper *Tverskaya zhizn* (4 June), State Duma member Sergei Baburin expressed similar views. He denounced international attempts to humiliate the Russian people. - Boris Goubman in Tver

THE NEW GENERATION

NADIR KHACHILAEV: BUILDING POWER THROUGH ETHNIC CONFLICT

By Nabi Abdullaev, *Novoe Delo*

MAKHACHKALA--Following his armed attack on the republican administration building on 21 May, Nadir Khachilaev has become one of the most publicized figures in the Russian media (See *IEWS Russian Regional Report*, 21 and 28 May). The leader of the Union of Russian Muslims, Khachilaev represents one type of "next generation politician" from the ethnic periphery--someone with a criminal past, criminal present, and little hope for a civilized future. He combines the most noble nationalist and religious rhetoric with an almost paranoid hunger for power.

As he has admitted, Khachilaev began his career with criminal gangs engaged in extortion and black market dealings in Moscow's car markets. Soon, he moved on to racketeering, providing "protection" for businesses. He made his multi-million dollar fortune in murky financial deals with commercial banks in the early 1990s. At about the same time, Khachilaev entered politics. When a small group of Lak intelligentsia founded the "Tsubarzh" ethnic educational movement, Magomed Khachilaev, Nadir's older brother and an accomplished athlete, became the group's "protector." Magomed gained the respect of his co-

ethnics by leading the Laks in their clash with the Akkin Chechens and subsequently became the head of the movement. Nadir's strong-arm tactics against the dissenters aided his rise. As a result, the movement was transformed from a public organization into a political tool wielded by the Khachilaev clan.

To gain academic credentials, Nadir bought a university degree in literature, published several stories in Russian literary journals, and engaged in philanthropy activities. In 1993 he created the Union of Dagestani Muslims, which reputable Muslim clerics did not take seriously at first. During this time, Nadir enjoyed the patronage of former Russian Deputy Prime Minister for Nationalities Ramazan Abdulatipov.

As his power grew, Nadir began behaving more and more like a feudal lord. He demanded signs of subservience from those around him. On occasion he would take artwork from local artists without compensating them. He often stopped women wearing pants on the streets and chastised them for their presumably low morals. According to some reports, during the war in Chechnya, Nadir Khachilaev engaged in the arms trade, making huge profits as well as loyal friends among Chechen field commanders, many of whom now rank high in the Chechen government. After he assisted General Aleksandr Lebed, then secretary of the Russian Security Council, in the drafting and negotiation of the Khasavyurt peace accords, Nadir became the most popular Dagestani politician in Chechnya.

In 1996, with the help of the entire Dagestani state apparatus, he was elected to the Russian State Duma. Many government officials openly campaigned on his behalf. However, Duma sources claim that he hardly ever attends its meetings and spends most of his time traveling throughout the Muslim world. He joined the Our Home Is Russia (NDR) faction in the Duma, but quit after faction leader Aleksandr Shokhin distanced himself from Khachilaev following the 21 May attack on the administration building.

Khachilaev maintains friendly relations with the Wahhabi community and protects them from attacks by traditional Muslim clergy. He has made numerous anti-Semitic statements, claiming that the media and political power in Russia belong to Zionists bent on undermining the Muslim movement. With a well-armed group under his command, he has openly called for the establishment of a Muslim state in Dagestan. He currently is not a real contender for the leadership of the republic, as his standing with the population and establishment is low.

ECONOMIC ISSUES

IRKUTSK SEEKS ENERGY MARKETS IN CHINA. The Irkutskenergo electrical utility and the Vostsibugol coal company will jointly lobby the Russian government to win approval for the export of locally produced energy to China. The project will revitalize the region's energy complex, which is currently in a deep depression. Although East Siberia has the resources to produce vast amounts of energy, between 1990 and 1997 power production dropped by one-third in the oblast, while coal extraction fell 50 percent. Many firms that traditionally bought

coal and energy in the oblast have gone out of business and neither Irkutskenergo nor Vostsibugol want to wait for new large customers to emerge. They were thus forced to look for external markets, and China seemed a natural choice. If the deal goes through, Irkutskenergo will consume an addition 4.5 million to 7 million tons of coal annually, and 85 percent of the coal will come from Vostsibugol.

China is particularly attractive to the partners because its internal energy production cannot keep up with the demands of its rapidly expanding economy. While the Chinese economy grows 12 percent annually, energy production grows only 9 percent a year. The energy deficit will reach 150 billion to 200 billion kilowatt-hours by 2000, which is equal to Siberia's total energy production. Moreover, Chinese clients, unlike their Russian counterparts, can actually pay for services provided. The project stipulates construction of a 2,600-km high-voltage transmission line between Bratsk and Beijing, with a 3,000-megawatt capacity. In the next 25-30 years, the line will transmit 18 billion kilowatt-hours of electricity to China annually. The project will cost \$1.5 billion and will be completed in four years.

Government officials from both countries have agreed to create a special international company to run the construction project. It will include various investment firms and banks, which will provide credit and loans, guaranteed by the Canadian, U.S., and Swedish governments. Analysts predict that UNEXIMbank, which already holds 2 percent of the Irkutskenergo stock, will be one of the shareholders in the new entity. ABB and Siemens are both interested in participating in the project. - Teleinform in Irkutsk

REGIONAL RESOURCES

RUSSIAN REGIONAL STUDIES FLOURISH IN JAPAN; RESULTS AVAILABLE

by Kimitaka Matsuzato, Slavic Research Center

HOKKAIDO - The international community has already noted the rapid development of ties between Russia and Japan after the Krasnoyarsk summit between President Boris Yeltsin and Prime Minister Ryutaro Hashimoto in November 1997. That initiative should be viewed in the context of a series of efforts made by the Japanese government to adapt its foreign policy to the post-Cold War world. Japan hopes to become more or less independent of U.S. hegemony and define its own geopolitical strategy.

The political situation in Japan during the Cold War differed from prevailing conditions within other western countries in several ways. One major difference was that the academic community of Japanese "sovietologists" never justified its *raison d'etre* by the famous logic "we need to know our enemy." As a result, the end of the Cold War has not forced Japanese slavists to deal with a significant loss in state financial support or a shrinking job market. To the contrary, during 1993-1994, Japanese scholars planned an ambitious, collective research

project entitled "Changes in the Slavic-Eurasian World" that won priority support from the Japanese Ministry of Science and Education.

Professor Shugo Minagawa (Slavic Research Center, Hokkaido University) headed that project from April 1995 to March 1998. It involved the work of 86 Japanese slavists and a three-year budget of 320,900,000 Japanese yen (about \$2,500,000). The Slavic Research Center of Hokkaido University functioned as a clearinghouse to bring together scholars working in nearly all disciplines (humanities, social sciences, and even more technical fields such as ecology) to study the former socialist countries with a focus on contemporary, rather than historical, analysis. During the three years, no less than 80 occasional papers were published, a significant number of them in English or Russian. (A list of those publications is available at: <http://src-home.slav.hokudai.ac.jp/index-e.html>)

Since it is impossible to summarize the findings of the entire project in the allotted space, I will summarize my part of the overall research. I examined regional and local elite and institution building in ethnic Russian oblasts in the Russian Federation and Ukraine. The project included five components: (1) compiling analytical chronicles of regional political history from 1988 to 1996; (2) collecting biographies of the political elite from 1985 to 1996; (3) surveying personnel changes – first and second CPSU secretaries, legislative chairs, and heads of executive organs – at the raion and city level from 1985 to 1996; (4) organizing questionnaire surveys of local leaders' "reputations and influence" in three raions or cities per oblast; and (5) conducting field research in those three raions or cities.

The study included the following regions: Sverdlovsk, Chelyabinsk, Samara, Ulyanovsk, Nizhnii Novgorod, Yaroslavl, Saratov, Rostov, Ryazan, Vladimir, Tula, Tver, Tambov, Lipetsk, Penza, Kaliningrad, Leningrad, Primor'e, Lviv, Kharkiv, and Donetsk. In 1997 we began to publish our findings as a series of Russian-language collections titled *Regions of Russia – Events and Leaders* ("*Regiony Rossii – khronika i rukovoditeli*"). We have so far published four volumes and hope to complete the series by the end of 1998.

Methodologically, this research draws on the classical methods of the elite approach and empirical studies of political history. My conviction is that the "Regions of Russia" series will prove the viability of these methods. For example, there are numerous publications examining the geographic typology of voting behavior in Russian elections, especially after the parliamentary and presidential elections of 1995 and 1996. However, most studies try to explain variations across regions by socio-economic conditions among the regional electorate. [For example, see: Joan DeBardeleben and Aleksander A. Galkin, "Electoral Behavior and Attitude in Russia: Do Regions Make a Difference or Do Regions Just Differ?" in Peter J. Stavrakis et al. (eds.), *Beyond the Monolith – The Emergence of Regionalism in Post Soviet Russia* (Washington D.C.-Baltimore-London, 1997), pp. 57-80.] We all know that post-communist Russian elections have not been voluntary civic activities but, rather, bear a strongly mobilizational character. Why then have we not paid attention to the people who mobilize votes (the regional elite), rather than the mobilized (electorate)? Who are the "strong

governors"? Are they not the ones who have salvaged the regional elite from post-communist chaos, consolidated them, and thus are able to mobilize votes for "the present course of reforms"?

Some recent studies try to analyze Russian elections from a comparative point of view, which could possibly be summarized as the "role of elections under a *semi-polyarchic* regime." Actually it would be much more productive to analyze Russian elections in comparison with those under the transformismo of transitions in Southern Europe and Latin America, urban machine politics in U.S. history, Taisho democracy in Japan in the 1920s and others, than to try to "architect a path to democracy." (For a good example of this comparative approach, see: Michael Brie, "The Political Regime of Moscow – Creation of a New Urban Machine?" *Wissenschaftszentrum Berlin für Sozialforschung*.)

The "Regions of Russia" series will contribute to the development of empirical studies of Russian regional politics. Copies of publications in this series can be obtained by contacting me (e-mail address: kim@slav.hokudai.ac.jp). As for other publications by the project "Changes in the Slavic Eurasian World," please refer to the list mentioned above and then address requests to Professor Shugo Minagawa (e-mail: shugo@slav.hokudai.ac.jp) or Professor Osamu Ieda (e-mail: ieda@slav.hokudai.ac.jp). All publications are free of charge.

REGIONAL PROFILE: KABARDINO-BALKAR REPUBLIC

President: Valerii Kokov

Valerii Kokov was re-elected republican president on 12 January 1997. In violation of federal law he ran for the office unopposed, receiving over 99 percent of the vote, the largest share among regional leaders. He had been the republican leader since 1989.

Kokov was born in 1941 in Kabardino-Balkariya, into the family of a high-ranking regional party functionary. He is an ethnic Kabardin. In 1964, he graduated from the republican state university with a degree in agronomy and, in 1978, from the Rostov Communist Party Higher School. He joined the party in 1966 and remained a member until it was banned in August 1991.

Kokov began his career as an agronomist but soon was promoted to a full-time position on the party staff. By 1985 he had joined the republican Communist Party committee as a secretary and became its first secretary in 1989. In 1990 Kokov was elected to the Communist Party's Central Committee.

In the spring of 1990 he won a seat in the Russian Federation parliament and the republican Supreme Soviet, which elected him its chairman. In early 1992 he won his first term as republican president.

Despite his communist past, occasional anti-Moscow statements, and flouting of the country's electoral law, Kokov has always enjoyed the center's support because he never claimed independence for his republic and has prevented others from doing so.

Brief Overview

Kabardino-Balkariya is located in the central part of the north Caucasus mountains and adjoining plain. It borders Georgia, Stavropol Krai, North Osetiya, Karachaevo-Cherkesiya, and Ingushetiya. Its population is composed of more than 100 different ethnic groups, the largest of which are Kabardins (49.2 percent), followed by Russians (30.7 percent), and Balkars (9.6 percent). During World War II, the Balkars were deported to Central Asia because Stalin suspected them of collaborating with the Nazis. Although they were allowed to return to their land in 1957, there are still disputes over that issue with the Kabardins.

The mountainous part of the republic is rich in various mineral resources, including tin, copper, iron ore, gold, limestone, coal, charcoal, clay and others. Most of the republic's GDP (70 percent) comes from machine building, food processing, and textile manufacturing. Agricultural products include grains, fruits, vegetables, and beef. The republic is also rich in mineral waters, which, along with the unique climatic conditions, allowed it to become one of the country's most famous resort and tourism centers.

According to the *Ekspert* magazine survey, the republic is one of the country's most dangerous places to live: in 1996, it had 8.11 homicides per 100,000 residents. Although it is one of the regions with the most favorable legislative conditions for foreign and domestic investors, both Russian and international businesses generally fearful of working there.

Basic Facts

Population (as of 1 Jan. 1997): 790,500 (0.54% of Russian total)

Urban population (1989 census): 59.7% (Russia overall: 73.0%)

Student population (1996): 181 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 22.03% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 10.1% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 27.5% (Russian average: 29.9%);

Agriculture: 16.0% (12.8%); Trade: 10.1% (9.1%); Culture: 13.2% (13.6%); Management: 2.3% (2.3%)

Average monthly personal income in 1996: 396,000 rubles (Russian average: 764,000 rubles)

Average monthly personal expenses in 1996: 264,000 rubles (Russian average: 753,000 rubles)

Average monthly subsistence requirement in 1996: 288,200 rubles (Russian average: 369,400 rubles)

Consumer price index (as of Dec. 1996): 102.3 (Russia overall = 100)

Industrial production as percentage of all Russian production (1996): 0.13%

Proportion of loss-making enterprises (1996): 53% (Russia overall: 56%)

Number of enterprises with wage arrears (1996): 316 (3.09% of total number of regional enterprises)
Agricultural production as percentage of all Russian production (1996): 0.84%
Number of private farms (as of 1 Jan. 1997): 673 (0.24% of Russian total)
Capital investment (1996): 882,700 rubles (Russia overall: 370 trillion rubles)
Sources of investment (1996): federal budget: 17.4% (Russian average: 9.2%); regional budget: 9.5% (9.6%); enterprises: 30.4% (66.3%)
Number of joint ventures (as of 1 Jan. 1997): 27 (0.17% of Russian total)
Fixed capital investment in joint ventures and foreign companies (1995): 709 million rubles
Number of small businesses (as of 1 Jan. 1997): 2,389 (0.28% of Russian total)
Number of enterprises privatized in 1996: 9 (0.18% of Russian total), including former municipal property: 66.7% (Russian average: 67.1%); regional property: 33.3% (14.3%); federal property: 0% (18.6%)
Number of telephones per 100 families (1996): in cities: 45.1 (Russian average: 48.7); in villages: 28.1 (19.7)

According to a 1997 survey by *Ekspert* magazine, the republic is ranked 68th among Russia's 89 regions in terms of investment potential and sixth in terms of investment risks. A 1995 survey by Bank Austria ranked the republic 82nd in terms of investment climate.

Electoral History

1996 Pre presidential Election

Yeltsin: 43.75%/63.61% (first round/second round)
Zyuganov: 37.25%/33.18%
Lebed: 9.80%
Yavlinskii: 3.36%
Zhirinovskiy: 1.43%
Turnout: 73.84%/79.45% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Elections

Our Home Is Russia: 24.96%
Communist Party of the Russian Federation: 23.67%
Agrarian Party of Russia: 15.30%
Women of Russia: 4.74%
Communists -- Workers' Russia: 4.16%
Congress of Russian Communities: 3.30%
Liberal Democratic Party of Russia: 3.08%
In a single-member district: 1 Our Home Is Russia
Turnout: 68.08% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 61.05% "No" -- 38.95%

1993 Parliamentary Elections

Party of Russian Unity and Concord: 31.53%
Communist Party of the Russian Federation: 20.08%
Agrarian Party of Russia: 12.87%
Liberal Democratic Party of Russia: 8.79%
Russia's Choice: 6.62%
Democratic Party of Russia: 5.23%
Women of Russia: 4.62%
Yabloko: 4.24%
In a single-mandate district: 1 independent
Turnout: 58.75% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 63.88%
Ryzhkov: 15.08%
Tuleev: 8.17%
Zhirinovskiy: 5.80%
Bakatin: 2.74%
Makashov: 1.95%
Turnout: 74.43% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regioni Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.

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BREAKING NEWS

POLITICS

FEDERATION COUNCIL FILLS VACANCIES. The Federation Council elected the chairman of the Omsk Legislative Assembly, Vladimir Varnavskii, as one of four deputy speakers of the Federation Council on 10 June, filling the seat vacated by former Krasnoyarsk Governor Valerii Zubov. Newly elected Governor Aleksandr Lebed's candidacy for the seat was not discussed. The parliament's upper house also named Moscow City Duma Chairman Vladimir Platonov as the deputy speaker for legal issues replacing Vasilii Likhachev, the former speaker of the Tatarstan legislature (*Nezavisimaya gazeta*, 11 June). As a result, the Siberian Agreement Association held on to its deputy speakership for economics, but Tatarstan and the Great Volga association lost their chair to Moscow. The other regional leaders probably gave the seat to Moscow Mayor Luzhkov and his team because they like the ethnically-defined republics even less than the capital, *Russkii Telegraf* (11 June) reported. The Kremlin had hoped to elect Krasnoyarsk legislature Chairman Aleksandr Uss as deputy speaker since he is considered close to Zubov and could have served as a more powerful balance to Lebed in this role. The other deputy speakers remain Lipetsk Governor Oleg Korolev and Kabardino-Balkariya President Valerii Kokov.

VORONEZH DEBATES NUCLEAR POWER. In 1990, the city of Voronezh held a referendum and a majority of voters supported stopping construction on the local nuclear power plant which was already 80 percent complete. Since then, city officials have discussed whether or not to reverse the decision. The issue is of particular concern now because Rosenergoatom Director Yevgenii Ignatenko has notified city officials that if they do not decide to use the station by August, its equipment will be transferred to a similar station now under construction in Tomsk. Rosenergoatom officials believe that the station could provide a cheap source of heating for large Russian cities and even be exported. The city authorities support reviving the station since the city is short 900 gigacalories of energy an hour. Two thirds of the city's boilers need to be replaced, but there is no money to do so (*Izvestiya*, 10 June). In 1996 Kostroma voters overwhelmingly approved a referendum that stopped construction on a nuclear power plant there although attempts to hold a similar referendum in Krasnoyarsk failed.

YAMAL-NENETS, CHUVASHIYA SIGN AGREEMENT. Yamal Nenets Autonomous Okrug Governor Yurii Neelov and Chuvashiya President Nikolai Fedorov signed a framework agreement 10 June designed to increase trade between their regions. The transactions will involve barter operations rather than cash, however. Similar agreements in the past have proven difficult to implement because the sides could not agree on what the appropriate levels of exchange should be. In this case, it will be necessary to determine how many tomatoes, tractors, and road building machines to exchange for a ton of fuel. While the federal government is trying to encourage the use of money in all exchanges, the regions continue to rely on barter agreements. (*Izvestiya*, 11 June)

CHUVASHIYA, MARI EL DISPUTE OVER BORDER ISLANDS. Chuvashiya and Mary El are fighting over the 200,000 rubles (\$33,000) in yearly tax revenue generated by Volga river islands on the border between them. Residents of Chuvashiya use the islands for growing hay and they are generally believed to be part of that region. However, Marii El officials believe that a 1925 All-Russian Central Executive Committee gives it the right to the land and the taxes accruing from it. Marii El hopes to resolve the dispute with help from Moscow. (*Izvestiya*, 16 June)

ILYUMZHINOV ANNOUNCES PRESIDENTIAL BID. Kalmykiya President Kirson Ilyumzhinov announced on 14 June that he will compete in the Russian presidential elections in 2000. His announcement is clearly a reaction to the storm created by the murder of opposition journalist Larisa Yudina (For more on this story see Patterns of Regional Development below). The only other candidates who have announced their intentions are former Prime Minister Viktor Chernomyrdin (now seeking a State Duma seat in a Yamal Nenets Autonomous Okrug by-election) and Yabloko leader Grigorii Yavlinskii (*Izvestiya*, 16 June). Yavlinskii has denounced the murder of Yudina as a politically motivated act, implicating Ilyumzhinov. The Kalmykiyan president can threaten Moscow with the possibility that the currently calm region will be destabilized. He said that his candidacy intends to counter unnamed groups who want to "pit the regions against the central authorities and destroy our united Russian Federation." (*Kommersant Daily*, 16 June)

RUTSKOI DISPUTE WITH PROCURATOR LEADS TO ARRESTS. The Kursk Oblast procurator arrested two of Governor Aleksandr Rutskoi's deputy governors on 15 June: Yuri Kononchuk who deals with financing, banking, and investment, and Vladimir Bunchuk, who handles supplies, industry, and trade. Rutskoi denounced the arrests as a "provocation" by oblast Procurator Nikolai Tkachev. Tkachev is now suing Rutskoi for calling his organization a "band" of "irresponsible people." On 29 May the procurator charged Mikhail Rutskoi, the governor's brother, with abusing his office as deputy head of the Kursk Department of Internal Affairs and he was fired on 10 June (*Izvestiya*, 16 and 17 June). Additionally, the Arbitration Court declared the privatization of the firm Kurskfarmatsiya by Rutskoi's son Dmitrii illegal (*Kommersant Daily*, 16 June). The Kursk Communists accused Governor Rutskoi of creating a "lawless" situation in the region, and demanded his voluntary resignation. Procurator Tkachev said that the Oblast Duma was preparing a vote of no confidence in him personally.

The conflict between Tkachev and Rutskoi began in 1996, when the Kursk elite opposed the election of Rutskoi as governor. After winning office, Rutskoi tried to have Tkachev removed, but Russian Procurator General Yuri Skuratov refused to sack him. In a recent interview with a local newspaper, Tkachev said that the governor's activity and the actions of his assistants are dangerous for the oblast and that investigating them was the main task of his office. The procurator is investigating a deal in which the oblast bought combines using the services of middlemen who dramatically increased the price of the equipment.

ON ELECTORAL LAW, CONSTITUTIONAL COURT RULES MOSTLY AGAINST GOVERNORS.

In its ruling on the law on voters' rights and the right of citizens to participate in referendums announced 10 June, the Constitutional Court mostly ruled against the Federation Council which had brought the case. The regional executives had wanted the right to define electoral districts by criteria other than the size of the population, a move that would have given them considerable power over how campaigns are conducted. The court also rejected a proposal that would make it possible to remove elected mayors by referendums or at the governor's will. Only courts can remove these officials. Moreover, the court rejected a proposal to abolish a passage in the law that declares elections invalid if more people vote "against all" than for any given candidate. The governors feared that a strong protest movement would make it difficult to hold valid elections. The only point the court approved in favor of the regional executives was allowing them the right to determine the questions posed in referenda. Moscow had particularly objected to a proposed referendum in Ingushetiya that asked voters whether the courts and law enforcement agencies should be transferred from federal to republican control (*Kommersant Daily*, 11 June). *Nezavisimaya gazeta* (11 June) argued that this decision could lead to a worsening of relations between Moscow and the regions.

KOREANS WANT TO STAY IN SAKHALIN. Only about 5,000 of the 31,000 Koreans currently living in Sakhalin Oblast expressed a desire to emigrate to Korea, according to a survey conducted by Goskomstat. All of the Koreans, however, are counting on financial aid from Japan, the country that forcibly moved the Koreans from their homeland more than fifty years ago (See *Russian Regional Report*, 20 February 1997). Most of the Koreans in Sakhalin today are from the southern part of the Korean peninsula since there were opportunities to return to North Korea in the 1960s. Several hundred families have left Sakhalin for South Korea of their own accord in the last few years. (*Izvestiya*, 16 June)

FEDERAL GOVERNMENT SIGNS POWER-SHARING TREATY WITH

MOSCOW. The Federal government signed a power-sharing treaty with Moscow on 16 June. While there has been considerable dispute between the federal government and Moscow Mayor Yurii Luzhkov over how much money the federal government should pay to the city for use of real estate in the capital, this treaty is more political than economic, according to *Izvestiya* (17 June). However, beyond the general wording of the agreement, it remains unclear what Luzhkov and Yeltsin actually agreed to. The treaty is the 46th that the federal government has signed with representatives of Russia's 89 regions.

AYATSKOV EXPLAINS INITIATIVES. In an interview with *Moskovskiy Komsomolets* (15 June), Saratov Governor Dmitriy Ayatskov said that his "exotic" initiatives such as legalizing prostitution, providing bikes for local bureaucrats, and abolishing drunk tanks were mostly "publicity stunts." He explained that "Otherwise nobody in Moscow would hear about Saratov." Journalists are not interested in economic issues, so the governor tries to make them more stimulating. Concerning the problem of drunk tanks, Ayatskov claimed that "people are drinking less than they used to." Thus Ayatskov suggested creating a special "Rescue Service" to replace the tanks where citizens sobering up are usually robbed. Ayatskov conducted a special

experiment when one of his deputies dressed in clothes soaked with vodka, drank a little, and went into the streets making a loud commotion. After being incarcerated in one of the tanks, he was relieved of all his money. In terms of federal politics, Ayatskov sees Boris Yeltsin as the main candidate in the upcoming presidential campaign.

ECONOMICS

MOSCOW RESTRUCTURES ENTERPRISE DEBT. In an attempt to end the vicious circle of non-payments, and following the example of the federal government, the Moscow City government is restructuring the debts of local enterprises to the city. As of 1 April, the city's enterprises owed the city 24.8 billion rubles (\$4.1 billion), 3.6 billion rubles more than at the beginning of the year. The overall debts of the city's enterprises (including debts to the city, suppliers, financial institutes, and in wage arrears) at the beginning of the year was 63 billion rubles (\$10.5 billion). The actual debts owed to the city make up 25 percent of the 24.8 billion, while the rest consists of fines. The requirements imposed by the Moscow government are much less strict than those imposed by the federal government since the enterprises do not have to put up collateral to restructure their debts and there is no threat of bankruptcy if they do not restructure by the end of the year. None of the Moscow enterprises, which generally owe money to both the federal and city governments, has succeeded in restructuring their federal debts and are unlikely to do so by the end of the year, making them potential targets to be declared bankrupt. Since Luzhkov opposes the wide-spread use of bankruptcies, this may become another cause for dispute between the mayor and the federal government. (*Finansovye izvestiya*, 16 June)

SARATOV TO OPEN GRAIN EXCHANGE. The Saratov Oblast administration and SBS-AGRO bank are jointly sponsoring the establishment of a grain exchange in the oblast with funding from Deutsche Bank. The market will deal in futures contracts. (*Finansovye izvestiya*, 16 June)

AVTOVAZ IN TROUBLE. Samara Oblast's giant auto maker AvtoVAZ has dropped production from two eight-hour shifts to one on its production lines since no one is buying the cars the company produces. There are already 47,000 cars in Tolyatti, where the factory is located, that have not been sold. The factory, whose output keeps the city alive, is in danger of having to shut its plant, a move that would put its debt restructuring plan in jeopardy. The plant gave a controlling stake to the federal government as a guarantee that it would make regular payments. If it misses a payment, the government could sell the stake to new owners. Already the plant is having trouble meeting its agreements and can only give Samara Oblast cars instead of money to cover its tax bill.

AvtoVAZ First Vice President Nikolai Lyachenkov claims the drop in demand occurred because the cars' main buyers, people living on a salary, are concerned about the country's economic situation and prefer to save their money in foreign currency than make large purchases. Anatolii Voloshin, the chairman of Togliatti's FIA-bank, which provides credits to

the dealers, claims that the problem is with AvtoVAZ itself. He argued that AvtoVAZ does not send its cars to dealers in a nationwide network because it demands that the cars be paid for in advance. As a result, it essentially only sells cars within a 2,000 km radius of the factory. Demand would also increase if banks offered customers credit at reasonable terms. Russian car makers are living in considerable fear that they will not be able to compete with foreign car makers, many of whom are setting up assembly plants on Russian territory (See *IEWS Russian Regional Report*, 11 June). (*Kommersant Daily*, 11 and 16 June)

BUSINESS BRIEFS

-- **AEROFLOT** is considering using **ST. PETERSBURG'S** Pulkovo airport as a new transit station for its flights between South East Asia and Western Europe. The airline claims that Moscow's Sheremetevo's airport is already working at capacity. (*Kommersant Daily*, 9 June)

-- The American firm **CATERPILLAR** has begun building a factory to produce road construction equipment in **LENINGRAD OBLAST**. It will invest \$50 million in the factory over the next six years. Caterpillar had created a joint venture with St. Petersburg's Kirovskii zavod in 1994, but the Russians ended the arrangement in 1997. (*Ruskii Telegraf*, 11 June)

-- **ST. PETERSBURG** will sell a 35% stake in the Astoria hotel complex to the highest bidder on 22 July. The deal involves the Angletterre hotel and the land under it. The minimum bid will be 33.33 million rubles (\$5.6 million). The winner must also invest \$4 million in the hotel within four months. The British **SIR ROCCO FORTE & FAMILY**, which bought a 25.5% stake in the Astoria in September for \$3.4 million and a promise to invest \$7.05 million, intends to participate. (*Russkii Telegraf*, 11 June)

-- The Russian government announced plans last week to sell its 10% stake in the **LEBEDINSKY ORE MINING PLANT** in **BELGOROD OBLAST**. Rossiiskii Kredit, which owns a 46% stake, and the Oskol Electro-Metallurgical Plant, the main consumer of Lebedinsky's ferrous metal output and the owner of a 41% stake, are expected to be the main bidders. Bids must be in by 21 July, with results announced 24 July. Last year the plant produced 26.4% of Russia's iron ore. (*Moscow Times*, 16 June)

PATTERNS OF REGIONAL DEVELOPMENT

LEBED APPOINTS A TEMPORARY CABINET... Newly elected Krasnoyarsk Krai Governor Aleksandr Lebed announced the first appointments in his administration. He appointed the following individuals to temporary positions, including many holdovers from the administration of former Governor Valerii Zubov:

-- First Deputy Vladimir Vasilevich Ovchinnikov, 46, served as the head of the International and Economic Affairs Department in Zubov's administration. He holds a candidate's degree in

physical-mathematics and has served as the dean and deputy rector of Krasnoyarsk State University.

-- Head of the Main Financial Department Vladimir Anatolevich Petrov, who will continue to work as the president of the Transnational Aluminum Company (TANAKo) (for more on this company, see below).

-- Deputy in charge of Communication and Northern Provisions Valerii Leonidovich Glotov, one of the key figures in the Zubov administration.

-- Chief of Staff Konstantin Mikhailovich Gutorov, who also served in the Zubov administration.

-- Deputy for Social Issues Nikolai Nikolaevich Noskov who holds a candidate's degree in physical-mathematics. He formerly worked as the director of the international space center at Krasnoyarsk State University.

-- Deputy for Agricultural Issues Vladimir Petrovich Ishchenko, formerly the general director of the Krutoyarskoe State Farm which supported Lebed during the elections.

-- Deputy for Ecology and Natural Resources Aleksandra Mikhilovna Kulenkova, who worked as the technical director for the Antonovskoe mine in Kemerovo Oblast, one of the leading positions in the industry.

-- Deputy for Personnel and Relations with the Krai's Regions Leonid Viktorovich Kirsanov, who worked as the deputy head of the Department for Civil Service Personnel and Organizational Work in the Zubov administration.

-- Head of the Legal Department Aleksandr Nikolaevich Shvedov who provided legal support to Lebed's campaign.

-- Press Secretary Vladimir Igorevich Yakushenko.

Anatolii Bykov, who serves simultaneously as a member of the Krasnoyarsk Krai Legislative Assembly, the president of the Krasnoyarsk Aluminum Factory, vice president of the Rossiiskii Kredit bank, and the president of the Russian Boxing Association, and is considered by many to be a leader of the Krasnoyarsk criminal world, is coordinating the process of naming the temporary deputies. Observers believe that the vast majority of the newly named individuals will work in these positions no more than 1.5 to 2 months until more appropriate officials are found. Russian labor law allows employers to fire acting officials without difficulty.

The only person who can feel secure in his position is TANAKo President Petrov. With a 27% stake, TANAKo is one of the major owners of the Krasnoyarsk Hydroelectric Station, the region's major electricity producer, as well as a significant share of the Krasnoyarsk

Aluminum Factory. When TANAKO was formed several years ago, the Zubov administration declared that it was an exclusively krai-based company. However, it recently came out that the majority of the individuals involved in the firm are closely connected to the governments of former Prime Minister Viktor Chernomyrdin and his successor Sergei Kirienko. - Pavel Avramov in Krasnoyarsk

...BEGINS CRACKDOWN. Just a few days into his term, Lebed is already beginning to "impose order with an iron fist" in Krasnoyarsk.

Workers at the Krasnoyarsk Railroad have not been paid for more than a year and a half. Instead, the management has been giving them vouchers that could only be redeemed for food products in the company store at exorbitantly high prices. An investigation showed that the railroad's chief executive happened to own the store. When Governor Lebed visited the railroad's offices on 15 June, he demanded the immediate payment of the wage arrears. However, the director rebuffed Lebed by saying that he only answers to the minister of communication who appointed him and thus had no intention of complying with the governor's orders. Angered by the director's words, Lebed invited him to have a private meeting in his office. The two apparently had a frank and sharp exchange, and, on the same day, the railroad paid its workers three months worth of salaries.

In another example, financial improprieties by the staff of former Governor Zubov in managing the krai Education Fund recently came to light. As the regional assembly's Audit Chamber discovered, during the period 1995-1997, the krai budget lost close to 4 billion old rubles (\$800,000). Created in 1994 by the krai administration, the Education Fund was first led by Deputy Governor Aleksandr Provorov until his appointment as rector of the Krasnoyarsk State University. Nikolay Glushkov then succeeded him. The real power to disburse the Fund's money, however, belonged to its deputy chairman, Stepan Averin, also the head of the krai's Education Department. The Fund was financed by a 1% levy from the krai's salary fund, which comprises \$5 billion for some 3 million people.

During the first two years, the fund operated through the poorly-managed municipal SINTO-Bank, despite the presence of numerous other credible commercial institutions in the city. As administration officials kept transferring the fund's money to the bank, the latter stopped making payments to both the fund and to its partners. Oddly enough, the fund's board never tried to sue the bank, which leads many experts to believe that several powerful administration figures were involved in this shady operation. The fund engaged in other kinds of suspicious operations, such as \$209,972 spent on elite education for six students in Switzerland, including travel expenses for them and accompanying personnel. Each of them was issued \$2,000 for expenses during their nine month trip, a sum that exceeds the average annual income of a typical Krasnoyarsk teacher, who was not even paid during that time.

Stepan Averin has since left this position.

Several other committees of the old administration are under investigation. In particular, the investigators have already found several legal violations in the activities of the youth affairs committee.

As we can see, Aleksandr Lebed is successfully polishing his image as a tough law-and-order politician for a presidential bid in 2000. His task is made easier by the rampant corruption condoned by the "liberal" incumbents he will be competing against. - Pavel Avramov in Krasnoyarsk

OPPOSITION JOURNALIST MURDERED IN KALMYKIYA. The body of Larisa Yudina, the editor of *Sovetskaya Kalmykiya Segodnya*, a newspaper highly critical of Kalmykiya President Kirsan Ilyumzhinov, was found with multiple stab wounds and a fractured skull on the outskirts of Elista, the republic's capital on 8 June. She had been investigating the corrupt business practices of regional officials when she disappeared on 7 June. That day she had gone to meet a source who promised to give her evidence of financial improprieties by a local firm, Aris - the Agency for Development and Cooperation, involved in registering offshore companies and attracting investment to the republic.

Yudina was frequently harassed and threatened for her exposes of local corruption and hard-line rule by the republic's president. For several years she was forced to publish her newspaper in neighboring Volgograd Oblast after Ilyumzhinov ordered local printing presses to stop publishing the newspaper. She was also the leader of the local branch of the Yabloko party.

The Russian procurator has arrested three individuals in connection with the murder. Two have close ties to Ilyumzhinov. One of the arrested was Ilyumzhinov's personal representative in Volgograd, Tyurbya Boskhomdzhev, while the second was one of his assistants, Sergei Vaskin (*Nezavisimaya gazeta*, 16 June). Details about the third person detained are not available yet.

The situation in the republic has been tense since the murder. On 9 June about 150 protesters shut down the main street in Elista, Lenin Street, demanding that measures be taken to punish the murders. Hundreds of residents gathered for her funeral on 10 June. Ilyumzhinov did not make any public statements until 11 June. The Ilyumzhinov-controlled republican press remained silent about the affair until 13 June. The official Kalmykiyan media then denounced Moscow and other media for their coverage of the murder. One paper cried, "It seems that Moscow was waiting for this crisis to trip up not only the leadership of the republic, but all who live there. The worst has already happened, but the situation could become worse still if this murder is painted with nationalist colors. Then Kalmyks will have trouble speaking out in Moscow or any other Russian city. ... Attempts to cast a shadow over Kalmykiya, especially now in the run up to the International Chess Olympiad, is doomed to fail [Ilyumzhinov is simultaneous president of FIDE, the international chess organization]. The long suffering Kalmyk

people, having survived the Stalinist genocide and Siberian deportation, will survive this blow as well."

Republican officials deny that the murder was committed for political reasons or that it had anything to do with Yudina's professional activities. Yudina gained control of the *Sovetskaya Kalmykiya* on 2 September 1991 when it was registered as an independent newspaper. Its founders were the workers' collective and then later the Kalmykiya Association of Farmers. The paper opposed Ilyumzhinov in the spring 1993 republican presidential elections. Then, when Ilyumzhinov said that he wanted to "run Kalmykiya like a corporation," Yudina announced that she did not want to be part of Ilyumzhinov's machine. *Sovetskaya Kalmykiya* was the only paper that worked against Ilyumzhinov in the campaign.

On 26 August 1994, following a change in the leadership of the Association of Farmers, the republic registered a second newspaper under the name *Sovetskaya Kalmykiya* and took away much of the property belonging to Yudina's paper. In the summer and fall of 1994, republican kiosks sold both newspapers, forcing the salesmen to ask customers which of the two they wanted. In 1995, the authorities banned sales of Yudina's papers. Following that crack-down, the paper was printed in Volzhskii (Volgograd Oblast) with a print run of 4,000 because that was as many as fit into a Zhiguli. Yudina used the car to distribute her publication. Initially, the publisher printed the newspaper without any guarantee that it would be paid, but since 1997 the Yabloko party has financed the costs. The paper had to change its name to *Sovetskaya Kalmykiya Segodnya* in order to win registration.

This report was compiled with information from the Committee to Protect Journalists (New York) and the International Institute for Humanitarian and Political Research (IGPI, Moscow), which is closely affiliated with the Yabloko party. For additional information from Yabloko, see <http://www.yabloko.ru/News/judina.html>.

NDR (AND MAYBE YAVLINSKII) TO CONTEST TVER GUBERNATORIAL RACE. Even though the current governor still has two years left in his term, it seems that the gubernatorial race in Tver is well under way. According to a 9 June interview in *Tverskaya zhizn*, another candidate has joined the pool of contenders--State Duma Deputy Aleksandr Tyagunov, the head of the local Our Home is Russia (NDR) movement. His first priority will be winning reelection to his Duma seat, which will position him well as one of the leading gubernatorial candidates. As a national legislator, Tyagunov said, he is ready to work with Governor Vladimir Platonov and with Tver Mayor Aleksandr Belousov. Both are likely to participate in the upcoming elections. Other potential candidates are considered to be Presidential Representative to the region Tamara Koryakina and State Duma deputy Tatyana Astrakhankina. Perhaps the most intriguing possibility is that Yabloko leader Gregorii Yavlinskii will join the race.

The "Lebed phenomenon," where an outsider succeeds in winning a gubernatorial election in an economically depressed region by force of his charisma and the promise of a fresh

approach to solving local problems, concerns many Tver politicians. However, it is not yet clear if Yavlinskii will run. As Lebed is discovering, serving as a regional executive could either catapult Yavlinskii to national power, or it could just as easily damage his image.

Either way, the next governor of Tver must command solid financial and political support from the federal government. Moscow will probably intervene in Tver politics more frequently in the future, given the region's geographic proximity and economic ties to the capital. As Tyagunov hinted in his *Tverskaya zhizn* interview, with his help as deputy chairman of the Duma's economics committee, Tver Oblast will receive more federal subsidies in 1998 than in previous years.

At the same time, in order to fulfill Tver's program for social and economic development in 1997-2005, the region will need decisive political action. Tyagunov places great hopes in the NDR's political future, but much depends on former Prime Minister Viktor Chernomyrdin's ability to strengthen his image in the regions. Chernomyrdin can significantly boost NDR's standing in the provinces if he wins a Duma seat in Yamal-Nenets Autonomous Okrug and subsequently heads the party's Duma faction. Additionally, Tyagunov believes that his own platform, focusing on increasing industrial production and the quality of life, will attract many voters. - Boris Goubman in Tver

BRYANSK AUTHORITIES BOOST THEIR SALARIES. Already five months into the year, the Bryansk Oblast Duma and Governor Yurii Lodkin finally adopted the oblast budget for 1998. The budget assumes a 28 percent deficit and sets aside 1/7 of all revenues for government agencies. According to the document made public last week, oblast revenues will amount to 798 million rubles (\$130 million), while expenditures will equal 1,114 billion rubles (\$180 million) in 1998. As the oblast's chief financial officer Lyudmila Tyulyagina says, this year's budget is just as unrealistic as the previous one. A realistic budget would have an 8-10 percent deficit. Last year's budget had a 35 percent planned deficit, so in comparison this year's version looks better. In 1997 the victorious Communists, who had just captured both the legislative and executive branches of the regional government, declared that the budget was "unprecedented in its social emphasis." In contrast, this year even the Communist governor calls it a "beggarly budget of bare subsistence."

Lodkin has been using his well-honed technique of diverting criticism for such deplorable conditions from himself by blaming Moscow. He claims that Russia's overall financial troubles prevent the oblast from developing, despite the fact that many neighboring regions, some even ruled by Communist governors like himself, are doing much better than Bryansk. When this fact is pointed out to him, Lodkin immediately brands the rulers of successful regions as "Gaidar's lackeys."

Back in 1997, boosted by its recent electoral success, Lodkin's administration managed to persuade its agrarian allies in the duma to drop many subsidies for the collective farms in favor of social spending. However, only several months later the administration backed down

and returned to the Soviet era practice allowing the collective use of harvesting machinery, illegally subsidized by the oblast from the roads' fund. This year's budget allocates 12 million rubles (\$2 million) for subsidized machinery. In contrast, it gives only 800,000 (\$133,000) to support farmers and 102,000 (\$17,000) to support small entrepreneurs. All this is taking place as the overall productivity of the collective farm sector is sharply declining due to the poor competitiveness of the oblast's agricultural products.

Following the State Duma's example, Bryansk Oblast's legislators and the administration set aside a special "development" line in the budget, equal to 125 million rubles (\$21 million), but 2.6 million rubles of this will be used to finance the oblast administration. Last April the oblast bureaucrats received a salary hike that boosted their salaries 1.6 times. When the chronically underpaid teachers and other workers of the social spheres loudly protested, the governor replied with Soviet style rhetoric. In several interviews he chastised the intelligentsia as a complaining "class stratum," pointing to the conscientious workers who seem to have patience in dealing with the situation.

According to projections by the oblast economic policy committee, the average monthly salary this year will be 560 rubles (\$93), while the average monthly income will be 630 rubles (\$105). The committee's chairman thinks that given the current 10 percent rate of inflation, the average standard of living should remain the same. However, outside observers predict that this means greater reliance on social subsidies and second incomes for the population. One economic manager present at the duma meeting was overheard saying "It makes no difference what they put down on paper. Either way they will use the revenues to patch up budgetary holes, and will transfer the accrued debts into the next fiscal year." - Alex Levinsky in Bryansk

ETHNICITY ISSUES

DAGESTAN INTRODUCES CITIZENSHIP PASSPORT INSERTS. Last week the government of Dagestan adopted a decree requiring the addition of inserts identifying the bearer's nationality to Russia's national passports. The government claims that it adopted the decree in order to protect citizens' constitutional right to declare their ethnic affiliation. Last fall Russia adopted a new passport which does not identify the holder's nationality. This change from the Soviet-era practice caused considerable discontent among the political elite in many ethnically-defined republics, most notably Dagestan which is populated by numerous different ethnic groups. The issue is particularly important because the Dagestani legislature is now formed on the basis of ethnic quotas.

In the end, the republican legislature temporarily suspended the issue of new passports, which was supposed to begin on 1 January. Now, Dagestanis can use the insert together with their Russian passport. The insert contains the holder's name, date of birth, nationality, and the relevant passport data (such as serial number and date of issue). It will be issued by the Dagestani police, together with the national passport. - Nabi Abdullaev in Makhachkala

CENTER-PERIPHERY RELATIONS

KHRISTENKO, CHELYABINSK SIGN FIRST TREATY ON IMPROVING FINANCES. On 13 June Deputy Prime Minister Viktor Khristenko and Chelyabinsk Governor Petr Sumin signed an agreement between the Russian government and the Chelyabinsk administration on improving the region's financial situation. Overall, during Khristenko's visit 12-14 June, the two sides signed 21 agreements, 20 of which had been prepared long in advance and were logical extensions of the power-sharing treaty signed 4 July 1997 between Chelyabinsk Oblast and the federal government. The agreement on finances, according to Khristenko, is a qualitatively new kind of agreement between the federal government and the regions, and Chelyabinsk became the first region to sign such an accord. According to a 5 May presidential decree, the federal government will sign similar agreements with all regions by 5 July (see *IEWS Russian Regional Report*, 11 June). Khristenko spent the early part of his career working in the Chelyabinsk Oblast administration, so the region was a logical choice in launching his campaign to improve federal control over the provinces.

Khristenko said that Chelyabinsk took on heavy responsibilities to help the government improve its financial situation. The region will now have to follow federal standards in credit agreements, housing issues, wage levels, and restructuring tax debts. The agreement is supposed to help the oblast pay its wage debts to all public sector employees and avoid such problems in the future. Financial relations between Chelyabinsk and the federal government should be more transparent in the future.

If Chelyabinsk meets the terms of the treaty, it will have access to additional federal funding in the future. The treaty calls for returning grants extended to Chelyabinsk in 1997 to meet wage arrears and mutual cancellation of debts in supporting federal agencies in the region. Observing the agreement will also give the oblast access to funds from the "Developing Regional Finances" program run by the federal government and the World Bank, usually at better rates than offered by Eurobonds. - Igor Stepanov in Chelyabinsk

NEW GENERATION

POLITICAL PORTRAIT OF KARELIYA'S NEW PRIME MINISTER

by Boris Matveev, *Severnii Kurier*

PETROZAVODSK - Newly elected Kareliyan Prime Minister Sergei Leonidovich Katanandov, 43 and an ethnic Russian, is Kareliya's youngest leader since revolutionarily times. During the eight years he served as mayor of Petrozavodsk, observers became very familiar with his style. At his weekly meetings with his subordinates, he often became extremely angry with aides who did not meet his expectations and sometimes fired them on the spot. However, in some cases, his haste led him to dismiss the wrong person and he would have to apologize for his misstep. There is also a well known story about how at a 25 December 1997 meeting with

the republic's Finance Minister, Mayor Katanandov grew so heated in an argument about how the city and republic would divide income tax that he gave the minister the finger as an argument for why the city should keep the income tax collected on its territory.

Katanandov is most famous among Petrozavodsk residents for a comment he made about fountains. "No matter what happens in the republic or the country, no matter how difficult life gets, while I am mayor Petrozavodsk will have a new fountain every year. Our city should be beautiful and clean." Some criticized him for building fountains while the city's poorest residents did not have bread, but most appreciated his initiative. Of course, he did not stop at fountains. He also reconstructed the embankment and ensured that the city center looked good.

Also to Katanandov's credit is the fact that during his tenure as mayor he did not raise the salaries of his employees. He could have done this if he wanted to because Kareliya's law on local government allows each jurisdiction to determine its own salaries. One result of this law was that small regions dependent on subsidies often paid their executives significantly more than leaders of neighboring regions that were larger and self-sufficient.

Katanandov was inaugurated on 1 June, international children's day. His first action in office was to establish a foundation as part of the prime minister's office that will develop the scientific, artistic and physical capabilities of the republic's children.

Biography of Sergei Leonidovich Katanandov

21 April 1955 - Born in Petrozavodsk to the family of famous builder. His father for many years headed Glavsevozapstroj, which handled all construction work in the republic.

1972-78 - Studied in the department of Civil and Industrial Construction at Petrozavodsk University

1978-82 - Worked on various construction sites.

1982 - Became the head engineer of the Petrozavodsk Construction Department where he built the Vanguard Shipbuilding Factory, a dairy, meat packing plant, bread factory, and numerous apartment buildings.

1984 - Named chief engineer in the Petrozavodskstroi Trust

1989 - Named head of an association that built large pre-fabricated buildings

1990 - Elected to the Petrozavodsk City Soviet and gave up work in the construction industry.

Two to three years after he left the field, the economic crisis forced the closure of most construction companies in Kareliya, including those that Katanandov had headed. He was elected chairman of the soviet and quickly gained control of the city's executive branch as well.

August 1991 - Strongly backed Yeltsin against the hard-line coup

1993 - Graduated from the Academy of State and Municipal Service with degrees as a manager and jurist.

1994 - Won Petrozavodsk's first mayoral election and became a member of the republic's House of Representatives.

1995 - Joined President Yeltsin's Council on Local Government

1995 - Won an award in the Russian Mayor-95 contest.

1996 - Named to the Russian delegation on local government to the Council of Europe

17 May 1998 - Elected prime minister of Kareliya.

SUCCESS STORIES

NIZHNIY LOCALITY ATTRACTS INVESTORS WITH TAX BREAKS. Like the rest of the Russian economy, Nizhnii Novgorod has a tough time attracting direct foreign investment. However, one of the oblast's raions has been using favorable tax policies to bring in money from the outside. The Bor Raion hosts over 10 joint ventures, with promising projects in the glass making, pipe producing, and food processing sectors, says raion administration head Vladimir Ivanov. For example, this year Permalat will launch a dairy plant in Bor, renting from the local government a building confiscated some time ago from river shippers who did not pay their tax debts. There are encouraging signs that 120 MAN buses will be produced annually at the Bor Repair Plant as a part of a joint venture with several foreign companies. The Bor Food Processing Plant just installed a beer production line with a 2 million decaliter annual capacity. The Bor Glass Making Plant has been using \$23 million worth of Italian technology to make automobile window glass, about 220,000 kits (back, side and sky light windows) a year. The plant administration is negotiating with Belgium's Glaverbell to expand its production to making front windows. The Belgians plan to invest \$120 million in the project over the next five years.

The Bor Raion administration freed all agricultural producers from all local taxes. Additionally, Bor farmers will receive machine fuel and locally produced equipment at favorable prices. Currently the region is running a trade surplus. Bor Raion has never had any special advantages beyond Ivanov's wise economic policies. - Yuri Rodygin in Nizhnii Novgorod

ECONOMIC ISSUES

CHELYABINSK'S SUMIN DENOUNCES ALFA BANK OVER EUROBOND DEAL. Chelyabinsk Governor Petr Sumin on 13 June charged that Alfa Bank was "blackmailing" the administration in order to participate in the oblast's planned \$300 million Eurobond issue. He said that Alfa Bank was making money from its relationship with the oblast but had nevertheless told oblast leaders: "Issue the \$300 million Eurobond and we will manage the process." Sumin noted that Chelyabinsk had conducted a tender to determine who would manage the process and that Morgan Stanley had won and Avtobank would be the financial consultant. He said that Chelyabinsk had rejected Alfa Bank's services and that the bank had then tried to disrupt the entire deal.

At the beginning of June, Alfa Bank announced that it was going to sue Chelyabinsk in the Arbitration Court for 69 million rubles (\$11.5 million). The bank charged that the oblast owes it 50 million rubles for a loan granted in 1997 for agricultural projects. Alfa bank claims to have the support of the Agricultural Ministry and the Finance Ministry.

The bank declared that given Chelyabinsk Oblast's poor credit history, it was in no position to issue Eurobonds. It warned that the oblast administration would be unlikely to make good on any obligations incurred in the Eurobond program.

President Yeltsin authorized Chelyabinsk to issue Eurobonds on 17 December 1997. The oblast is now in the process of preparing the Eurobond issue and readying the documents to receive a credit rating from Standard & Poor's and Moody's. - Igor Stepanov in Chelyabinsk

RENAISSANCE CAPITAL EAGER TO INVEST IN IRKUTSK ECONOMY. The Renaissance Capital investment group plans to invest \$50 million in Irkutsk Oblast sovereign debt and eco-tourism investment projects, Deputy Chair of the oblast Economics Committee Nelli Zolkina said after discussions with MFK Renaissance clients. The company expressed interest in trading the oblast's securities on the Moscow and St. Petersburg stock exchanges. The securities are already available in Moscow and will soon be available in St. Petersburg.

Last year the oblast managed to raise 362 billion rubles (\$60 million) from selling its securities. The oblast already paid back 226 billion old rubles (\$38 million) worth of its debt, as some money was set aside in the regional budget specifically for servicing the debt. While 89 billion old rubles (\$15 million) went to the oblast budget, 18 billion old rubles (\$3 million) were used directly for investment projects. Today, there are 200 billion rubles (\$33 million) worth of oblast securities on the market.

The administration would like to borrow 600 million new rubles (\$100 million) in 1998-1999, paying back half in 12 months and the rest in 18 months. Finance experts think that the longer payback period for the government securities will make them more attractive to enterprise managers as potential sources to finance investments. - Natalia Michurina (Teleinform) in Irkutsk

NIZHNI NOVGOROD FAIR PLANS GROWTH. Well into its seventh year of operations, the Nizhnii Novgorod Fair (*yarmarka*) remains controversial among city residents and fair owners alike. Some of the enterprise's shareholders still argue whether the fair is primarily an exhibition center or a retail outlet. Most agree, however, that it is something in-between.

The fair's overall profits and especially profits from exhibitions have dropped dramatically. The total profits went down from 4.8 billion old rubles (\$800,000) in 1996 to 2.7 billion old rubles (\$450,000) in 1997. In 1996 exhibitions accounted for 88.3% of the total profits, but in 1997 that figure dropped to 74.9%. In contrast, profits from retail activities increased from 8% in 1996 to 18% in 1997. Fair General Director Vladimir Bessarab claims that most of the profits were eaten up by taxes.

On the other hand, the fair has experienced a boom in its activities. In 1997, 7,927 exhibitors took part in its shows, including 616 from 45 foreign countries. Over 2.1 billion old

rubles (\$350,000) worth of deals were struck on its floor last year or twice the figure in 1996. While higher rates of participation testify to the fame the fair has acquired across Russia and abroad, the record number of deals signed means that Nizhnii businesses gained new partners. Bessarab claimed that the fair will try to support Russian and, especially, Nizhnii producers, despite the recent hike in fees charged for exhibition space.

A new business center, currently under construction, should attract more foreign participants. Unfortunately, the fair management can only finance 10% of the anticipated construction costs for the center. The rest of the financing should come from investors, and several foreign and Russian banks have already expressed interest as long as they receive suitable guarantees for their loans. Nizhnii's car manufacturing giant GAZ will provide one such guarantee. The center's business plan promises a profit, but should the promise not be realized, GAZ might lose a lot. - Yuri Rodygin in Nizhnii Novgorod

FOREIGN TIES

KOMI REPUBLIC'S FOREIGN ECONOMIC POLICY IN 1997

by Yuri Shabaev, Komi Research Center

SYKTYVKAR--Recently published data on the foreign economic relations of the Komi Republic in 1997 show both the region's economic potential and the general difficulties encountered by Russian regions in foreign trade. Like Russia overall, Komi has a strong trade surplus: while the total volume of trade in 1997 was \$828 million, about \$669 million of that accounted for exports. The republic's share in Russia's foreign trade remained at about 1%, even though Komi's per capita volume of foreign trade leads most other regions. Among the five regions of Russia's European north, Komi is third in terms of exports: ahead of the Republic of Kareliya and Arkhangelsk Oblast, but significantly behind Murmansk and Vologda oblasts. In terms of economic potential, Komi should be the leader among these regions, since its natural resources are valued at \$11 trillion ("Region" 1998, No. 3). However, most of these resources are either poorly developed or extraction plans are only now being considered.

Raw materials heavily dominate the republic's exports. Indeed, in the last several years 97-99% of exports came from fuel and energy resources as well as from timber processing. Geographically, Komi's leading trade partners in 1997 were European countries, most notably Great Britain, Hungary, Germany, Latvia, Lithuania, the Netherlands, Poland, Slovakia, Finland, the Czech Republic, Switzerland, accounting for 57% of exports. Among the CIS states, the leading partners were Belarus, Ukraine, and Kazakhstan.

While exports increased in 1997 by 2%, the structure of Komi's trade has changed because of competition from other regions as well as other economic factors. For example, the export of coal has dramatically declined since 1994, mostly due to the prohibitively expensive costs of local production.

The worldwide drop in oil prices forced the republic to sell an additional 1 million tons of unprocessed oil last year. This allowed Komi to keep its oil revenues at the same level, although the oil processing capacity of the republic declined. Oil joint ventures with foreign partners, which account for half of all oil extraction in the republic, are not interested in processing the oil in Komi because it is very expensive.

On the whole, Komi's exports of particular goods are only a tiny fraction of Russia's overall exports: 1 percent for coal, 3 percent for crude oil, 2 percent for processed timber, and a mere 0.6 percent for unprocessed wood. However, Komi accounts for 13% of Russia's exports of paper used in printing newspapers.

Most of Komi's imports come from European countries. Compared to last year, the republic imported 15 times more equipment, 2.5 times more vehicles, and 3 times more textiles and shoes. Joint ventures with foreigners account for 40% of the republic's total foreign trade, and their export volume rose by 7%. By 1 January 1998, the economy had \$340 million and over 25 billion old rubles (\$4.2 million) worth of foreign investment. Most dollar investments came from Cyprus, the US, and Switzerland.

REGIONAL PROFILE: KORYAK AUTONOMOUS OKRUG

Governor: Valentina Bronevich

Valentina Bronevich, the first and only female regional executive, was elected governor of Koryak AO on 17 November 1996. Running as an independent candidate, she received 46.1% of the vote.

Bronevich was born in 1956 in Kamchatka Oblast. She is Itelmen by ethnicity. At the age of 22, she graduated from Law Department of Irkutsk State University and went to work as a lawyer in Kamchatka Oblast. After five years, she became a judge on a local court and then served as head of the oblast executive committee's department for northern peoples and nationalities issues. Since 1994 and until being elected governor, she served as a chairman of the Kamchatka Oblast electoral commission.

Bronevich is more interested in efficient policy-making than in pursuing ideologically determined politics. Improving the supply of food and fuel to her isolated region is her top priority. Economically, she hopes to reduce the okrug's high unemployment rate and its financial dependence on shrinking federal subsidies. For that purpose she wants to develop and diversify the local manufacturing industry, thereby increasing the local population's share of profits from exploiting the okrug's natural resources. She has accused foreign-owned companies and former state monopolies of declaring themselves Koryak organizations to take advantage of tax breaks designed to help the indigenous people.

Other Local Leaders

Chairman of the Okrug Duma -- Vladimir Mizinin, elected in January 1997.

Brief Overview

Koryak Autonomous Okrug encompasses the northern section of the Kamchatka peninsula, the adjoining parts of the mainland, and Karaginskii island. The okrug borders Magadan Oblast and Chukotka AO. Koryak AO is one of the least developed and inhabited in the country due to its severe climate conditions and mountain landscape. The okrug's ethnic composition is made up of Russians (62%), Koryaks (16.4%), Ukrainians (7.2%), Chukchas (3.6%), Itelmens (2.9%), and Evens (1.8%).

The okrug is rich in gold, silver, platinum, tin, mercury, copper, chromium, coal, charcoal, and building materials.

Fishing, including for crab and salmon, is the major regional industry and contributes one third of the okrug's GDP. Economic activity in the region also includes gold and coal mining, reindeer breeding, hunting, and food processing.

Basic Facts

Population (as of Jan. 1, 1997): 32,100 (0.02% of Russian total)
Urban population (1989 census): 24.3% (Russia overall: 73.0%)
Pensioner population (1996): 19.17% (Russia overall: 25.78%)
Percent of population with higher education (1989 census): 10.7% (Russia overall: 11.3%)
Industrial production as percentage of all Russian production (1996): 0.02%
Proportion of loss-making enterprises (1996): 64% (Russia overall: 56%)
Number of enterprises which have wage arrears (1996): 48
Agricultural production as percentage of all Russian production (1996): 0.02%
Number of private farms (as of Jan. 1, 1997): 25 (0.01% of Russian total)
Capital investment (1996): 29,400 rubles (Russia overall: 370 trillion rubles)
Sources of investment (1996): federal budget: 95.6% (Russian average: 9.2%); regional budget: 4.1% (9.6%); enterprises: 0.7% (66.3%)
Number of joint ventures (as of Jan. 1, 1997): 2 (0.01% of Russian total)
Number of enterprises privatized in 1996: 1 (0.02% of Russian total), including those which used to be municipal property: 0% (Russian average: 67.1%); regional property: 100% (14.3%); federal property: 0% (18.6%)
Number of telephones per 100 families (1993): in cities: 24.9 (Russian average: 48.7); in villages: 18.5 (19.7)

According to a 1997 survey by *Ekspert* magazine, the okrug is ranked 83rd among Russia's 89 regions in terms of investment potential and 88th in terms of investment risks. A 1995 survey by Bank Austria ranked the okrug 79th in terms of investment climate.

Electoral History

1996 Presidential Election

Yeltsin: 45.99%/69.78% (first round/second round)

Zyuganov: 14.97%/22.90%

Lebed: 15.79%

Yavlinskii: 8.93%

Zhirinovskiy: 6.50%

Turnout: 72.57%/67.86% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Liberal Democratic Party of Russia: 13.14%

Communist Party of the Russian Federation: 10.00%

Yabloko: 9.40%

Women of Russia: 8.70%

Our Home Is Russia: 6.94%

Party of Workers' Self-Government: 5.51%

Communists -- Workers' Russia: 3.90%

Kedr: 3.05%

Forward, Russia!: 2.86%

Congress of Russian Communities: 2.74%

Russia's Democratic Choice: 2.49%

In a single-member district: 1 independent

Turnout: 65.90% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 67.90% "No" -- 32.10%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 24.07%

Russia's Choice: 14.88%

Women of Russia: 12.51%

Yabloko: 11.92%

Party of Russian Unity and Concord: 9.58%

Democratic Party of Russia: 7.81%

Communist Party of the Russian Federation: 7.30%

Agrarian Party of Russia: 1.50%

In a single-mandate district: 1 independent

Turnout: 56.72% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 42.60%

Ryzhkov: 20.47%
Tuleev: 13.09%
Zhirinovskiy: 10.79%
Bakatin: 4.21%
Makashov: 3.04%
Turnout: 80.09% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regiony Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.

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BREAKING NEWS

POLITICS

CONGRESS OF MUNICIPALITIES FOUNDED. In a move that could potentially transform federal relations in Russia, the Congress of Municipalities held its founding congress in

the offices of the presidential administration on Staraya ploshchad in Moscow on 19 June. Delegates from 71 associations, representing 22 regions and approximately half of Russia's voters attended the conference. Since there are approximately 15,000 municipal divisions in Russia (cities and rural raions), the delegates represent associations of municipalities, rather than individual municipalities. (*Izvestiya*, 23 June).

Russkii Telegraf described the event, the formation of a national organization to mediate the relationship between the federal and local governments, as potentially historic if the association is able to develop. Boris Yeltsin is serving as honorary chairman of the congress. Addressing the session, Deputy Prime Minister Oleg Sysuev said that the federal government would work hard to ensure the development of local government. The Kremlin has often used local government to reign in governors it does not like.

President of the Union of Russian Cities Valerii Kirpichnikov was elected head of the congress's permanently functioning secretariat and will step down as the leader of the Union of Russian Cities shortly. Kirpichnikov served in the State Duma from 1993-1995 representing Sergei Shakhrai's Party of Russian Unity and Concord. He lost a reelection bid in December 1995. His home is in Sosnovy Bor, Leningrad Oblast. Until recently the Union of Russian Cities had its headquarters in Moscow Mayor Yurii Luzhkov's office building on Tverskaya, 13.

Among his first statements, Kirpichnikov charged that the draft of the new tax code would take away power that local governments currently have over some taxes and further concentrate it elsewhere. He warned that the new congress would strongly lobby against such a move. The members of the congress will meet no less than four times a year (*Russkii Telegraf*, 20 June). Soon Yeltsin will sign a decree giving the congress the right to deal with the Kremlin directly, bypassing the governors.

Although Yeltsin and his team may hope for the mayors' support in upcoming elections, the mayors' economic and political interests are too varied for them all to support a single candidate. Luzhkov, in particular, was very effective in placing his supporters in key positions in the new organization (*Kommersant Daily*, 20 June).

FAR EASTERN PRESIDENTIAL REPRESENTATIVES DISCUSS LOCAL GOVERNMENT. Presidential representatives to regions in the Far East met in Birobidzhan on 10 June to discuss local government issues. Presidential Administration Department Head Boris Mints led the meeting after similar sessions in the Northwest, Volga, and central Siberian regions. First Deputy of the Presidential Administration for Local Government Issues Leonid Gilchenko said that the most important task for presidential representatives was to regulate conflicts between local and regional officials, hopefully preventing them from developing personal animosities that prevent the normal functioning of the government. The presidential representatives are also playing a leading role in forming the Congress of Municipalities (see above). Conflicts between governors and mayors are complicating this task as well. In regions like Primorskii Krai, Governor Yevgenii Nazdratenko and Vladivostok Mayor Viktor Cherepkov are seeking to establish their own mutually independent associations of local leaders. (*Russkii Telegraf*, 11 June)

ROSTOV CITIES FORM ASSOCIATION. On 27 May the mayors of Rostov Oblast's cities and raions formed the Rostov Oblast Association of Municipalities in one of the meeting rooms of the oblast administration and in the presence of Deputy Governor S. Kuznetsov. The association elected Rostov Mayor Mikhail Chernyshev, the driving force behind the new group, as its chairman. The association sent delegates to the founding session of the national Congress of Municipalities (see above). The local leaders hope that by forming an association they will have greater leverage over the Rostov Oblast governor's administration. The association will provide legal advice on questions of local government since many of the cities do not have the resources to obtain this kind of information on their own. The association will have its own staff and secretary to provide leadership. The members even discussed the idea of turning the association into the upper house of the Rostov parliament, modeling themselves on the example of the Federation Council. So far the association has sought to work closely with the oblast administration and no one yet sees it as being in opposition to Governor Vladimir Chub. Chernyshev recently participated in the formation of the Russian-Ukrainian Association of Cities. (*Gorod N* [Rostov], 27 May - 2 June)

YELTSIN VISITS KOSTROMA. President Yeltsin insisted that his 18 June trip to Kostroma, the first presidential visit to one of Russia's regions this year, was not for the purpose of campaigning. "I passed over the entire map of Russia with a pencil in hand and discovered that I'd never been to Kostroma. Whether or not the oblast is big, small, or medium, it has its own problems that need to be investigated," he said (*Nezavisimaya Gazeta*, 19 June). During the outing he said that he would not seek a third term "because the Constitution allows only two presidential terms," (*Russkii Telegraf*, 20 June 1998). The President's press secretary, however, told *Russkii Telegraf* that Yeltsin had not yet made a decision regarding the election, suggesting that the pending judgment of the Constitutional Court on this matter could influence the President's course of action.

During a casual visit to a flax manufacturing factory, Yeltsin signed a poster displaying the slogan "Government Support for Russian Flax" with the words "It will be ordered." Kostroma Governor Viktor Shershunov suggested that Yeltsin take the signed poster back to Moscow for the 23 June government session. Shershunov also told *Russkii Telegraf* that he considers nomination for another presidential term Yeltsin's "inalienable, lawful right."

The warm words, however, did not prevent Yeltsin from criticizing Shershunov, who openly opposed Yeltsin during his October 1993 stand-off with the parliament, and stated in his 1996 gubernatorial campaign that his position had not changed. When discussing the issue of stipends with a group of local students, Yeltsin questioned why the governor's administration complained about arrears in paying pensions and stipends, yet was silent about its own debts. Kostroma is far behind in its contribution to the pension fund, contributing to further delays in payments. In meetings with farmers and industrialists, Yeltsin was critical of the quality of their work and their requests for government assistance (*Moscow Times*, 20 June 1998).

RUTSKOI'S BATTLE WITH KURSK PROCURATOR CONTINUES. Following the arrest of two of Rutskoi's assistants and the sacking of his brother Mikhail from the oblast branch of the Ministry of Internal Affairs, both Governor Aleksandr Rutskoi and Kursk Procurator

Nikolai Tkachev addressed the Kursk Oblast Duma on 17 June (see *IEWIS Russian Regional Report*, 18 June). Ruskoi had hoped to convince the legislature to fire Tkachev even though the legislature does not have that power since the procurator is appointed by officials in Moscow. He said that he was going to sue the procurator for arresting two of his deputies and demanded that their case be investigated by authorities in a different region since any investigation conducted by Tkachev would be "biased." Tkachev argued that the whole proceeding was simply an attempt by the governor to exert political and psychological pressure on him. He believes that Ruskoi's wrath was largely a response to the dismissal of his brother. The duma referred the issue to a committee and postponed any action on the case. (*Izvestiya*, 19 June)

Later in the week Ruskoi visited President Yeltsin's administration in Moscow seeking support for his case. First Deputy Chief of Staff Vladimir Putin, who handles regional issues for the administration, assured Ruskoi that the presidential administration was not involved. Ruskoi named the local and national Communist Party organizations among his enemies (*Kommersant Daily*, 20 June). On 22 June, the procurator filed charges against Ruskoi's brother, accusing him of abusing his office and large-scale corruption.

WEAPONS DEPOT EXPLODES NEAR YEKATERINBURG. A large weapons depot began to explode on 17 June in the village of Losinyi, following a fire started by a lightning strike. The depot held 240 metric tons of ammunition and 100 tons of TNT. There were at least 11 deaths in the resulting fires. The authorities had to evacuate 2,500 people and could not extinguish the flames at first because of the continuing explosions. Ultimately, 700 soldiers and firefighters were required to do the job. Forest fires are common in that part of the oblast, but the soldiers did not take proper precautions in clearing the area around the depot. (*Kommersant Daily*, 18 and 19 June)

FEDERATION COUNCIL REMINDS GOVERNMENT OF PROBLEMS IN RUSSIAN NORTH. While the federal government pushes ahead with its strategy of implementing a unified economic policy across Russia, the Federation Council has passed a measure reminding the government of the special needs of the northern regions. Every summer regional executives from the north come into conflict with the government over financing and organizing the transport of supplies to the remote regions. This task must be accomplished in the short summer when the rivers are navigable. According to Chukotka Governor Aleksandr Nazarov, the chairman of the Federation Council's Committee on the north and indigenous ethnic groups, this year is no exception. The government has only paid out 12.3 percent of the 323.8 million rubles (\$54 million) authorized for supplying the north and has transported only about 75 percent of food and fuel that had been transported by this time last year. Only 16 percent of Russia's population lives in the northern regions, but they are responsible for most of the country's hard-currency earnings. (*Finansovye izvestiya*, 23 June)

VLADIVOSTOK MAYORAL ELECTIONS POSTPONED. The elections for Vladivostok mayor will not take place on 5 July, Central Electoral Committee member Vyacheslav Sitnik announced during a trip to the city. As yet, no candidates have been officially registered and now there is not enough time to do so before the planned date. The number of

individuals seeking to run is more than 20. Cherepkov should set the new election date no later than 5 July and the elections must be held before 5 October. The city duma elections will still take place on 12 July. Cherepkov is hoping that his supporters will win a majority in the duma which would allow them to change the city charter so that the duma could elect the mayor. If that happens, Cherepkov could combine the posts of mayor and speaker of the Duma. (*Kommersant Daily*, 20 June)

KHANTY-MANSII SIGNS AGREEMENT WITH JUSTICE MINISTRY. Khanty-Mansii Governor Aleksandr Filipenko, Chairman of the okrug Duma Sergei Sobyenin, and Russian Justice Minister Pavel Krasheninnikov signed an agreement aimed at increasing the compliance of the okrug's laws with Russian legislation. The two sides will share information to improve the quality of the okrug's legislation. They hope that their cooperation will be more productive than simply having the federal authorities criticize the regions for not complying with federal law. (*Nezavisimaya gazeta*, 23 June)

ECONOMICS

STANDARD & POOR'S LOWERS REGIONAL CREDIT RATINGS. On 10 June Standard & Poor's lowered the credit ratings of Moscow, St. Petersburg, Nizhnii Novgorod, Samara, Sverdlovsk, and Yamal-Nenets from BB+ to B+. These regions and Baskortostan, Tatarstan, Sakha (Yakutiya), Komi, Astrakhan, Irkutsk, Leningrad, Orel, Perm, Chelyabinsk, Krasnoyarsk had planned to issue Eurobonds this year for a total of about \$4 billion. In 1997, the regions received about \$1 billion through Eurobond issues. Most of the issues have been postponed indefinitely because of poor market conditions. (*Finansovye izvestiya*, 18 June)

EES GIVES REGIONS A THIRD OF THE VOTES. Unified Energy System gave the regions one third of the votes at the electricity monopoly's 19 June shareholders' meeting. The votes were divided among the regions depending on how much electricity they consume. (*Finansovye izvestiya*, 18 June)

DONETS PLANS TO SELL MORE ELECTRICITY TO ROSTOV. The Ukrainian region of Donets is already trading electricity to the city of Taganrog (Rostov Oblast) for equipment for electric stations. In the future, the Ukrainian plant hopes to increase its output and exchange it for mining equipment and combine parts produced in Rostov Oblast. On 16 June the two regions signed a cooperation agreement and hope to increase cross-border trade. (Rostov Oblast Governor's Press Service, (<http://www.rostov.net/admrnd/index.html>), 18 June)

ASTRAKHAN OPENS STORE WITH LOCAL PRODUCTS. The Astrakhan oblast administration recently opened a supermarket called "Astrakhan without America" that sells only products made in Russia. The demand has been overwhelming, leading to some lines, and the store has had to double its staff. Local markets are brimming with imported food and local production of food products in Astrakhan and Russia as a whole has dropped 40-60 percent. The new market offers over 500 domestic name brand products. Governor Anatolii Guzhvin

said that he plans to open similar stores throughout the city and in other parts of the oblast. (*Izvestiya*, 19 June)

FEDERAL GOVERNMENT PROTESTS SAYANSK STOCK ISSUE. The Federal Property Fund has filed a protest with the Khakasiya Property Fund protesting a stock issue in April by the Sayansk Aluminum Factory (SaAZ). The result of the stock issue was to reduce the British Trans World Group's share in the factory from 38 percent to 15 percent and the federal government's share from 15 percent to 6.5 percent. The main beneficiary of the deal was the "Siberian Aluminum" group, led by SaAZ Director Oleg Deripaska, which bought the shares for \$5 million, and now controls between 60 percent to 72 percent, according to different analyses. The leadership of the plant is closely aligned with Khakasiya Governor Alexei Lebed, Krasnoyarsk Krai Governor Aleksandr Lebed's younger brother. Trans World is preparing to file suit and the federal government may do so as well. The federal government had been preparing to auction its stake, but a buyer is unlikely to be found now that it is so small. *Finansovye izvestiya* (18 June) described this as another case in which regional players are working against federal interests.

SAKHALIN PROJECTS MOVE AHEAD. The Sakhalin-1 and Sakhalin-2 projects are the only projects defined by production sharing agreements that have made significant progress in Russia in the last year. Investment in Sakhalin-1 (Exxon, Sodeko, Rosneft, and its subsidiary Sakhalinmorneftegaz) for 1998 is expected to be \$189 million. Investment in Sakhalin-2 (Marathon, Mitsui, Mitsubishi, Shell) should be \$444 million. Sakhalin-2 will produce its first oil next year and Sakhalin-1 plans its first production in 2001. Progress on Sakhalin-1 is undoubtedly slowed by the failure to privatize Rosneft. (*Finansovye izvestiya*, 18 June)

ECONOMIC FORUM MEETS IN ST. PETERSBURG. In contrast to last year's event, this year's economic forum held in St. Petersburg 17-20 June attracted Russia's A-list including Prime Minister Sergei Kirienko, Federation Council Speaker Yegor Stroev, CIS Executive Secretary Boris Berezovsky, and Central Bank head Sergei Dubinin. Belarusian President Aleksandr Lukashenko also attended. Although Prime Minister Sergei Kirienko hopes to win unified support for his anti-crisis program, St. Petersburg Governor Vladimir Yakovlev announced that a Federation Council working group had already prepared an alternative plan. His statement won the support of many governors at the conference who are not satisfied with the Kirienko plan.

DROUGHT THREATENS CENTRAL RUSSIA. A severe drought in central Russia has most affected Saratov and Volgograd oblasts and the republic of Kalmykiya, where 70% of the land has been turned into desert. In Samara, Orenburg, Chelyabinsk, Voronezh, Belgorod, Rostov, and parts of Stavropol and Bashkortostan, an estimated 30 percent of the crops have been lost. (*Kommersant Daily*, 18 June)

ROSTOV ADMINISTRATION GAINS CONTROL OF ROSTSELMASH. The Rostov Oblast administration has gained control of Rostselmash, once the largest producer of

agricultural combines in the CIS, following the last meeting of the board of directors. The previous board, which supported former General Director Vladimir Trinev, opposed the oblast's attempts to take over the plant. In March the board replaced Trinev with Pavel Pokrovskii, who initially said that he would continue Trinev's policies. But he quickly turned against Trinev, blaming him for the plant's problems. At the recent board meeting, the conflict came out into the open. Pokrovskii was then able to increase the oblast administration's representation from 2 out of 11 seats to 6 out of 12. Governor Vladimir Chub and the new director will break the giant plant into several independent firms. Some will continue to produce combines and the spare parts they require. A second company will assemble Daewoo cars and parts in a project sponsored by Doninvest, which is already assembling Daewoos at a plant in Taganrog. A third firm will make agricultural equipment in coordination with the US's John Deere. (*Kommersant Daily*, 19 June)

INKOMBANK REPLACE MENATEP AT PETERSBURG TV STATION. Inkombank has bought out Menatep's 14 percent stake in the Petersburg Television and Radio company that has taken over the former Channel 5. Now the ownership of the regional broadcaster breaks down along the following lines: St. Petersburg owns 38% of the station, Leningrad Oblast, 13%, Petersburg's Promstroibank - 17.5%, BaltUNEXIMbank - 17.5%, and Inkombank - 14%. While the two regional governments maintain a 51% controlling stake, they expect considerable investment from the banks. Now the three most active banks of the north-west region are involved in the media outlet. (*Russkii Telegraf*, 20 June)

GOVERNORS REMOVED FROM NORILSK NIKEL BOARD OF DIRECTORS. At its annual shareholders' meeting on 19 June, the board of Norilsk Nickel removed the governors of the Taimyr Autonomous Okrug, Krasnoyarsk Krai, and Murmansk Oblast from the board of Norilsk Nickel. The governors had not participated in the board meetings during the previous year. (*Russkii Telegraf*, 20 June)

BUSINESS BRIEFS

-- **MOSCOW** is building a \$150 million shopping center that will have a nine-screen movie theater, bowling alley and triple-deck parking garage. The city government owns a 30 percent stake, **INGEOKOM** has a controlling share, and **PREMIER SV** owns the rest. Los Angeles architects **ALTOON + PORTER** designed the project. The city has recently built shopping centers under Manezh and Pushkin squares, but experts believe that there is still considerable room for growth. (*Moscow Times*, 16 June)

-- **BRITISH AMERICAN TOBACCO** is planning to invest an additional \$50 million to modernize its **MOSCOW** factory. It has already spent \$100 million. In 1997 the firm invested \$50 million in its **SARATOV** plant and intends to spend another \$15 million this year on improving production facilities there. (*Russkii Telegraf*, 18 June)

-- Kenneth Dart lost his case against **NOYABRSKNEFTEGAZ** (a subsidiary of Sibneft) in the **YAMAL NENETS AUTONOMOUS OKRUG** Arbitration Court. Last year the company issued additional stock that reduced Dart's 7.6 percent share by more than 60 percent. On bringing the case in April, a representative of Dart's firm, the Cypress-based **NAVAROMCO LTD.**, said that the conflict showed that there was little legal protection for western portfolio investors in Russia. (*Russkii Telegraf*, 19 June)

-- **TATARSTAN'S YELABUGA AUTOMOBILE PLANT** (YelAZ) will begin producing **OPEL** Vectras in 1999, YelAZ General Director Ravil Zaripov announced. Samara's AvtoVAZ will likely produce its first Opel this year. YelAZ hopes to reach production levels of 80,000 - 100,000 Opels and 50,000 Chevrolet Blazers a year. Earlier this year, Tatarstan freed the plant from all local and republican taxes and lifted obligations to contribute to Tatarstani state-nonbudgetary funds. Since the YelAZ-GM joint venture began operating, it has only assembled 4,000 Blazers. Production this year was planned to be 50,000. (*Kommersant Daily*, 20 June)

-- The Finnish firm **VALMET AUTOMOTIVE** will stop producing the Eurosamara (a modified VAZ-2109) in July due to lack of demand. The decision marks the collapse of the first European assembly project of Russian cars. The cars, assembled in Finland, were aimed at the Russian market and had much better appointments than the models produced in AvtoVAZ's **SAMARA OBLAST** plant. Even though the car was made from 90 percent Russian parts, customs officials declared it an "import," driving the price beyond the reach of potential buyers. (*Kommersant Daily*, 20 June)

-- **ST. PETERSBURG** is planning to build an amusement park called "The Magic Land of Russia" to rival Gorky Park or EuroDisney with completion planned by the city's 300th anniversary in 2003. Earlier this year Governor Vladimir Yakovlev allocated 110 hectares of land near the Gulf of Finland to the Swiss company **ARTLEV AG** for the project. All of the attractions will be housed in one giant building and will be open throughout the year. **INTERNATIONAL THEME PARK SERVICES** of Cincinnati has already conducted a feasibility study. (*Moscow Times*, 23 June)

-- The French yogurt maker **DANONE** is planning to build a dairy plant and bakery in the Chekhov raion of **MOSCOW OBLAST**. Danone will invest \$100 million in the plant over five years and buy only local ingredients. The plant will be able to produce 150,000 tons of yogurt and tvorog and 100,000 tons of confectionery products a year. The venture is Danone's first greenfield project. The company bought a plant in Moscow in 1994 and one in Tolyatti, **SAMARA OBLAST**, in 1995. (*Russkii Telegraf*, 23 June)

-- **FORD MOTOR COMPANY** is likely to begin construction on a plant in **LENINGRAD OBLAST** as early as this fall, Deputy Prime Minister Boris Nemtsov announced on 19 June. Just a week earlier Ford had said that it was reconsidering its plans because of instability in the market. Ford is negotiating with the **RUSSKII DIZEL** plant. To receive tax breaks, Ford must

invest \$250 million. It had initially planned to invest only \$150 million. (*Kommersant Daily*, 23 June)

SPECIAL RESEARCH REPORT: GOVERNOR VERSUS MAYOR

THE CONFLICT BETWEEN THE SVERDLOVSK GOVERNOR AND YEKATERINBURG MAYOR

by Sergei Pushkarev, Urals State University

YEKATERINBURG - One of the main determinants of political and economic life in Sverdlovsk Oblast is the conflict between Sverdlovsk Governor Eduard Rossel and Yekaterinburg Mayor Arkadii Chernetskii. Such battles are taking place across Russia in a variety of different regions. They can be found in Primorskii Krai, Krasnoyarsk, Nizhnii Novgorod Oblast and dozens of other regions. In Kareliya and Smolensk, mayors of the region's capital cities defeated regional executives in recent elections (see *IEWS Russian Regional Report*, 21 May).

The conflict shows that democratic institutions in Russia are only just being established and that their development is far from complete. While the disputes seem to be the result of battles between personalities, they actually arise for systemic reasons: it is not so much a battle between two individuals who cannot get along, but two bureaucratic positions striving to maximize their powers.

The Establishment of Local Government in Sverdlovsk Oblast

The form of local government that exists in Russia today was established in 1993 by a series of decrees issued by President Yeltsin. On 10 October Yeltsin dissolved the city councils and rural raion councils across Russia. Then in decrees issued on 26 October and 22 December, he set up a system of local government that transferred most power into the hands of local executives. In particular, city and raion mayors gained effective control over the local budget.

As early as October 1993, Yekaterinburg Mayor Chernetskii established a system of local government with a strong executive. His main priorities for 1994 included securing the budget, reforming the economy, providing social security for the population, and developing the housing complex. No role was provided for a city council in these plans. Sverdlovsk Oblast adopted a law on local government on 5 April 1995 and it provided the basis for electing the city's mayor for the first time. The Yekaterinburg City Duma adopted the city's charter in October 1995 in the version that Chernetskii had proposed, codifying the position of the strong mayor. Chernetskii went on to win the mayoral elections held 17 December 1995, the same day that Rossel was elected governor.

The Sources of Conflict between the Sverdlovsk Governor and the Yekaterinburg Mayor

Sverdlovsk Oblast has suffered the consequences of the conflict between the governor and mayor for three years now. The battle is drawing in a growing number of groups and occupying an ever larger arena. What are the basic causes of this conflict?

First, it is the vague provisions of the Russian law on local government adopted in August 1995. The law did not define clearly how local governments should raise the revenue required to meet their budgets. This vagueness meant that local governments are constantly seeking funding. It also deprived local governments of any incentive to take the initiative in raising their own funds.

In general across Russia, the oblast budget is heavily dependent on contributions from the capital city. In the case of Sverdlovsk Oblast, the city of Yekaterinburg contributes two-thirds of the oblast's revenue. The city, in turn, is heavily dependent on the oblast budget because, once they collect money from across the oblast, the oblast authorities determine how much money will be spent in the city.

The Yekaterinburg city authorities don't like giving such large amounts of money to the oblast and began to oppose the transfer of such funds. In turn, the oblast authorities resented the increasing opposition from the city to transfer the money needed to meet the oblast's expenses.

This first cause boils down to a dispute over how to divide up the tax revenue collected in the oblast. Mayor Chernetskii is ardently opposed to the "transfer system" in which all parts of the oblast send money to a single purse from which funds are distributed back to them.

From Governor Rossel's position, the oblast has 73 municipal jurisdictions, only 6 of which earn more money than they need to spend on their basic needs. The city of Yekaterinburg is a donor to the oblast budget because it was built as the oblast capital over the course of decades, receiving the best supplies from the rest of the oblast. As a result it must share its wealth with the rest of the region.

The oblast authorities decided that each municipal jurisdiction should contribute 77 percent of the funds it collected to the oblast budget, while retaining the right to keep 23 percent. The local leaders do not like this directive since it meant that no matter how hard they tried to collect regional taxes, they still had to send 77 percent of receipts to the oblast. This dramatically reduced their incentive to collect local taxes and led the leaders of the big cities to protest.

Chernetskii became the most vocal opponent of the system arguing that Yekaterinburg should not be held responsible for other parts of the oblast. He charged that the rural areas should contribute to the budget just like the cities.

He also complained that the transfer system gave the oblast government strong political control over local officials. Since the governor had consolidated control over all of the oblast's financial resources, he could strongly influence the people who received the money. Moreover the transfer system turned all parts of the oblast, no matter how rich they were, into recipients of subsidies since they depended heavily on the oblast budget.

Second, the struggle between the governor and mayor is highly politicized. The battle for the 1998 Legislative Assembly was fought between Rossel's Transformation of the Ural and Chernetskii's Our City-Our Home political movements. Also Chernetskii has already announced that he will run for governor in 1999. Such a decision cannot please Rossel who undoubtedly sees Chernetskii as a strong opponent.

Related to this problem is the fact that the federal government often exploits disputes between regional and local authorities to reduce possible challenges to its own authority. In particular, the Kremlin often supports mayors to reign in the power of difficult governors.

In the political battle, the governor can count on the support of the oblast government, the Transformation of the Ural party, and, to a certain extent, other political movements. Until the elections to the Legislative Assembly on 12 April 1998, he had significant influence over the oblast's legislature. Now this influence has been dramatically reduced. However, he still has many supporters in the body and Speaker Vyacheslav Surganov (a member of Transformation of the Ural) has retained his post, despite the attempts of the opposition to remove him.

The mayor can count on the support of the city administration and дума, the Our Home-Our City political movement, and other political groupings. He gained considerable support in the oblast legislature after the elections. The mayor is also a powerful figure in such organizations as the Union of Russian Cities, where he was elected vice-president, and the Association of Sverdlovsk Oblast Municipalities and a similar organization for the Ural region, where he is president. These positions greatly increase the mayor's status at the federal level and transform him into a powerful political figure. This increasingly powerful status is threatening to Rossel. (To be concluded next week.)

PATTERNS OF REGIONAL DEVELOPMENT

LEBED SIGNS KRAI BUDGET. Krasnoyarsk Governor Aleksandr Lebed has just signed the krai's 1998 budget into law. The budget has a large deficit - about 1 billion rubles (\$150 million) or 18 percent. Revenue totals 5,096,660,000 rubles (\$822 million) while expenses are 6,024,116,000 rubles (\$972 million). The krai is planning to cover its deficit with credits from commercial banks, particularly from the Saxony Lande Bank, large loans from the federal budget, and small sums on deposit in banks.

The administration's priorities are:

1. Guaranteeing the growth of the region's total output by not less than 1 percent,
2. Maintaining the current stabilization in overall agricultural output and reducing the speed of its fall in certain sectors, particularly, holding the drop in the output of grain to 7.5%, potatoes, 15.9%, vegetables, 6.3%, and cattle breeding, 1%.
3. Protecting domestic manufacturers.
4. Increasing the percentage of taxes collected.
5. Increasing the population's real income by 1 percent.
6. Stabilizing unemployment at 4.2 percent.

Additionally, the administration stresses that its actions will be directed at "increasing investment activity, increasing the tax base of the krai, monitoring capital investment through centralized price setting in the construction of buildings for social use, and reducing the cost of construction by 15-20 percent and on this basis preserving the level of capital investment at the level achieved in 1997."

What this means in normal language is that the administration will be unable to actually fulfill this budget and that neither the governor's administration nor the Legislative Assembly knows how to raise the money needed. Real construction in 1998 will fall by the 15-20 percent described in the budget and what is actually built will be of worse quality.

The budget foresees significant subsidies for agriculture which in Siberian conditions and the current economic situation is extremely urgent. This need is driven by the almost complete degradation of the krai's large agricultural producers and the destruction of most peasant enterprises. The cold climate of Krasnoyarsk Krai only makes the situation worse.

Many experts think that the budget is unrealistic and doubt whether any of its plans can be implemented. These same experts also argue that the financial calamities of 1998 will not discredit the activities of the Lebed administration. The current budget was developed by the Legislative Assembly in cooperation with former Governor Valerii Zubov so the new governor will not be held responsible for its implementation.

Just before signing the budget, Lebed announced that he would pay teachers' holiday pay by the end of June and cover all wage arrears by the end of July. - Pavel Avramov in Krasnoyarsk

INTER-REGIONAL RELATIONS

VOLGOGRAD GOVERNOR DENOUNCES KALMYKIYA'S OFF-SHORE ZONE.

At a press conference last week, Volgograd Governor Nikolai Maksyuta denounced Kalmykiya's so-called "off shore zone". The republic which borders Volgograd has abolished nearly all local and republican taxes causing several Volgograd firms to reregister in Kalmykiya in order to reduce their tax burden. According to Maksyuta, the Volgograd region has already lost 170 million new rubles (\$28 million) in taxes during the first five months of 1998. He named two of the enterprises that work in Volgograd and pay taxes in Kalmykiya -- AO Kaustik (a large chemical plant located in Volgograd, with a sales division in Kalmykiya) and AO Gorchitsa (Russia's largest mustard producer which uses a similar structure). Several days before the governor spoke, the Volga regional airlines discontinued service and reregistered as Volga aviaexpress in Kalmykiya. (Even this article was sent to the Institute for EastWest Studies' New York office through Volgograd's largest Internet service provider, VolgaLink, which is registered in Kalmykiya.)

Maksyuta told the journalists that he is ready to pressure such enterprises to return to Volgograd, warning that "if they want a scandal -- they'll get it". The Governor said that he might resort to economic "sanctions," raising fees for land, water, and other resources.

Maksyuta's determination to fight against the Kalmykiya off-shore zone was strengthened after he learned at last week's Federation Council meeting that 50 regions suffer from Kalmykiya's tax laws. Maksyuta's statements coincided with the media attack on Kalmykiya President Kirsan Ilumzhinov following the assassination of opposition journalist Larisa Yudina (see *IEWS Russian Regional Report*, 18 June). - Ivan Kurilla in Volgograd

PRESIDENTIAL PROFILE

BASHKORTOSTAN'S PRESIDENT REELECTED IN CAMPAIGN PLAGUED BY VIOLATIONS. Bashkortostan President Murtaza Rakhimov, 64, handily won reelection on 14 June 1998. In the fall of 1997 he had announced that he would not run for reelection, but would allow the republic's youth to take the reins of the administration. That statement was more likely a feint designed to encourage a well-spring of popular support for the leader who subsequently changed his mind and decided to stand for another term. In an interview with *Nezavisimaya Gazeta* (3 June), Rakhimov claimed that the reason for his reversal was that there is no certainty in Russia's future, and that the current policies seeking to ensure a secure economic and political future for the country are insufficient. He claimed that the center is not at all interested in the regions and their political and economic concerns.

Rakhimov's reelection was allegedly blemished with numerous violations of the electoral law. Rakhimov received 70 percent of the vote and his only competitor, Rif Kazakulov, took only 9 percent. Kazakulov, who is the forestry minister in Rakhimov's cabinet, made statements suggesting that it would be in Bashkortostan's best interests if Rakhimov won the election, inspiring suspicions that his campaign was planned by the administration so that the election would have two candidates and thus be legal (*Boston Globe*, 16 June). Candidates who posed a serious threat to Rakhimov's victory were all expelled from the election on the grounds that the signatures they had collected for nomination were falsified (*Moscow Times*, 16 June). A Russian Supreme Court order demanded that two of the candidates be reinstated, but this decree was ignored. However, the electorate had little knowledge of these events since the local media offered one-sided support for Rakhimov, the independent newspaper and radio station had been shut down, and the station director arrested. The treatment of the independent media prompted protests in Ufa, involving several thousand people. (RFE/RL Newline, 15 June)

The candidates barred from the election were Duma deputy Aleksandr Arinin from Our Home is Russia, former premier of the Bashkortostan government Marat Migraziamov, and the well-known banker Rafis Kadyrov. The latter two candidates were considered serious contenders for the position. They have accused the President of running Bashkortostan as a personal fiefdom, exploiting the region's oil resources for private gain.

The election had a 68.3 percent voter turnout. The protest vote against all candidates was 17 percent, the highest ever in an election of this level (*Russkii Telegraf*, 16 June). In Ufa, the capital of Bashkortostan and a region of high sympathy for Duma member Arinin, only 53.4 percent of the voters participated in the election, and of them 34.6 percent voted against both the candidates. Arinin intends to appeal the election results to the Russian Supreme Court. The Central Electoral Commission is also investigating.

The results are not the only controversial part of the presidential elections in Bashkortostan. In the fall of 1997 a republican code was passed stating that a candidate could become president only if he spoke Bashkir (although it was not specified how well) (*Russkii Telegraf*, 4 June). The titular language is not the official language of the republic, and is spoken by less than 20% of the population. Thus, under such a law the number of potential candidates would be greatly reduced. The Constitutional Court of the Russian Federation found this law in violation of the Russian Constitution, yet the Bashkortostan parliament retained it on the books. However, the implied ramifications of such a law did not play into the dynamic of the most recent elections. Rakhimov was supported by all ethnic groups.

Platform

Rakhimov's primary goal since the beginning of his political career has been to win as much sovereignty as possible for his republic. He has achieved this on many levels, perhaps most successfully by simply ignoring federal policies with which he does not agree. His battle is not for nationalist goals, but simply greater autonomy. The center has tended to ignore such deviance in order to maintain stability in a potentially troublesome region. Even after the dismissal of Prime Minister Viktor Chernomyrdin, Rakhimov remains a member of Our Home is Russia's (NDR) political council (*Russkii Telegraf*, 16 June)

Policies

President Rakhimov plays an active role in adopting most of the republic's policies, guiding local and regional politics and economics. In his pursuit of sovereignty he has sought to build up republican banks and promote financial autonomy from Moscow. The administration participated in the establishment of the first Russian regional investment and credit bank, Bashkredit (see *IEWS Russian Regional Report*, 4 September 1996). In December 1996 Rakhimov signed a decree allowing local companies to pay their debts to the local budget via additional share issues, increasing the government's stake in companies' equity capital (see *IEWS Russian Regional Report*, 18 December 1996). A few months later in March 1997, the government became further involved in regional business, allocating \$3.5 million from the local budget for mortgage lending in the region (*Kommersant Daily*, 19 March 1997). In December 1997 the President reduced taxes on all deliveries of raw materials to petrochemical processing plants by one third, allowing suppliers to save up to \$17 a ton (*Kommersant Daily*, 17 December 1997).

Home District

President Rakhimov has direct control over the republic's local government since the republican constitution gives him the power to appoint mayors. This provision goes against the federal constitution, which proclaims that state and local officials must be elected. The Russian Supreme Court ruled the Bashkortostan law on local government unconstitutional in March 1998, a ruling the republic ignored (*Kommersant Daily*, 28 March). Moscow has not taken action against the republic and Rakhimov continues to determine the character of local as well as regional politics.

Ties to Moscow

In Moscow, Rakhimov is considered a strong regional leader whose sovereignty campaign is annoying, but within the limits of propriety (*Nezavisimaya gazeta*, 16 June). On 13 August 1992 Rakhimov, together with Sakha (Yakutiya) President Mikhail Nikolaev and Tatarstan President Mintimer Shaimiev, issued a statement charging the federal powers with "ignoring the legal interests of the republics." The conflict revolved around the Russian Federation's new budget. Rakhimov and other leaders met with Yeltsin on 23 October 1992, forming the President's Council of Republican Leaders. Slightly over a year later Tatarstan signed the first power-sharing agreement with Moscow. Bashkortostan, on 3 August 1994, was the third

Russian region to sign a similar agreement. Bashkortostan's agreement gave the republic exclusive rights over its property and mineral resources, special privileges regarding foreign trade, and an independent system of legislative and legal institutions.

In the second round of the 1996 presidential elections, Bashkortostan overwhelmingly supported Yeltsin. Rakhimov has expressed his loyalty for Yeltsin on several occasions. President Yeltsin also called Rakhimov and spoke of his support for the republican president during his reelection bid (*Nezavisimaya gazeta*, 16 June).

Yet, there are clear limits to Rakhimov's allegiance to Yeltsin. Rakhimov determines his own course of action, following only the presidential decrees with which he agrees. Rakhimov considered Gaidar's government as working against the country's interests by destroying its economy. He also opposed Yeltsin's policy towards Chechnya, stating that Russia "should not have tried to hold on to Chechnya by force and organize a mass grave there as an example" (OMRI Daily Digest, 17 January 1996). In February 1998 Rakhimov tested his power further by claiming the right to appoint republican Supreme Court judges, a right now held by the federal government (*Kommersant Daily*, 27 February).

The delicate balance of power between these two presidents is representative of the relationship between the republic and the central government. By aggressively pressing their demands, autonomous republics like Bashkortostan could destabilize Russia's political environment. Yeltsin's tolerance for Rakhimov is the sacrifice he has offered in order to maintain relative peace and order between the republic and the center. It is important for the central government to maintain good relations with the ethnically-defined republics, particularly those which have expressed their desire for autonomy from the center. As a result, if the republics demonstrate electoral support for the central government, Yeltsin tends to turn his back on their violations and challenges for power. It is for this reason that the federal government will probably not explore allegations of fraud in Rakhimov's reelection. Controversial elections of a similar nature in Orel and Mordovia were not challenged by Yeltsin.

- Danielle Lussier

ECONOMIC ISSUES

LEBED'S ELECTION CHANGES BALANCE OF FIGs IN KRASNOYARSK. The distribution of economic power is rapidly changing in Krasnoyarsk Krai with the election of Governor Aleksandr Lebed. Three financial-industrial groups are the region's most important economic players: ONEKSIMbank in Norilsk, Rossiiskii Kredit and its allies in Krasnoyarsk, and the Alfa group in Achinsk.

The results of the gubernatorial elections dramatically strengthened the position of the Rossiiskii Kredit group, which actively supported Lebed's campaign. The alliance of Rossiiskii Kredit, the Krasnoyarsk Aluminum Factory (KrAZ), and TANAKO (see *IEWS Russian Regional Report*, 18 June for more on this firm) often had trouble winning a sympathetic hearing from the former Zubov administration, particularly in the battle between Russia's electricity monopoly Unified Energy System (EES) and KrAZ for the stock of the Krasnoyarsk Hydro-Electric Plant in which the administration clearly supported EES. The aluminum factory needs access to enormous amounts of cheap electricity from the hydro-electric station to

maintain low prices for its products. Now the situation is different and the alliance has strengthened its position. Rossiiskii Kredit's man, Vladimir Petrov, is the head of the administration's Main Financial Department, a key economic position. The plans to build a new aluminum factory near Shapypovo, announced by Zubov toward the end of the campaign, have now been discarded since they are clearly not to the liking of KrAZ General Director Yurii Ushenin.

But the main blow is the likely removal of Alfa group from the krai. Alfa's Gleb Fetisov is now the external manager of the Achinsk Alumina Combine (AGK), which is going through bankruptcy proceedings. With just one month to go in the process, an information war has been launched surrounding AGK aimed at discrediting Fetisov's stewardship and removing him and Alfa from the leadership of the combine.

The data of the Krasnoyarsk bankruptcy agency shows that the combine is not doing badly. AGK has reached a financial position from which it could realistically address the crisis it faces. As a result, the Krasnoyarsk Aluminum Factory, which relies on AGK for some of its raw materials, wants to take it over, particularly since the three member alliance already owns a 50 percent stake in the plant.

Now the war is under way in full force. There was an extraordinary meeting of the creditors who own 70 percent of the plant. It harshly criticized Fetisov's work, disbanded the former committee of creditors, and elected a new one, demanding a financial audit of AGK.

Fetisov, in turn, declared the meeting illegal since only meetings summoned by the bankruptcy managers are authorized to take such decisions. He held another meeting on 19 June. The arbitration court is expected to make a final decision in the near future. - Pavel Avramov in Krasnoyarsk

MAGNITOGORSK MODERNIZATION PROJECT MOVES AHEAD. In recent days the Russian and German economics ministries have discussed German financing for the construction of the 2000 cold rolling mill at the Magnitogorsk Metallurgical Combine in Chelyabinsk Oblast. The mill, one of only three in Russia, will produce large-width sheet steel that is used by machine building factories. Once complete, the mill will be able to produce world-quality steel that could meet the increasing demand of the auto industry. It is the most important modernization project at the giant complex originally built during the 1930s under Stalin. Plans for building the mill have long been held up by ownership disputes at the plant that have now been resolved.

According to Deputy Prime Minister Viktor Khristenko, the mill is the largest project currently under way within the framework of German-Russian cooperation. It is also the largest investment project of its kind in contemporary Russia.

Besides high level participants from both governments and Magnitogorsk itself, the German state insurance agency Hermes, Dresdner Bank, the KFB state credit agency, Agiplan consulting company, and the Shleman Simag machine building firm took part in the talks. The 2000 cold rolling mill will become a pilot project that will take German-Russian cooperation to a new economic level. The Russian government is expected soon to issue a decree freeing all imported equipment for the mill from customs duties and give the plant an investment credit equal to the taxes that would have been paid on the imported equipment.

Additionally Magnitogorsk will be able to extend the period that it is freed from the need to sell 50 percent of its hard currency earnings from the sale of steel. Initially, the plant was freed of this requirement until 2000, but now it will extend until the cold rolling mill is completed in about three and a half years. The plant claims to have already invested about \$1 billion in the new mill. It has worked out agreements for the delivery of electricity, gas, coal, iron ore, and railroad transportation once it begins operations.

In June of this year Magnitogorsk will receive the first tranche of \$30 million from the EBRD without having to use stock as collateral. The plant has also initialed a credit agreement with a consortium of German banks for a goods credit of 956 million German marks. The firm Shleman Simag will provide equipment for the mill worth this amount. - Igor Stepanov in Chelyabinsk

Magnitogorsk Ownership Profile (as of 6 April): Russian government, 23.758%, workers' collective (70,000 individuals), 20%, MagSI, 14.962%, Inkombank, 10%, MSPZ-1, 7.299%, MSPZ-2, 7.299%, Wanioh Investments (Cypress), 5.673%, Strongman Holdings Limited (Cypress), 5.077%, Becassine Investment Limited (Cypress), 1.787%, Greeneslade Trading Investment Limited (Cypress) 1.121%, and MAKIS, 1.746%.

FOREIGN TIES

SWEDES LAUNCH TIMBER PROCESSING JOINT VENTURE IN TVER

OBLAST. The Swedish businessman Per Erik Ariel and the local representative of the Federal Forestry Service Mikhail Fedotov signed an agreement to establish a lumber harvesting and wood processing plant in the Penov region of Tver Oblast. The Russian-Swedish joint venture is slated to last 49 years and require an investment of \$5 million. The agreement foresees the creation of a new sawmill and the introduction of the latest environmentally friendly technology for harvesting wood and replanting new forests. The saw mill has the capacity to handle 400,000 cubic meters of wood. Penov raion will supply 325,000 cubic meters, while the rest will come from other regions.

Today Tver Oblast processes only 2 million cubic meters of wood of a potential 5 million. The rest of it rots before it can be used. In signing the agreement, Deputy Governor Yurii Krasnov emphasized that mainly processed wood will be exported from the oblast and it will go for serving domestic rather than foreign markets. - Boris Goubman in Tver

REGIONAL LINKS

Rostov Oblast Administration (<http://www.rostov.net/admrnd/index.html>) - The Rostov Oblast Governor's Administration Press Service is the first to use push technology to send its press releases to your computer. The announcements can be read using Pointcast (www.pointcast.com) or on-line (<http://www.rostov.net/cgi-bin/admrnd/subj?2>).

CORRECTION: In the report for 11 June, Kabardino-Balkariya was mistakenly characterized as a region that presents a considerable risk from crime. In reality, according to

Ekspert magazine, it is the safest region in the country with only 8.11 homicides per 100,000 inhabitants.

REGIONAL PROFILE: TAMBOV OBLAST

Governor: Aleksandr Ryabov

Aleksandr Ryabov was elected governor on 24 December 1995. He beat the incumbent, Oleg Betin, by almost 10%, winning the runoff with 52.2% of the vote. The oblast was one of the few Russian regions that Yeltsin allowed to hold gubernatorial elections prior to the presidential race in June 1996 and Ryabov's victory was a considerable upset.

An ethnic Russian, Ryabov was born in 1936 in the Donetsk Oblast of Ukraine. After graduating from the Michurinsk Agricultural Institute, he began a career as a technician in a Kursk Oblast kolkhoz. In 1961, he took a full-time komsomol and party job in Tambov and by 1970 became first secretary of the oblast komsomol committee. He also served in various positions in the Communist Party's oblast committee until 1985 when he was elected chairman of the oblast executive committee.

In March 1990, Ryabov won a seat in the Russian Federation Congress of People's Deputies where he was a member of the Communists of Russia faction. After the August 1991 coup attempt, he did not quit the Communist Party and reregistered in the Communist Party of the Russian Federation (KPRF) when it was reestablished in 1993. In the aftermath of the putsch, Ryabov was fired from the oblast executive committee, but was immediately elected chairman of the oblast legislature. He also won election to the Federation Council, the upper house of the new Russian parliament, in December 1993. There, he served as a member of the security and defense committee and became the committee chairman in January 1996.

Although he supports a state-regulated market economy, Ryabov opposed Gaidar's "shock therapy" and "Chubais style" privatization. He also advocates state support to collective farms and is against buying and selling land. Instead, he suggests that land be leased to the peasants for an unlimited period of time free of charge.

Brief Overview

Tambov Oblast is located in the center of the East European Plain and borders Penza, Ryazan, Lipetsk, Voronezh, and Saratov oblasts. It has good transportation links and a favorable climate. Ten percent of the oblast territory is covered with woods. The oblast is rich in peat, mineral paints, phosphorus, sands, clays, zinc, titanium, and gold.

Tambov has well developed industrial and agricultural sectors. Its industry specializes in machine building and metal processing (22.6% of regional GDP), chemicals (19.1%), small-scale manufacturing, and food processing. Local farms produce grain, sugar-beets, sunflowers, potatoes, and cattle.

The region imports coal, oil and petroleum products, ferrous metals, timber, and some construction materials. Major regional exports include: construction materials, equipment, mineral fertilizers, paints, grain, sugar, meat, milk, and butter. About 40% of the exports are

shipped to western countries. The region has partnerships with companies from Finland, Sweden, the US, Germany, China, Croatia, the Czech Republic, Latvia, Kyrgyzstan, Belarus, and Ukraine. The oblast administration is seeking foreign investment in the regional food processing industry, production of construction materials, and the truck-making industry. However, according to *Ekspert* magazine, regional legislation is not favorable for investors.

Basic Facts

Population (as of Jan. 1, 1997): 1,302,400 (0.88% of Russian total)
Urban population (1989 census): 57.5% (Russia overall: 73.0%)
Student population (1996): 147 per 10,000 (Russia overall: 171/10,000);
Pensioner population (1996): 30.21% (Russia overall: 25.78%)
Percent of population with higher education (1989 census): 8.0% (Russia overall: 11.3%)
Percent of population working in (1993): Industry: 26.4% (Russian average: 29.9%);
Agriculture: 23.3% (12.8%); Trade: 9.5% (9.1%); Culture: 11.0% (13.6%); Management:
2.6% (2.3%)
Average monthly personal income in 1996: 427,000 rubles (Russian average: 764,000 rubles)
Average monthly personal expenses in 1996: 326,000 rubles (Russian average: 753,000 rubles)
Average monthly subsistence requirement in 1996: 240,700 rubles (Russian average: 369,400 rubles)
Consumer price index (as of Dec. 1996): 103.12 (Russia overall = 100)
Industrial production as percentage of all Russian production (1996): 0.35%
Proportion of loss-making enterprises (1996): 70% (Russia overall: 56%)
Number of enterprises which have wage arrears (1996): 1,577 (11.21% of total number of regional enterprises)
Agricultural production as percentage of all Russian production (1996): 1.72%
Number of private farms (as of Jan. 1, 1997): 3,691 (1.32% of Russian total)
Capital investment (1996): 1,093,500 rubles (Russia overall: 370 trillion rubles)
Sources of investment (1996): federal budget: 15.1% (Russian average: 9.2%); regional budget: 6.3% (9.6%); enterprises: 53.3% (66.3%)
Number of joint ventures (as of Jan. 1, 1997): 21 (0.13% of Russian total)
Fixed capital investment in joint ventures and foreign companies (1995): 1,966 million rubles
Number of small businesses (as of Jan. 1, 1997): 2,706 (0.32% of Russian total)
Number of enterprises privatized in 1996: 22 (0.44% of Russian total), including those which used to be municipal property: 13.6% (Russian average: 67.1%); regional property: 18.2% (14.3%); federal property: 68.2% (18.6%)
Number of telephones per 100 families (1996): in cities: 43.5 (Russian average: 48.7); in villages: 16.8 (19.7)

According to a 1997 survey by *Ekspert* magazine, the oblast is ranked 52nd among Russia's 89 regions in terms of investment potential and 52nd in terms of investment risks. A 1995 survey by Bank Austria ranked the oblast 33rd in terms of investment climate.

Electoral History

1996 Presidential Election

Zyuganov: 52.26%/62.85 (first round/second round)

Yeltsin: 20.91%/32.57%

Lebed: 11.71%

Zhirinovskiy: 6.11%

Yavlinskii: 4.63%

Turnout: 70.84%/68.09% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Communist Party of the Russian Federation: 40.31%

Liberal Democratic Party of Russia: 12.14%

Our Home Is Russia: 5.02%

Communists -- Workers' Russia: 4.36%

Agrarian Party of Russia: 5.49%

Party of Workers' Self-Government: 3.26%

Women of Russia: 2.94%

Yabloko: 2.90%

Derzhava: 2.53%

In single-member districts: 2 Communist Party of the Russian Federation

Turnout: 68.60% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 41.16% "No" -- 58.84%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 35.32%

Communist Party of the Russian Federation: 16.86%

Agrarian Party of Russia: 9.83%

Russia's Choice: 9.27%

Women of Russia: 6.34%

Democratic Party of Russia: 5.86%

Yabloko: 5.32%

Party of Russian Unity and Concord: 5.19%

In single-mandate districts: 2 Communist Party of the Russian Federation

Turnout: 64.24% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 44.60%

Ryzhkov: 24.80%

Zhirinovskiy: 12.15%

Tuleev: 7.44%

Makashov: 3.97%

Bakatin: 2.77%

Turnout: 81.90% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [*Russian regions on the eve of 1995 elections*], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [*Results of the 17 December 1995 elections, regional breakdown*], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [*State Duma elections 1995*], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [*Governors of Russia*], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regioni Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.

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BREAKING NEWS

POLITICS

NEW MEMBERS OF FEDERATION COUNCIL WANT TO REPLACE STROEV.

New members of the Federation Council who want to adopt a more aggressive line against the Kremlin would like to remove Federation Council Chairman Yegor Stroev, according to *Russkii Telegraf* reporter Natalya Arkhangelskaya. The current speaker has followed a strongly pro-Yeltsin line since being elected to the position in January 1996. Magadan Governor Valentin Tsvetkov first raised the issue last year charging that Stroev had turned the upper house into an "appendage" of the presidency. Stroev's popularity is fading as Russia's economic crisis starts to bite in the regions. At the 10 June session, Altai Governor Surikov raise the issue of rotating the council's leadership, just as two new deputy speakers were being elected (see *IEWS Russian Regional Report*, 18 June).

According to Arkhangelskaya's report, Stroev will not find much support from the president. At a May meeting of the group of four (president, prime minister and speakers of both houses of the parliament), Stroev indicated that Presidential Chief of Staff Valentin Yumashev was revealing their private conversations to journalists. Yeltsin asked Yumashev to step out of the meeting, but, according to well-placed sources, Yumashev later told Yeltsin that Stroev was conspiring against him, a charge Yeltsin apparently believed. As a result Yeltsin then uninvited Stroev to a meeting with all of the leaders of the regional associations (Stroev is the leader of the Black Earth regional association). (See RFE/RL Newsline 27 May).

Stroev is a seasoned politician who served in the Politburo and then rebuilt his political career in post-Communist Russia. He is clearly moving more in favor of the regions and away from the Kremlin in order to save his seat. (*Ekspert*, 29 June)

PRUSAK BLASTS FEDERAL POLICY. Explaining the increasing tension between the president and the governors, Novgorod Governor Mikhail Prusak stressed that the country needs a government that the regions trust in an interview published in the magazine *Ekspert* on 29 June. He claimed that it was impossible to be a minister without first having been a governor and that the prime minister should have at least five years experience as a regional executive. Instead, they [Prusak does not identify who] "literally raped" the Duma and the Federation Council to confirm Prime Minister Sergei Kirienko. "Who will they rape next?" he wonders. He argued that there is a vacuum around the current cabinet and that it is necessary to transfer some of its powers to the regions. He said that the Kremlin's policy of trying to get more money out of the regions was "senseless" because the regions had no money to give. Prusak emphasized that he was not giving up on Yeltsin, but rather that the governors were sounding a warning.

Prusak repeated his earlier calls for amending the constitution, changing the way the State Duma is elected (all members elected from districts rather than the current system where half are elected by party lists), and argued that governors should not be members of the Federation Council. He complained that the governors had to support the president in the Federation Council since Yeltsin could cut off subsidies to their regions or not pay salaries and pensions there.

If the structural changes Prusak proposes are implemented, he believes that changing the status of the ethnically -defined republics is also inevitable. He argues that all regions should

play by the same rules. Prusak wants republics to pay the same taxes as other regions and adopt laws that don't violate the constitution. He warned that the republics themselves would fall apart if they continue to seek independence from Russia in the same way that Russia has had difficulty maintaining its integrity after breaking from the Soviet Union.

Prusak noted that he had no way of communicating with Yeltsin since his assistants kept information from him. He stressed that his attack was not addressed at particular individuals, but at the system as a whole. Prusak took pains to stress that he owes his current position to Yeltsin and that he would never betray him. However, he believes that it is time to do something and that the presidential administration needs to be radically restructured. Nevertheless, he complained that whenever someone proposes changes, Yeltsin's staff views it as a conspiracy against the president.

Prusak may have a better relationship with his staff than he thinks. On 26 June First Deputy Chief of Staff Vladimir Putin said that Yeltsin might visit Novgorod in the fall (*Nezavisimaya gazeta*, 27 June).

CHUVASHIYA SEEKS TO HIDE ECONOMIC SUCCESS FROM CENTER.

Although Chuvashiya is not among the wealthiest of Russia's regions, republican President Nikolai Fedorov believes that it does not exhibit signs of decay, depression, or neglect (*Ekspert*, 29 June). Having recently won a second term in office, Fedorov has learned that, "the less you depend on the center, and the more taxes you collect, the more they demand from you, the more they cut back subsidies, and the less they plan to give you in the following year. Only one option is left: to work well, but not show this to the center."

Fedorov, who joined the Beer Lovers Party in 1994, is also interested in developing the region's beer industry. Until now, he has not focused on developing the region's potential in beer production (although, coincidentally, the first beer museum in Russia opened in the capital, Cheboksary, last year). Eighty percent of Russia's hops is grown in Chuvashiya, but only four of the region's nine beer factories are operating.

PSKOV MAYOR BATTLES GOVERNOR. In November 1996, Pskov elected Yevgenii Mikhailov as the governor, making him the only governor who is a member of Vladimir Zhirinovskiy's Liberal Democratic Party of Russia (LDPR). In an interview with *Nezavisimaya gazeta* (23 June), Pskov Mayor Aleksandr Prokofev, a democrat, complained that the oblast administration was taking increasingly more money from the city's budget. In 1996, the city's income was 270 billion old rubles (\$45 million), in 1997 it fell to 240 billion old rubles (\$40 million), and this year it is forecast to be 207 billion old rubles (\$34.5 million). Mayor Prokofev complained that the governor wanted to subordinate the city to the LDPR party machine.

Prokofev argues that the city administration is effectively supporting the city's economy. If the city cannot pay the salaries of its employees, they will not be able to make purchases from local firms. Salary payments are already two months behind schedule. The governor's decision to create Pskovalko, which has a monopoly on producing and selling alcohol in the region, has not increased tax revenue, according to the mayor, because it simply collected the existing tax-paying firms under one roof. Prokofev complained that the oblast still has not adopted its 1998 budget and that the resulting instability was driving away potential foreign investors.

PETERSBURG SUFFERS ONE OF RUSSIA'S HIGHEST CRIME RATES. St.

Petersburg is one of the ten worst Russian cities in terms of crime, according to a report by the city's new police chief, Ivan Sydoruk. On average, two people are murdered in the city each day. This year there has been a significant growth in the number of armed robberies and murders. Moreover, an increasing number of young people are being drawn into the criminal world. (*Izvestiya*, 25 June)

ST. PETERSBURG PREPARES FOR LEGISLATIVE ELECTIONS. Vladimir

Bolshakov, the St. Petersburg "image maker" who helped Vladimir Yakovlev win his post as governor of St. Petersburg and recently worked on Aleksandr Lebed's successful campaign in Krasnoyarsk, is now preparing to help Yakovlev's attempt to win a solid majority in the St. Petersburg legislative elections set for this December. His main opponent will be the groups surrounding former Legislative Assembly Speaker Yurii Kravtsov who is allied with Unified Energy System Chairman Anatolii Chubais and Russia's Democratic Choice. Campaigning for each seat is expected to cost \$750,000, twice as much in 1994. Governor Yakovlev was able to engineer Kravtsov's removal after Kravtsov oversaw the adoption of a city charter that was not to Yakovlev's liking (see *IEWS Russian Regional Report*, 9 April). (*Kommersant Daily*, 24 June)

ECONOMICS

LITHUANIA CALLS FOR CONFERENCE ON KALININGRAD. Lithuania called for holding an international conference on Kaliningrad in September to discuss strengthening trade and other economic ties with the Russian exclave at a recent meeting of the Baltic Council. The majority of the foreign ministers gathered for the session in the Danish city of Niborg supported the proposal. Lithuania hopes to make improving cooperation between the Baltic countries and Kaliningrad one of the key issues during its upcoming chairmanship of the Baltic Council. Until now Europeans have generally avoided discussing Kaliningrad to avoid conflict with Moscow. However, as its neighbors join the European Union, starting with Poland and Estonia, relations with the Russian region will become increasingly important. (*Ekspert*, 29 June)

SAMARA ADOPTS LAND LAW. The 25-seat Samara Oblast Gubernia Duma adopted a regional law that allows for the buying and selling of land by a vote of 21-4 on 25 June. The law provides for ownership, inheritance, and leasing of land. Land can be taken away if it is not used for the designated purpose or is exploited in a manner than hurts the local ecology. The Duma rejected a proposal from Samara Governor Konstantin Titov to allow for the sale of land to foreigners. Samara Mayor Georgii Limanov, who is simultaneously chairman of the Samara City Duma and a member of the oblast Gubernia Duma, voted against the proposal. The local Communists also opposed the deal (*Kommersant Daily*, 26 June and *Izvestiya*, 27 June). Saratov and Tatarstan have adopted similar proposals.

BUSINESS BRIEFS

-- **GAZPROM** has agreed to invest 1 billion rubles (\$167 million) in **TATARSTAN'S KAMAZ** truck maker. In exchange, the republic will transfer to Gazprom KamAZ's 5 billion ruble (\$833 million) debt in unpaid taxes. Gazprom wants the factory to resume production since the truck maker is one of its largest debtors, owing the gas monopoly 500 million rubles (\$83 million). Gazprom is already playing a large role in the management of the company through the local Tatgazinvest. The plant only recently resumed production after its production line had been shut in December. It is extremely unlikely that the 23,500 trucks and 24,000 Oka cars that must be sold to attain a profit will be produced. (*Finansovie izvestiya*, 25 June)

-- **NORILSK NIKEL** lost \$700 million because of the drop in the price for nickel on the world market in the first five months of 1998. (*Finansovie izvestiya*, 25 June)

SPECIAL RESEARCH REPORT: GOVERNOR VERSUS MAYOR

THE CONFLICT BETWEEN THE SVERDLOVSK GOVERNOR AND YEKATERINBURG MAYOR

by Sergei Pushkarev, Urals State University

[Conclusion. For the first part of this article, see IEWS Russian Regional Report, 25 June.]

The Content of the Conflict: Housing Reform

One of the main topics of dispute between the governor and mayor is the best way to reform the region's housing sector. Mayor Arkadii Chernetskii's 1 December 1997 decision to raise the prices charged for municipal services became a central point of conflict between the governor and mayor in the first half of 1998. Governor Rossel is opposed to raising costs for apartments and other services, arguing that it is impermissible to reform this sector at the expense of the renters. He wants to save this option as a last resort until all other methods have been exhausted.

Mayor Chernetskii believes that he had to take this step because the oblast authorities' decision to cut funding to the city, including money set aside for housing reform, threatened the city's very survival. He asserts that the oblast authorities' actions made raising the fees charged for municipal services a necessity.

In February 1998, the oblast authorities declared that Chernetskii's decision to raise prices was illegal and repealed it. Several oblast departments came to the conclusion that the mayor was charging residents for 25 percent more heat than they actually used from the city's centralized heat supply. The city authorities responded by pointing out that only the mayor could rescind his decision (in fact the court can also overturn such decisions) and argued that they had to charge the higher rate because the oblast authorities themselves had raised the price for heating by 25 percent. Chernetskii charged that overturning his order was simply a political ploy before the April elections to the oblast legislature. Chernetskii was also angry that even after he

raised the fees charged for municipal services in Yekaterinburg, they were still lower than fees charged by other cities in the oblast, but Rossel did not take action against those cities. Chernetskii waged his campaign against the governor by publishing the prices for communal services charged in various cities around the region and seeking support in Moscow.

Health care

Another point of dispute between the governor and mayor was healthcare. In June 1997 Chernetskii introduced a fee-based healthcare system. Again he charged that this step was necessary because the oblast authorities were only providing a third of the funds needed to support the system. In response the oblast authorities set limits on the prices that could be charged. The city authorities said that they did not want to stay within these limits because the healthcare system was in a state of crisis. Rossel then announced that he was against fee-based healthcare in principle and would try to bring back free medical services.

Control of the Media

Rossel's attempts to remove Vladimir Kostousov as the head of the Sverdlovsk State Television and Radio Committee also provoked the mayor's animosity. Former Sverdlovsk Governor Aleksei Strakhov, one of Rossel's rivals in the 1995 gubernatorial campaign and a former deputy to Chernetskii, had appointed Kostousov to the position. Kostousov is a member of Chernetskii's Our Home - Our City movement and the city council. Controlling the media outlet that broadcasts to the entire oblast is a valuable tool to both the governor and mayor in advancing their agendas. Rossel lost this battle, however, because a Moscow court restored Kostousov to his position. Campaigning for governor in the oblast's 1999 elections will now presumably be more difficult for Rossel, and easier for Chernetskii, with Kostousov in place.

Battle for the Oblast Legislature

Both the governor and the mayor sought to win a majority of seats in the lower house of the oblast legislature in the April 1998 elections through the backing of their own political parties and newspapers (see *IEWS Russian Regional Report*, 16 April). Rossel's political movement, Transformation of the Urals, mainly published in its media organ, *Oblastnaya gazeta*, while Chernetskii's Our Home - Our City had a newspaper of the same name.

Ultimately the governor won the election because a majority of the new members of the legislature's lower house voted to extend the term of Vyacheslav Surganov, the incumbent speaker and a strong Rossel ally (see *IEWS Russian Regional Report*, 7 May). Since Chernetskii strongly fought against this outcome, he will continue to criticize the Oblast Duma's work, even though he increased the number of his supporters there.

Possible Compromises

The new law on financing local government should help reduce the conflict between the governor and mayor because it makes clear that local government is not entirely dependent on regional government and that the lower level bodies should have the status of a partner. As a result there should be better financial relations between the oblast and city governments. For their part, the city authorities should acknowledge that the oblast authorities return money to the city through such projects as building a ring road around Yekaterinburg, renovating the airport, and building medical centers.

Human rights defenders in the region, concerned about the consequences of the ongoing conflict, have sent an open letter to the governor and mayor calling on them not to engage in destabilizing activities. Ironically Rossel's battle with the mayor repeats his own struggle with Yeltsin. In 1993, Yeltsin removed Rossel as governor and replaced him with an executive more friendly to the Kremlin. Now Rossel would undoubtedly like to have the ability to replace Chernetskii.

Conclusions

The battle between governors and mayors of the region's capital cities is one of the key cleavages in Russia's evolving political system. In seeking to assert the independence given both of them in the law, the regional and local levels of government have not determined how to deal with each other.

The conflict arose out of financial differences. The oblast authorities are angry that the city does not give them what they believe they are entitled to by law, while the city authorities believe the law is illegitimate because it takes such a large amount of money from the city. As a result the governor blames everything on the mayor and the mayor blames everything on the governor.

While the battle continues, the region's economy has little chance of improving. Fixing the system requires better legislation to limit the extent of such conflicts in the future, both in Sverdlovsk Oblast and in the many other regions where this problem is present.

CENTER-PERIPHERY RELATIONS

VOLGOGRAD NEWSPAPER POINTS TO INEQUITIES IN FEDERAL SUBSIDIES. The Volgograd newspaper *Delovoe Povolzhie* (no. 23, June) published an article describing the inequality of federal transfers to the regions of the Volga area. A review of the numbers (see table below) suggests that Moscow uses subsidies as a lever to push the regions in right direction. The federal government sends subsidies first to regions that spend their money according to federal priorities.

According to the data here, the federal government determines subsidies on the basis of political criteria. The first factor is the political affiliation of regional authorities. Since the new Volgograd Governor is a communist, the region is at the top of the "black list," and receives few subsidies. Another explanation is that the new governors' team does not know how to work the halls of power of the Moscow ministries. Moscow likely wants to reestablish some old oral

agreements with regional authorities that came undone following the change of administration in Volgograd.

The data show that the federal authorities don't use more objective criteria in making subsidies. If the deficit in the regional budget were the decisive factor, there is no reason for the differences in the subsidies given to Kalmykiya and Ulyanovsk (they have nearly equal budget deficits, but Kalmykiya receives subsidies that make up a proportion nearly five times larger of its budget than Ulyanovsk). Voronezh region has no budget deficit, but receives 12 percent of its income as transfers.

Income per capita in the regions also is not the decisive factor. Kalmykiya has the largest income per capita after Tatarstan and Samara. However, 32 percent of its budget comes from federal transfers. The difference in income per capita in Voronezh, Ulyanovsk, and Volgograd is not great. However, Voronezh receives twice as much as Ulyanovsk and six times as much as Volgograd. Volgograd Vice-Governor Vasilii Galushkin said that the 1998 federal budget includes 254 million rubles (\$42.3 million) of subsidies to Volgograd and 700 million rubles (\$117) for neighboring Saratov region even though they have relatively equal levels of regional budget income per capita.

TABLE: Federal Subsidies to the Volga Region

(Please set the font to Courier in your e-mail viewer to see the columns lined up below.)

Region	% of federal subsidies in regional budget	Regional budget income per capita (Rubles)	Regional Budget Deficit % of income
Astrakhan	11	1,886.96	15
Volgograd	1	1,594.65	5
Voronezh	12	1,458.45	0
Samara	0	6,195.09	1
Saratov	10	1,806.24	13
Ulyanovsk	6	1,617.77	19
Kalmykia	32	2,563.91	17
Tatarstan	0	5,114.34	2

Source: MFK Renaissance, 1997 in *Delovoe Povolzhie* (no. 23, June).

CHELYABINSK GOVERNOR BACKS TAX-EVADING POWER UTILITY. On 26 June Federal Tax Service Director Boris Fedorov and Tax Police Director S. Almazov instructed regional branches of the tax police to notify all provincial subsidiaries of the Unified Energy System (UES) power utility that they have to pay in full their tax debts to the federal government by 1 July. In Chelyabinsk Oblast the UES subsidiary in question is Chelyabenergo. In case companies fail to comply with the new regulation, the tax authorities are empowered to freeze bank accounts and confiscate their property.

In a telegram to Prime Minister Sergei Kirienko, with copies to Fedorov and Almazov, Chelyabinsk Oblast Governor Petr Sumin replied that Chelyabenergo would not pay any federal taxes until the federal authorities paid their debt to the power producer. The governor feels that the ill-conceived federal policy will prevent the disbursal of salary and pension payments and will further destabilize the critical situation in the oblast. Sumin also stated in his message that he takes personal responsibility for relieving Chelyabenergo of its tax obligation to Moscow. Right now the federal center owes Chelyabenergo 470 million rubles (\$78 million), which is 2.5 times the amount the power utility owes to the federal budget. In particular, the Federal Tax Service and the Tax Police owe the company 1.2 million rubles (\$200,000) and 1 million rubles (\$167,000) respectively. And, as it is, Chelyabenergo transfers all its revenues to the federal and oblast budgets. - Igor Stepanov in Chelyabinsk

FEDS SEEK TAX PAYMENTS FROM TVER NUCLEAR PLANT. The Kalininskii Nuclear Power Plant (KAES) in Tver Oblast owes the federal government 450 million new rubles (\$75 million). As part of his package of anti-crisis measures, President Yeltsin recently approved measures to collect such debts. KAES received a firm notification stating that it must pay all its debts to the federal budget for 1998 by 1 July. If the sum is not paid, the federal government threatened to begin seizing KAES property.

The information office at KAES disseminated an official announcement stating that throughout the payment crisis the company has ensured the stable production of energy, lowered tariffs (since 1 June KAES tariffs have been lowered 15%), guaranteed payment for nuclear fuel it uses, and ensures the timely distribution of workers' salaries. The federal property confiscations would complicate the financial situation for the plant and slow repairs to its facilities. The enterprise directors further complain that it is impossible to pay debts without receiving payments from consumers on time. There is logic in this reasoning, yet it is unlikely that tax collectors will show mercy to even these virtuous debtors given the enormous budget deficit and financial crisis Russia is facing. - Boris Goubman in Tver

SIBERIAN AGREEMENT CRITICIZES ANTI-CRISIS PROGRAM. The participants in the Siberian Agreement regional association meeting on 28 June panned the government's new anti-crisis program according to Chairman of the Krasnoyarsk Krai Legislative Assembly Aleksandr Uss. The main criticisms focused on two points: First, the right of tax agencies to decide where enterprises register. The main result of this change would be that the majority of profitable enterprises would be registered in Moscow, causing taxes to leave the region. Second, the program also lists similar procedures for collecting excise taxes from producers of alcoholic beverages. Uss noted that in response the krai might prohibit the importation of alcoholic products from beyond Krasnoyarsk's borders. - Pavel Avramov in Krasnoyarsk

KOMI CHIEF SPEAKS ON RELATIONS WITH CENTER. During the 17-20 June forum in St. Petersburg, representatives of many Russian regions and CIS governments came together to discuss economic cooperation. The Komi Republic was represented by the head of the State Council (legislature) Vladimir Torlopov and by the republic's chief executive, Yurii Spiridonov. In an interview with the newspaper *Respublika*, Spiridonov criticized the federal

center for not paying enough attention to the problems of Northern regions and for ignoring their specific problems. Illustrating his point, Spiridonov cited the decision by Finance Minister Mikhail Zadornov to take the Komi Republic off the list of regions approved to receive subsidized federal loans. The republic needs this money in order to pay vacation wages to its public sector employees, mostly teachers and medical personnel.

According to Komi's chief executive, power in Russia is increasingly regressing toward the unitary model, whether it comes to budgetary or personnel decisions. In one of the republic's districts, for example, there are 55 federal bureaucrats but only 35 regional employees. Spiridonov also refuted the insinuation in the recent issue of *Kommersant* journal that he is one of the ethnic separatist leaders who plan to support Krasnoyarsk Krai Governor Aleksandr Lebed in his challenge to the Kremlin. Spiridonov called Lebed an "average person and an average general," who might want to be the country's leader, but "lacks governance experience." Komi's leader said that he is happy with the nature of the relationship between the republic and the federal officials, particularly the president and the ministers of economy and finance. However, he claimed that the recent change in government has forced the republic to start from scratch on many issues. - Yuri Shabaev in Syktyvkar

PATTERNS OF REGIONAL DEVELOPMENT

DAGESTANI LEADER REELECTED WITH UNDEMOCRATIC PROCEDURES.

by Nabi Abdullaev, *Novoe Delo*

MAKHACHKALA--Despite the widespread expectation that Magomedali Magomedov would win his reelection bid for chairmanship of the Dagestan State Council, the highest office in the republic, his supporters nevertheless prepared a well-organized campaign. The head of the Republic of Dagestan is not popularly elected. Instead, he is picked by the Constitutional Assembly, comprised of the 121 members of the Popular Assembly (the republican legislature) and an equal number of delegates elected by the republic's local legislatures. The number of delegates to the Constitutional Assembly is proportional to the number of deputies representing each particular raion or municipality in the parliament. Additionally, the ethnic composition of the Constitutional Assembly must be identical to that of the republican legislature, which has set quotas for each ethnic group. According to the Constitution, the Constitutional Assembly makes changes to the basic law and elects the State Council. However, the complicated electoral scheme that determines the Constitutional Assembly's composition makes it susceptible to manipulation, especially since 70 out of 121 members of the Popular Assembly work in the executive branch agencies, in direct violation of the Constitution.

The ethnic political group headed by Magomedali Magomedov began surveying the political terrain months before the elections. For instance, its members would leak to the public hints about Magomedov's desire to run and then study popular reactions. By spring the republic was split between two political and ethnically-defined camps: the Dargin-Kumyk group (headed by Magomedali Magomedov, Said Amirov, Khizri Shikhsaidov and the Karachayev brothers) and the Avar-Lak group (headed by Gadzhi Makhachev and the Khachilayev brothers). The main goal for Magomedov's group was to split the Avar-Laksk alliance, which

could have won 40% of the electors. First, they offered Gadzhi Makhachev the post of deputy prime-minister in the republican government, which he accepted, but in violation of the law refused to give up his seat in the Popular Assembly or his presidency of the Dagneft oil company. Second, the relatively new KaspOil consortium, of which Dagneft is a part, was awarded a government license for oil extraction over such mighty bidders as LUKoil and Gazprom (see additional story in this issue).

In the end of May the Khachilaev brothers collided with the republican government when they temporarily seized the administration building in an armed assault (see *IEWS Russian Regional Report*, 21 May). Subsequently, the ruling group launched a propaganda campaign aimed at discrediting the rebellious brothers, forcing them off the political scene. Nadir Khachilaev had to flee to Stavropol Krai, while Magomed Khachilaev found refuge in the Lak region of Dagestan. At the same time, Makhachev did not support the brothers and, reportedly, even participated in the campaign against them. Thus the Avar-Lak coalition was splintered.

On 26 May the head of the republic's Pension Fund, Sharapudin Musaev, announced his intention to run for chairman of the State Council. Ethnically Dagin, he was born in the same district as Magomedali Magomedov and the mayor of Makhachkala Said Amirov. A teacher and a competitive boxer when he was younger, Musaev went into business early in the reform era, allegedly favoring criminal extortion methods in his business practices. Even today he is known to drive around with 5 or 6 cars full of loyal thugs. Many rumors floated around about Musaev promising up to \$150,000 for electors' votes and many other people refused to run for the job, fearing his retaliation.

The vote took place on 25 June. At first, a group of deputies from the Popular Assembly tried to challenge the legitimacy of the Constitutional Assembly, citing the legal requirement that no executive branch officials, members of lower level councils, or State Duma deputies can serve in the body. However, the head of the Popular Assembly's legal committee, Azadi Ragimov, urged the deputies to be flexible in their interpretation of the law. (It must be noted that Ragimov used to be a rigid stickler for legal principles, especially when it came to executive branch officials illicitly serving in legislative bodies. However, he has toned down his position dramatically after being severely beaten in a brutal attack last year.) Additionally, it was announced that some of the deputies had given up their other posts the day before. Finally, the assembly took a vote and only 10 out of 242 members expressed no confidence in the body's legitimacy.

Therefore, the choice was between Magomedali Magomedov and Sharapudin Musaev. The former gave a long speech on his positive record and glorious prospects for democratization in Dagestan. His challenger's address was surprisingly short for somebody fighting an uphill battle. He simply said that the situation is not as rosy as painted by Magomedov and that he sees no prospects for progress in the future. In a secret ballot, 72 deputies (32%) gave their votes to Musaev and 168 (67%) to the incumbent, while 2 ballots were invalidated. Thus, Magomedali Magomedov was reelected for another four-year term as the head of the State Council. Musaev did not even try to challenge the legitimacy of the vote in court, as would be expected from a victory-minded candidate. This timidity leads one to

believe that he was a bogus challenger who ran simply to give a semblance of legitimacy to the election, while keeping real challengers to Magomedov away from the race.

What does this all mean for Dagestan? First, the people do not directly elect those who govern them, leaving this power to bodies under the government's control. Second, one person controls the course of political events in the republic. Third, the complex system of elections, created to manipulate the small number of electors, works to alienate the people, formally the ultimate sovereign in the republic, from state power. Dagestan is firmly en route back to where it started several years ago--a totalitarian state, this time based not on ideology but on economic and criminal interests.

KHABAROVSK GOVERNOR VIOLATES MEDIA LAW. Khabarovsk Governor Viktor Ishaev expressed dissatisfaction with one of the cameramen at a recent event dedicated to the 57th anniversary of the beginning of World War II. The head of Ishaev's security detail confiscated a videotape from the cameraman, an employee of the Far Eastern Television and Radio Company (DVTRK), so the governor could see what he had filmed. After several hours the tape was returned to representatives of DVTRK. However, the governor ignored the law on the media in temporarily taking the tape and renewed a forgotten censorship. - D. Sudakov in Khabarovsk

TVER LOCAL GOVERNMENT EXECUTIVES UNDER FIRE. As the Russian economy continues its downward slide, popular discontent with the social and economic reforms is rapidly growing. Many people believe that government policy is responsible for their impoverishment. On the regional level, this discontent is taking the form of a popular backlash against local government executives. In Tver Oblast two municipal administration heads are now facing impeachment.

On 22 June the territorial electoral commission registered a grass-roots initiative to remove Udomli Mayor Aleksei Kushnarev. Simultaneously, the head of Belov raion, Galina Fedosova, is also facing the threat of a recall. Tver Oblast law requires signatures from only 2 percent of the voters in a given territory to initiate recall procedures for a local government official. The task of collecting these signatures is easy on the local level: in Udomli raion 2 percent of the voters would be 655 people, while in Belov raion it is just 150 people. Upon inspecting the signatures, the territorial electoral commission must set a date for a recall vote. Analysts agree that Kushnarev has a better chance of surviving the trial by referendum than his colleague from Belov raion. - Boris Goubman in Tver

KOMI STRUGGLES WITH FINANCIAL CRISIS. The financial crisis, which enveloped Russia along with many other countries of the world, is being acutely felt on the regional level. Even though last year both the Russian and the Komi Republic governments took a number of measures to alleviate the chronic wage arrears in the public sector, statistics show that these measures failed to produce the desired results. As of early June the total wage arrears in the republic amounted to 242.5 million rubles (\$40 million), or 46.6 million rubles (\$7.8 million) more than in May. Trying to deal with the crisis, the Komi government borrowed a lot of money from the Komi branch of the Russian Savings Bank. Since 1996 the bank has loaned

the republic 316 million rubles and \$8 million in hard currency. Additionally, the raion and municipal administrations also borrowed heavily from the bank. Since these government bodies do not plan to repay their debts in the near future, interest on these loans are accumulating and becoming a financial burden. Last May the Savings Bank granted the republic a 30 million ruble (\$5 million) loan with a 50% annual interest rate. At this rate, the republic's total debt will soon approach the amount of its total budget revenues.

Even more problematic is the issue of paying public sector workers their wages. On this front the republic owes public sector employees, mostly miners, 1.3 billion rubles (\$217 million) and this number has increased by a quarter since last year (*Molodezh severa*, 18 June). As one of the regions authorized by President Yeltsin to borrow on the foreign financial markets, the Komi Republic planned to raise capital in Zurich, Geneva, London, and Frankfurt. The republican budget was counting on raising 618 million rubles (\$100 million) this way. However, at the last moment the government decided to halt the issue, fearing that instability in the Russian financial markets and the situation in the republic proper would make borrowing too expensive (*Panorama respubliki*, 23 June). It is quite possible that the financial crisis will force the republican government to give up some other ambitious revitalization projects as well, including the development of its rich bauxite deposits. - Yuri Shabaev in Syktyvkar

ECONOMIC ISSUES

DAGESTAN HOLDS TENDER FOR EXPLORATION OF CASPIAN SHELF. At the last week's tender in Makhachkala, Dagestan put up for bid licenses to explore the Caspian shelf adjacent to Dagestan's territory, stretching from the Sulak river mouth to the border with Azerbaijan. The shelf is subdivided into four sectors: I - the Derbent sector, II - the Izberbash sector, III - the Dimitrov sector, and IV - the Sulak sector. The four bidders in the tender were LUKoil, Gazprom, KaspOil consortium (which included local oil company Dagneft, Canadian company ConArgo and Kaspiy 2) and Geotermneftegaz. The winners were KaspOil (sectors I and III) and Geotermneftegaz (sectors II and IV). Dagneft was advised to create, together with InkorLUKoil and Gazprom, a new legal entity registered in Dagestan and transfer the license to it.

The government of Dagestan will grant the winners the right to develop the shelf for five years and extract natural resources for 20 years. Investors plan to spend \$150 million in the first five years of exploration. Dagneft's analysts estimate that the Derbent sector alone will yield 50-70 million tons of fuel. All the extracted fuel will be processed at a new plant near Makhachkala, equipped with American machinery from the J. P. Pedd company. Last year Dagneft extracted only 365,000 tons of oil, a sharp decline from the past: in 1970 the republic recovered 2 million tons of shelf oil. The main reason for the decrease is the war in Chechnya, which at one point forced extraction to stop completely for a year.

Of course, the oil business always has political undertones. It is no coincidence that the tender was held only days before the election of the chairman of the State Council (see additional story in this issue). Dagneft is headed by Gadzhi Makhachaev, a leader of the Avar ethnic group. More likely than not, the tender's outcome secured most Avar votes in the Constitutional Assembly, which elects the head of state. Makhachaev himself, who had

considered running for the top job in the republic, decided not to run. Additionally, the development of the Caspian shelf with its potential 300 million tons of oil reserves significantly strengthens State Council Chairman Magomedali Magomedov's hand in dealings with Moscow. The recent overtures toward Azerbaijani President Geidar Aliev show that if the federal center tries to take over the oil resources, Dagestan's leadership is prepared to combine the separatist and oil cards in its relations with Moscow. - Marat Biygishev and Nabi Abdullaev in Makhachkala

DISCOVERY OF BURIAL GROUNDS HALTS HOTEL CONSTRUCTION IN NIZHNI

NIZHNI. The situation surrounding the construction of a business class hotel in Nizhni Novgorod is ready to explode into a scandal of international proportions. The main investor in the project is Vesennie Investitsii (Spring Investments), a group which includes Commonwealth Property Investors (representing one of the largest American pension funds), Rosneftegazstroi, the European Bank for Reconstruction and Development, and Sir Rocco Forte & Family, who owns the majority of Astoria Hotel Complex in St. Petersburg. The investors have already poured \$2 million into the project to pay for the demolition of the old hotel Moskva which previously occupied the site and for various related infrastructure developments. Soon after construction began on 26 November 1997, the builders found an ancient burial ground on the site, causing a stir in the local media. Responding to the popular discontent and the protest of local Orthodox Church dignitaries, the oblast and city authorities halted construction. As an alternative, the authorities suggested the investors build their hotel on a nearby site where three old residential buildings stand, but the investors rejected this proposal, instead offering to build a chapel near the future hotel which would be constructed on the originally planned site.

Meanwhile, the city insisted that their proposed alternative is in the best interests of everybody concerned. The investors will still be able to recover their money through construction on the new site, while the city will assume the costs of demolishing the three residential buildings and resettling their residents elsewhere. City officials feel that the issue is not economic, but rather political in nature: somebody is fanning the scandal to make the region look bad in the eyes of foreign investors. Since the administration claims it could not have foreseen that burial grounds were located on the construction site, it believes that it should only repay the investors their original investment. However, the latter feel that on top of that the city should compensate them for the opportunity costs incurred. This matter will have to be settled in court.

The government's position seems to go against the officially proclaimed line to create a business-friendly climate in the region, a significant element of which is a world-class hotel. The city budget simply cannot handle the costs associated with postponing construction for a year. Perhaps the upcoming mayoral campaign explains the authorities' populist impulses.

In addition to the hotel, it is possible that construction of a new housing development financed by the oblast's Eurobond issue will be stopped for the same reason. Unfortunately for the builders, most of Nizhni Novgorod sits on top of ancient burial grounds. - Yury Rodygin in Nizhni Novgorod

WESTERN INVESTMENT FLOWS INTO KOMI TIMBER INDUSTRY

by Yury Shabaev, Komi Research Center

SYKTYVKAR--On 11 June the Leskom joint venture company launched its timber processing plant in Syktyvkar with plans to produce up to 90,000 cubic meters of lumber annually. Construction cost DM 7.5 million and lasted less than a year. Partners in the venture are the local Komitrust, owned by Anatoliy Yakimov, and the Swiss Mariott Trading GA. While the Russian partner will be responsible for production, the Swiss will market the final product. Most of the company's output will be sold on the Italian, German and Spanish markets, and contracts have already been signed for the next five years (*Molodezh severa*, 21 May). The company's board of directors is composed of two German representatives, one Swiss, one Italian and one Russian. All agreements signed by the company must be approved by the presidents of both parent firms. Equipped with state of the art machinery, Leskom will employ no more than 60 people, somewhat less than its domestic counterparts. The plant promises to be highly efficient and productive as well as virtually free of waste. Komi's chief executive Yuri Spiridonov attended the plant's opening ceremony and spoke highly of its significance for the republic's economy. (*Panorama respubliki*, 11 June)

The plant's importance is especially evident given the current crisis in the region's timber industry. In the last several years the volume of production has decreased five times and exports are continuously falling. Additionally, most wood processing enterprises suffer from bad management and poor organization, which results in high costs of production and financial losses. Moreover, in the past foreign investors shunned the problem-ridden timber industry, preferring instead to make money on oil processing. The Leskom plant will be the first foreign venture in the timber sector, promising to be well organized and highly productive. Perhaps, this example will attract more foreign money into the Komi forestry business.

Mariott Trading GA already has further expansion plans for Komi. Some German, Finnish, and Swedish firms have shown an interest in supplying technology and machinery for the production process. According to the republic's official program on restructuring and developing the timber processing sector, between 1997 and 2005 the region's timber processing companies will undergo radical technical restructuring. In particular, two more cellulose and paper producing plants will be built during this time. While these plans are still being worked out, the Finnish company Yaka Peuri is preparing an analysis of the investment proposals submitted so far (*Region*, 1998). It is clear that foreign investors will help pull the republic's timber sector out of the crisis, but only if their position in the joint ventures is predominant or if their local partners are private companies. Foreign investors are also highly likely to receive preferential tax treatment, since the timber sector is a priority for the Komi economy.

FOREIGN TIES

CHELYABINSK AND CENTER DELINIATE FOREIGN RELATIONS POWERS.

The Government of the Russian Federation and the Administration of Chelyabinsk Oblast signed an agreement outlining their respective jurisdictions in the areas of international economic relations and investment policies during a recent visit to the region by Deputy Prime Minister

Viktor Khristenko on 12-14 June. According to the text, all of Russia's international agreements affecting the economic interests of Chelyabinsk Oblast will be signed only with the approval of the oblast administration. Also, according to the agreement, the following spheres fall under the oblast's jurisdiction: the region's foreign economic relations including those with foreign countries or their constituent regions; development and implementation of foreign economic and investment programs; regulation of activities of foreign nationals and entities on the oblast territory; borrowing on foreign markets using the oblast budget as collateral; and others.

The oblast and federal center will jointly administer the following areas: coordination of the oblast's exports; drafting of Russia's international treaties affecting oblast interests; formulation and implementation of federal, regional and inter-regional programs in the areas of foreign economic relations and foreign investment in the Chelyabinsk economy; and coordination of activities pertaining to the establishment of free economic zones in the oblast. The two sides also agreed to jointly administer the creation of the oblast's representations in foreign countries as well as foreign missions in the oblast. The oblast budget will finance the establishment of such representations, as well as the costs of keeping Chelyabinsk representatives in Russian trade missions abroad. Also, the two sides will manage the disbursement of funds raised on international debt markets toward financing projects in Chelyabinsk Oblast. The agreement allows Chelyabinsk Oblast to borrow money independently in whatever forms it deems feasible.

The treaty also requires the federal authorities to transfer state shares in publicly owned enterprises to the oblast government under a trust management agreement. The oblast can manage these assets as it sees fit. The Russian Government, moreover, permits the oblast administration to finance investment projects from the federal budget in accordance with the agreement on inter-budgetary relations signed by the two sides on 13 June 1998. Finally, the agreement stipulates the creation of free economic zones in the oblast to attract foreign investment. The agreement was signed in accordance with the earlier power-sharing treaty between the center and Chelyabinsk Oblast. - Igor Stepanov in Chelyabinsk

CORRECTION: Last week the Russian Regional Report incorrectly stated that Standard and Poor's had lowered regional credit ratings from BB+ to B+. The correct statement should be lowered from BB- to B+.

REGIONAL PROFILE: REPUBLIC OF INGUSHETIYA

President: Ruslan Aushev

Ruslan Aushev was reelected for his third term as the republic's president on 1 March 1998 with 66.5% of the vote.

An ethnic Ingush, Aushev was born in Kazakhstan in 1954. His parents, like many Ingush and Chechens, were deported from their native lands to Central Asia in 1944 for supposedly "collaborating with the Nazis." Aushev made his early career in the military. In 1980, he voluntarily joined the Soviet Army forces in Afghanistan. In 1982 he was awarded with the

Hero's Golden Star of the Soviet Union medal as one of the first officers serving in Afghanistan. The same year, Aushev went to the Frunze Military Academy in Moscow, from which he graduated in 1985 and returned to Afghanistan. The next year, he was severely wounded. After he recovered, he was promoted to lieutenant-colonel and sent to serve in the Far East as a regiment chief.

In March 1989 Aushev was elected to the USSR Congress of the People's Deputies but, since he was not a member of the Congress's Supreme Soviet, he was not very active in the body. The same year he was promoted to the rank of army deputy commander.

In November 1992, after the official division of the Checheno-Ingush Autonomous Republic and introduction of a state of emergency there, Aushev was appointed to lead the provisional administration of the Ingush Republic. A month later, he resigned because he was dissatisfied with the policies of the Russian government in the region and its inability to stop the conflict between the Ingush and Osetins over the Prigorodnyi Raion of North Osetiya.

In February 1993, he was elected as the first Ingush president with the support of 99.94% of the population and a year later he was reelected with a similarly high level of support. In the meantime, he also won a seat in the Federation Council, the upper house of the new Russian parliament, in December 1993.

Aushev generally supports Russian President Boris Yeltsin. However, he strongly disagreed with Moscow's policies toward Chechnya and repeatedly proposed that he serve as a mediator between the federal government and the Chechen militants. In March 1997 he was appointed a member of the federal commission on Chechnya.

Brief Overview

The Republic of Ingushetiya is located on the northern slope of the Caucasus Mountains and the adjoining Tersko-Kumsk lowland. Its neighbors are North Osetiya, Chechnya, and Georgia, though most of its actual borders are not clearly defined. Ingushetiya voluntarily joined the Russian Empire in the beginning of the last century. Its territory is rich in oil, gas, and mineral waters.

The social and economic situation in the republic is greatly affected by the over 200,000 refugees from North Osetiya who came there after the 1992 outbreak of ethnic violence in the Prigorodnyi Raion and Russia's armed invasion of Chechnya. As a result, over 50% of the republican population is either medically incapable of working or unemployed.

Agriculture forms the basis of the republican economy. Benefiting from a favorable climate and rich soil, republican farms grow high-quality grain, vegetables, fruits, and grapes. Small-scale electric, petrochemical, and food-processing comprise the industrial sector. Ingushetiya could potentially extract oil and gas but the lack of capital and outdated equipment prevent the republic from developing these resources.

Basic Facts

Population (as of Jan. 1, 1997): 308,700 (0.21% of Russian total)

Student population (1996): 55 per 10,000 (Russia overall: 171/10,000)

Pensioner population (1996): 15.37% (Russia overall: 25.78%)
Average monthly personal income in 1996: 205,000 rubles (Russian average: 764,000 rubles)
Average monthly personal expenses in 1996: 79,000 rubles (Russian average: 753,000 rubles)
Average monthly subsistence requirement in 1996: 364,700 rubles (Russian average: 369,400 rubles)
Consumer price index (as of Dec. 1996): 96.45 (Russia overall = 100)
Industrial production as percentage of all Russian production (1996): 0.01%
Proportion of loss-making enterprises (1996): 63% (Russia overall: 56%)
Number of enterprises which have wage arrears (1996): 112 (2.01% of total number of regional enterprises)
Agricultural production as percentage of all Russian production (1996): 0.07%
Number of private farms (as of Jan. 1, 1997): 1,462 (0.52% of Russian total)
Capital investment (1996): 815,700 rubles (Russia overall: 370 trillion rubles)
Sources of investment (1996): federal budget: 94.3% (Russian average: 9.2%); regional budget: 1.1% (9.6%); enterprises: 0.1% (66.3%)
Number of small businesses (as of Jan. 1, 1997): 775 (0.09% of Russian total)
Number of enterprises privatized in 1996: 42 (0.84% of Russian total), including those which used to be municipal property: 57.1% (Russian average: 67.1%); regional property: 42.9% (14.3%); federal property: 0% (18.6%)

According to a 1997 survey by *Ekspert* magazine, the republic is ranked 75th among Russia's 89 regions in terms of investment potential and 41st in terms of investment risks.

Electoral History

1996 Presidential Election

Yeltsin: 46.26%/79.80% (first round/second round)
Zyuganov: 24.49%/15.52%
Yavlinskii: 15.19%
Gorbachev: 4.45%
Lebed: 2.24%
Zhirinovskiy: 1.74%
Turnout: 70.03%/83.40% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Our Home Is Russia: 34.11%
National Muslim Movement "Nur": 23.71%
Russia's Democratic Choice: 5.52%
Yabloko: 5.33%
Communist Party of the Russian Federation: 5.12%
Liberal Democratic Party of Russia: 2.08%
In a single-member district: 1 independent
Turnout: 57.16% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 56.02% "No" -- 43.98%

1993 Parliamentary Elections

Democratic Party of Russia: 71.07%

Communist Party of the Russian Federation: 6.44%

Party of Russian Unity and Concord: 4.90%

Liberal Democratic Party of Russia: 3.20%

Women of Russia: 2.76%

Yabloko: 2.11%

Russia's Choice: 1.65%

Agrarian Party of Russia: 0.69%

In a single-mandate district: 1 independent

Turnout: 46.09% (Russia overall: 54.34%)

Sources: *Rossiiskie regiony nakanune vyborov-95 [Russian regions on the eve of 1995 elections]*, Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam [Results of the 17 December 1995 elections, regional breakdown]*, Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995 [State Duma elections 1995]*, Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii [Governors of Russia]*, Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regioni Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.

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BREAKING NEWS

POLITICS

STEPASHIN FIGHTS CRIME IN STAVROPOL. When Sergei Stepashin initially became minister of internal affairs on 30 March, his statements suggested that he believed that Moscow had the situation in the North Caucasus more or less under control. More recently, however, he has come to the conclusion that the Russian authorities need to do more to impose order. As a consequence, he has set up a powerful group in conjunction with other power ministries to fight terrorism and hostage taking in the north Caucasus. The group is based in the eastern part of Stavropol Krai under the command of Col. Gen. Leontii Shevtsov. It is supposed to unite the different federal forces into a group that can act effectively and coherently, something that has been sorely lacking in the past. Among Stepashin's goals is freeing the president's representative to the region, Valentin Vlasov. Three armed men kidnapped Vlasov near the Ingush village of Assinovskaya on 1 May. (*Kommersant Daily*, 2 and 7 July)

LEBED BUILDING MEDIA MACHINE IN KRASNOYARSK. Newly-elected Krasnoyarsk Governor Aleksandr Lebed is building a media empire to include local print and broadcast outlets according to a report in *Segodnya* on 7 July. On 22 June Lebed refused the proposal of Russian Television head Mikhail Shvydkii to join a media holding set up on the basis of Russian Television. The pointman for Lebed's media effort will be Aleksandr Klyukin, the general director of the TVK-6 Kanal television company. The Krasnoyarsk Aluminum Factory, which is allied with Lebed, owns 85 percent of the broadcaster. TVK-6 Kanal rebroadcasts material from TV-6 Moscow. The organizers of the network hope to be able to reach much of Krasnoyarsk, Khakasiya, Irkutsk, Omsk, and Tomsk with the help of Japanese-made satellites. The source of the financing is unknown.

BASAEV STEPS DOWN AS CHECHEN PRIME MINISTER. Chechen Prime Minister Shamil Basaev announced his resignation on 3 July. When he took over the job in January, Basaev said that he would improve the economy of the separatist republic. However, Basaev could not win concessions from the Kremlin where he is still considered a terrorist for his role in the attack and hostage-taking in Budennovsk in June 1995. Chairman of the Chechen parliament Ruslan Alikhadzhev pointedly charged that Basaev's cabinet did not succeed in improving the Chechen economy (*Kommersant Daily*, 4 July). The departure of Basaev may help Chechen President Aslan Mashkhadov in his negotiations with Moscow, but more likely, now Basaev will become an open competitor for power in Chechnya (*Izvestiya*, 7 July).

INSTITUTES OF HIGHER LEARNING COMBINED. As a cost saving measure, the Education Ministry has combined 12 institutes of higher learning. The decision affects institutes and universities in Arkhangelsk, Bryansk, Moscow, Rostov, and Samara. The savings to be earned from this move are unclear. In the last three years, Russia has combined 19 institutes of higher learning with minimal savings. (*Kommersant Daily*, 3 July)

NIZHNII MAYORAL ELECTIONS UNDER WAY. Two candidates have announced their interest in competing in the repeat Nizhnii Novgorod elections set for 27 September. The

original election was annulled after the victory of Andrei Klimentev, then being tried on a number of criminal charges. Now serving a six year term for embezzlement, Klimentev intends to run again, or at least back a surrogate candidate. Former Presidential Representative in the region Yuri Lebedev is also running. Lebedev is already conducting a campaign criticizing the administration of Governor Ivan Sklyarov. Dmitri Bendnyakov, who was acting mayor from 1992 to 1994 and is now a member of the oblast legislature, is also likely to run. Former acting mayor Vladimir Gorin was appointed deputy governor in the end of June and is not considering another bid. (*Kommersant Daily*, 3 July)

RAKHIMOV CHANGES ADMINISTRATION. Bashkortostan President Murtaza Rakhimov has fired State Secretary Mansur Ayupov and the secretary of the Bashkortostan Security Council, Viktor Antipin. Ayupov was long one of Rakhimov's closest colleagues and, according to observers, was probably fired for his poor conduct of Rakhimov's presidential campaign. Rakhimov won the race, but numerous allegations of improprieties on his part have damaged his reputation on the national political stage (see *IEWS Russian Regional Report*, 25 June). Chief of Staff Ismagil Gabitov, who also played a key role in organizing the campaign, has retained his post. (*Kommersant Daily*, 3 July)

RUTSKOI PARTY MAY BACK LUZHKOV. Derzhava, the party that Aleksandr Rutskoi led until he was elected governor of Kursk, is pushing the opposition National Patriotic Union of Russia to consider allying with Moscow Mayor Yuri Luzhkov in the 2000 presidential campaign. Derzhava sees Luzhkov as a more likely winner than union leader Gennadi Zyuganov, who lost to Yeltsin in the 1996 race. Derzhava is the third most powerful group in the alliance, behind the Communist Party of the Russian Federation and the Agrarian Party of Russia. It has 51 regional branches, representatives in the Voronezh and Tambov legislatures, and controls mayors' offices in Cherkessk (Karachaevo-Cherkesiya) and Severodvinsk (Arkhangelsk). (*Nezavisimaya gazeta*, 4 July)

REGIONAL LEGISLATURES SEEK YELTSIN'S RESIGNATION. On 7 July the Khabarovsk legislature joined a string of regional legislatures that have passed resolutions asking President Yeltsin to resign voluntarily. Ryazan adopted the first declaration on 27 May. Ryazan then sent its declaration to other regions and Ryazan oblast Duma Speaker Vladimir Fedotkin has sought support among Federation Council colleagues. The Sakhalin Oblast Duma adopted a similar measure on 25 June and the Yaroslavl legislature passed one on 30 June. Tula and Belgorod were considering the idea as well. Many regions don't want to adopt such measures because they don't want to jeopardize their relations with the federal government. However, the Kremlin has little leverage over the country's 2,000 regional legislators. (*Nezavisimaya gazeta*, 1 July)

ECONOMICS

FEDERATION COUNCIL PREPARES ITS OWN ANTI-CRISIS PROGRAM. The Federation Council is planning to discuss its own anti-crisis program at its 9 July session. The

draft will apparently be based on proposals drawn up by the upper house's Information and Analytical Department which is headed by Sergei Glazev. The plan focuses on rebuilding the country's productive capacity by holding taxes down to 35 percent of new value added. Fees charged by the country's natural monopolies (Gazprom, Unified Energy System, etc.) would be slashed. Since the Information and Analytical Department's proposals are relatively theoretical, some of the governors would prefer a plan that would generate revenue immediately. St. Petersburg Governor Vladimir Yakovlev proposes generating new sources of revenue by imposing a state monopoly on the sale of alcohol. He also would remove the value-added tax from several types of goods, including those bound for CIS countries and products used in housing reform. (*Finansovye Izvestiya*, 7 July)

YELTSIN CANCELS MOSCOW-ST. PETERSBURG HIGH-SPEED RAILWAY.

President Yeltsin halted the construction of a high-speed railway linking Moscow and St. Petersburg on 1 July. Given the current financial crisis, Yeltsin reasoned that Russia does not have the resources to build such multi-billion dollar projects. The project was expected to cost between \$3 billion and \$10 billion. The Spanish firm Ineco was working on plans for the first leg of the track and construction had begun on a new station in St. Petersburg. The company set up to build the railway had sold \$350 million in stock, taken a \$200 million credit from western banks, and \$250 million from investors. The company's outstanding debts that are guaranteed by the government could add up to \$500 million. (*Kommersant Daily*, 2 July)

SIBERIA SEEKS MONEY FROM AIR ROUTES... A 15 1/2 hour flight from New York to Hong Kong via the north pole and Siberia opened the new airport in Hong Kong. The flight through Russian airspace saves five hours over the routes now in use as well as a considerable amount of expensive fuel. Siberia hopes to make money from regular traffic over its territory since it would receive about \$60 per 100 kilometers in navigational fees, adding up to an annual take of \$650 million (*Kommersant Daily*, 7 July). Moreover, if the airplanes make stops at Siberian airports, they will pay up to \$630 million in fees. \$250 million of this money would go to the federal government and \$380 million would stay in Krasnoyarsk and Irkutsk. There are currently 225,000 flights between the US and Canada and South-East Asia a year, mostly going through Japan, London, and Frankfurt. Cathay Pacific hopes to begin regular flights over Siberia in the second part of next year. (*Moscow Times*, 7 July) Of course, the Asian economic crisis could reduce the number of travellers.

Before such flights become normal, however, the air traffic control systems across Siberia must be coordinated. Moreover, upgrading Siberia's airport infrastructure is expected to cost \$4 billion and Irkutsk alone is expected to spend \$3 billion. Russian banks such as UNEXIMbank, Rossiiskii kredit and SBS-AGRO are expected to put up \$1 billion. Among the investors in the Irkutsk project is Soglasie, the firm that is developing the Lomonosov diamond deposit in Arkhangelsk. (*Kommersant Daily*, 7 July)

Despite the apparently good prospects for the new air service, finding foreign investors in Russian airports will be difficult, according to a report in *Finansovye Izvestiya* on 2 July. The government has recently prepared a draft ruling on improving investment opportunities in airports. However, the document uses such terms as "concessions" which do not exist in

Russian legal practice, and is likely to make the situation more confusing thus serving as a further barrier to investment.

...AS LEBED PARTICIPATES IN DEMONSTRATION FLIGHT. Krasnoyarsk Governor Aleksandr Lebed flew to Toronto and New York over the north pole on 2 July in another demonstration flight. Irkutsk Governor Boris Govorin was supposed to make the trip as well, but backed out, perhaps because he strongly supported Lebed's opponent, former Governor Valerii Zubov, in Krasnoyarsk's recent gubernatorial campaign. Lebed removed Yeniseitelemek Director Vladimir Librekht, who was heading to Toronto to sign a deal with the Canadian firm Nortel, from the flight because he believed the contract in question would hurt the krai's interests. (*Kommersant Daily*, 7 July)

STRIKES IN PRIMORSKII KRAI SHUT OFF ENERGY. Strikes by workers at electric stations in Primorskii Krai are depriving consumers of power for an average of 10-12 hours a day and by some reports up to 20 hours a day (*Nezavisimaya gazeta* and *Russkii Telegraf*, 7 July). Workers at Dalenergo have not been paid for 5-6 months and are unlikely to be paid soon. Krai tax police recently confiscated a 42 million ruble (\$6.8 million) subsidy from Moscow intended to pay the workers to offset Dalenergo's 200 million ruble (\$32 million) tax debt. On the other hand, the federal government owes Dalenergo 1.2 billion rubles (\$194 million) for electricity supplied to the military, border guard and other federal agencies in the region. Local officials think that the federal government is using double standards since it backed off on its crackdown of Gazprom when the monopoly claimed that measures against it would damage the economy. There has been no let up in the federal attempts to collect tax revenue in the region even though these measures have exacerbated the region's on-going energy crisis.

Local residents also must deal with a lack of water. The shortage results from a lack of rain and empty reservoirs. Two recent storms have apparently not improved the situation.

MINERS BLOCK TRANS-SIBERIAN RAILROAD. Miners blocking the Trans-Siberian Railroad are preventing the movement of 200-250 tons of freight each day. However, the Railways Ministry says that the current strikes are not as damaging as those held this May, and that damages to 5 July amounted to 6.3 million rubles (\$1 million). (*Nezavisimaya gazeta*, 7 July)

REGIONAL DEBT MARKET OFF IN JUNE. The drop in prices for regional debt on the St. Petersburg Exchange at the end of May continued through June. Turnover for regional debt during the month was 786 million rubles (\$127 million), with St. Petersburg bonds making up 47 percent of sales and Orenburg bonds 26 percent. Sverdlovsk Oblast was able to sell only 20.7 million rubles (\$3.3 million) of the 70 million rubles (\$11.3 million) worth of bonds it offered at 82.68 percent for a 225-day term. (*Russkii Telegraf*, 7 July)

REAL ESTATE MARKET REMAINS STRONG IN ST. PETERSBURG AND LENINGRAD OBLAST. During the last year, between 40,000 and 50,000 apartments changed hands in St. Petersburg and between 25,000 and 30,000 were sold in the rural areas

surrounding the city. The majority of the deals affected mid-priced properties, selling for between \$12,000 and \$25,000. Luxury housing made up only 3-5 percent of the overall market. The majority of sales in the suburbs are for private, one-family homes suitable for year-round habitation. (*Finansovye izvestiya*, 7 July)

BUSINESS BRIEFS

-- Deputy Prime Minister Boris Nemtsov opened the first gold processing factory in **MAGADAN OBLAST** on 6 July. The region produces 25 percent of Russia's gold. (*Nezavisimaya gazeta*, 7 July)

-- The capital of the **LEXINGTON TROIKA DIALOG RUSSIA FUND** has dropped from \$220 million to \$50 million between April and June 1998. The fund invests exclusively in Russian stocks, mostly blue chips. According to the president of Troika Dialog, Pavel Teplukhin, investors are pulling out because they don't believe that the situation will stabilize on the Russian markets. (*Russkii Telegraf*, 7 July)

-- The **WORLD BANK** has decided to give \$300 million in credits to Russian cities to improve their public transportation systems. The bank dispersed \$321 million in the first part of the program which began in 1996. So far the funds have provided 1,500 buses and 300 trolleybuses. The cities participating in the program include: **VELIKIE LUKI, VOLOGDA, YEKATERINBURG, KOSTROMA, NIZHNI NOVGOROD, OMSK, PSKOV, ROSTOV-NA-DONU, SAMARA, SARANSK, SMOLENSK, TVER** and **CHEREPOVETS**. The credits must be repaid in 15 years at 7.1% interest. (*Finansovye izvestiya*, 2 July)

-- US-based **STATE STREET GLOBAL ADVISORS** will set up the first private pension funds for workers of **IRKUTSKENERGO** and St. Petersburg's **LENMETROSTROI**. Additionally, the British firm **FLEMINGS** announced plans to set up a private pension fund for the workers of the **MOSCOW STATE TELEPHONE NETWORK**. (*Kommersant Daily*, 4 July)

-- The **ROSTAR** alliance of the Sayanskii Aluminum Factory and the Samara Metallurgical Company is investing \$130 million in a **MOSCOW OBLAST** factory that will produce 750 million aluminum cans a year. The Swedish company **PLM** is also planning to build an aluminum can factory in the oblast with an annual capacity of 1.75 billion aluminum cans. *Nezavisimaya gazeta* (3 July) claims that the Swedish company is hoping to take advantage of tax benefits to import an additional 1.75 billion cans with a 50 percent saving in tariffs. The benefits granted to the foreign competitor will make it extremely difficult for the Russians to compete, the newspaper complained.

-- **KHAKASIYA** paid off its agrobond debt on 1 July in a deal between republican government chairman Aleksei Lebed and Boris Jordan's **MFK RENAISSANCE** bank. The

republic made a \$4.4 million payment. Since May seven out of eleven regions with maturing debts have defaulted. They are **VOLGOGRAD, ORENBURG, OMSK, CHITA, KALMYKIYA, THE JEWISH AUTONOMOUS OBLAST,** and **AGIN-BURYAT,** although Orenburg and Omsk have since paid up. The defaults are making investors more wary of further investments across the board in Russia. (*Moscow Times* and *Russkii Telegraf*, 2 July)

-- **MOSCOW** Mayor Yurii Luzhkov has given his support to **REUTERS** plan to build a new office building in the city center on Bolshoi Ordynok. The news agency's current facilities in the Radisson Slavayanskaya Hotel are no longer sufficient. (*Russkii Telegraf*, 1 July)

-- **AMERICAN EXPRESS BANK**, a subsidiary of American Express, opened its first Russian office in Moscow on 30 June. The office offers a wide array of financial and tourist services. Until now, American Express had dealt mainly in arranging trips for tourists and businessmen. (*Russkii Telegraf*, 1 July)

-- French carmaker **RENAULT** and the **MOSCOW** city government established the 50-50 **AVTOFRAMOS** joint venture with initial capital of \$20 million. The Russian side contributed buildings at the Moskvitch plant worth \$10 million, while the French provided cash. The venture should start assembling Megane Classics in the fall. The two sides signed a letter of intent last November and a framework agreement in December, so the project is progressing well. Second phase plans call for investment of \$420 million creating an ability to market 120,000 Renault cars a year in Russia. (*Moscow Times*, 4 July)

-- The Oktyabr cinema on **MOSCOW'S** Novii Arbat will get a \$24 million upgrade that will transform the two screen theater into an 11-screen multiplex. The **MOST** group is financing the project and the German firm **HOCHTIEF** will carry out the reconstruction work. A new firm called KinoMOST will build modern cinemas across the country. The success of **KODAK CINEMA WORLD**, a one-screen theater near Pushkin Square, has inspired the imitators. (*Moscow Times*, 25 June)

-- **IRAN** may have bought two Ruslan airplanes from **ULYANOVSK'S AVIASTAR** and is considering buying Tu-204 airplanes according to *Narodnaya gazeta* [Ulyanovsk] on 23 June. Aviastar is also planning to build a service center for its planes in Iran, the paper reported. However, according to *Simbirskii kurer* [Ulyanovsk] on 27 June, it was impossible to confirm whether or not the deal actually took place.

CENTER-PERIPHERY RELATIONS

IRKUTSK DUMA MEMBER COMMENTS ON ECONOMIC CRISIS.

An economic crisis has been brewing in the country for the last seven years, according to the deputy chair of the State Duma's Economic Policy Committee, Viktor Mashinskiy, a representative from Irkutsk. At first the government had a simplistic tax scheme, capitalizing on

the large profits in the oil and gas sectors. In the early 1990s the Russian oil companies would spend \$15-18 to produce one ton of oil and sell it for \$120-130 on the world markets, while the government would take \$70 of the proceeds in taxes. With time, the costs of oil extraction went up, as many oil companies routed crude oil abroad, leaving many domestic processing plants idle. For instance, the annual volume of oil processed decreased from 23 million to 9 million tons in the city of Angarsk (Irkutsk Oblast) alone. This happened all over the country, except at some LUKoil plants. The prices for oil products processed in Russia increased to the point of costing twice as much as in the rest of the world. Finally, the worldwide drop in oil prices to about \$70 per ton hit Russia hard. Consequently, this year the government is 35% short of the projected 1998 budget revenues.

Mashinskiy also criticized the use of federal treasury bills (GKOs) as a "nationwide pyramid scheme," which virtually crashed this year. Today, the government must spend 8 billion rubles (\$1.33 billion) weekly to redeem its debt of several years ago. Before year's end, the government will have to finance 230 billion (\$38 billion) worth of GKOs. Of course, Moscow does not have this kind of cash and will be forced to borrow elsewhere. One option is to borrow from the domestic banks, whose interest rates reach 60-80%, which would mean that in the next fiscal year the government's obligations for servicing the debt would be 1.5-2 times greater than its total tax income. Another option is to borrow abroad, but Western banks today refuse long-term lending to Russia, and it is not realistic to expect the government to repay its debt in only two or three years. The third option, of course, is to pass along the financial burden of Moscow's insane politics to the people.

The entire anti-crisis package of measures, worth 100 billion rubles (\$17 billion), is now under the State Duma's consideration. The parliament has already refused to hear some of the draft laws from the package, including the recall of the 10% value-added tax (VAT) break for foodstuffs, which would have hiked up food prices. Moreover, the government would like to rob the people further by introducing two more taxes: a small business tax that will crack down on entrepreneurs dealing mostly in cash and thus avoiding taxes and a sales tax that will mark up the goods by 5%. So, while the government is not explicitly taxing the essentials, such as bread, milk and housing utilities, the proposed measures will cause a 25-30% increase in food prices.

Mashinskiy also said that the majority of members of the Economic Policy Committee do not believe that the government's anti-crisis measures deal effectively with the real crisis. The committee recommended that the government decrease the VAT, and only then would the committee support the overall 10-15% tax hike. This would reduce the tax burden on industry, while increasing budgetary income. Because the government is introducing a sales tax, Mashinskiy believes it will be necessary to eliminate the VAT altogether. Talks to this end are currently under way with the prime-minister and other high level officials. This measure would provide 20% more resources to Russian industry. Subsequently, it would also decrease consumer goods prices, thus improving the average consumer's buying power.

However, if the Duma does not pass the bulk of the anti-crisis measures, the prices will jump two-fold as the ruble will be devalued. The State Duma must have the courage and the political will to make these tough decisions. This would somewhat make up for the passive practices of the last several years when the Duma blindly followed the government's lead on tax legislation, Mashinskiy concluded. - Svetlana Burdinskaya (Teleinform) in Irkutsk

TVER BUSINESS LEADER BLASTS ANTI-CRISIS PROGRAM. In an interview published by *Veche Tveri* newspaper (no. 121), co-chairman of the Tver Union of Entrepreneurs and director of ANTEK retail company Nikolai Karpov called on all businessmen of the region to thwart the government's efforts in passing the "anti-crisis" program through the State Duma. One can hardly accuse Karpov of reactionary politics, as he has repeatedly backed reformers both politically and financially. However, he believes that Kirienko's latest set of proposals goes directly against the interests of Russian entrepreneurs.

What specifically does he oppose in the government's program? First, Karpov rejects the higher tax burden implied in the program, specifically the notion that the value-added tax (VAT) should be paid at the point of shipment, rather than when the product is actually sold. The normal commercial practice in Russia dictates that producers wait for their goods to be sold before expecting any revenue from the retailer. Under the new conditions, the producer will demand that the retailer pay up front. While Karpov understands the government's desire to quickly fill its coffers, Russia's retail network cannot handle the new policy.

Second, Karpov criticizes the removal of VAT tax breaks, especially for foodstuffs. Retailers will have to pass on the subsequent cost increase to consumers in the form of higher food prices. Thus, common people will be hurt the most.

Third, Karpov objects to the sales tax, which, although low (only 5%), will be levied from revenues, thus becoming a second VAT.

Fourth, while the government has promised to reduce the profit tax by 20-25%, Karpov expects a marginal reduction of 5% or so. He also thinks that the personal income tax will be reduced only for the super-rich, while the common people will actually face a larger tax burden. In sum, Karpov believes that the government's anti-crisis program will take the country to the brink of an economic crisis. - Boris Goubman in Tver

PATTERNS OF REGIONAL DEVELOPMENT

LEBED TEMPORARILY RESOLVES KRASNOYARSKENERGO DISPUTE. In a decisive move, Krasnoyarsk Krai Governor Aleksandr Lebed ended the prolonged feud over the directorship of the Krasnoyarskenergo power utility. Some time ago, its shareholders replaced Director General Vladimir Kolmagorov, who represented former Governor Valerii Zubov and the Unified Energy System monopoly, with Vladimir Ivannikov, who is close to the leadership of the Krasnoyarsk Aluminum Factory (KrAZ). Kolmagorov challenged the decision in court, but Ivannikov stood firm and even filed a counter suit. Ever since the courts have been switching sides in the dispute.

Lebed demanded that both contenders resign and renounce their claims to control the utility. Currently, the acting director general is Kolmagorov's deputy, Aleksandr Shlegel. It is still unclear who will head Krasnoyarskenergo permanently, and no specific candidates have been named yet. However, there are rumors that the current general director of KrAZ, Yurii Ushenin, will take over the power utility, while his place at KrAZ will be taken by Kornei Gibert, a well known manager from the Communist era. - Pavel Avramov in Krasnoyarsk

MORE CORRUPTION UNCOVERED IN PREVIOUS KRASNOYARSK ADMINISTRATION

by Pavel Avramov, Kirenskii Institute of Physics

KRASNOYARSK - Governor Aleksandr Lebed's new administration continues to uncover the financial misdeeds of key members of the previous governor's team. The latest scandal focuses on former Governor Valerii Zubov's deputy Sergei Arinchin, the krai's Environmental Fund, and the Lower Angara River program.

In 1995 President Yeltsin authorized federal funds for the conversion of the nuclear industry in the city of Zheleznogorsk. In particular, the program sought to provide for local processing of foreign radioactive waste with subsequent return of the by-products to the country of origin. It also approved a proposal to use 25 percent of the income for financing environmental programs and developing the region's social sphere. The reality was much less rosy than the spirit of the presidential decree. While nuclear waste has been imported from Ukraine for processing, none of it has left the Krai's territory. Zubov's administration signed a mind-boggling agreement with Ukraine: Ukrainians must pay \$300 for each kilogram of processed nuclear waste, but not in cash. Instead, they offered promissory notes, which later could be exchanged for Ukrainian goods that in turn had to be sold before any money would be available to pay taxes and make contributions to the Environmental Fund.

However, promissory notes tend to take on some interesting features on the Russian market. For instance, one can buy promissory notes in some very stable and profitable Russian companies for 20% of their nominal value. Obviously, the Ukrainian notes in question would sell for a much lower price. Apparently, the federal money was flowing into the pockets of various middlemen along the Kyiv-Moscow-Krasnoyarsk-Zheleznogorsk chain, including some officials in Zubov's administration.

The scheme was classic in its planning and execution. For some reason, the environmental payment funds were routed through the federal Lower Angara River program, whose 23-member staff, led by Arinchin, enjoyed combined salaries of \$435,000. At one point, the program's administration formed the Fund for the Development of the Lower Angara run by a seven-person board, whose combined salary was set at \$43,000. Along with the federal money, the Fund, headed by Igor Varfolomeev, also took on some of the responsibilities of the Lower Angara River program. Then, both the program and the Fund formed a joint stock company. This firm was registered in Moscow and received \$500,000 worth of corporate securities from the Fund.

Seven months later Sergei Arinchin appeared to realize the absurdity of these transactions. On 22 April 1998, four days before the first round of gubernatorial elections, he ordered the return of the money to the Fund. It proved to be impossible to get the money back, however, since in reality the transfer was a "gift" from the krai bureaucrats to the self-styled entrepreneurs. However, this is not even the most appalling example of interest-free "loans" handed out without any collateral. On 10 October 1997 the Lower Angara River program gave its affiliated joint stock company an interest-free credit of \$333,000 backed only by the company's virtually worthless promissory notes.

The Arinchin affair was exposed in May of this year after the krai's Audit Chamber completed its inspection of the region's finances. Keeping in mind that each of Zubov's deputies ran his own "personal" fund, one can only guess who will be exposed next.

KOMI PARTIES PREPARE FOR BIG ELECTION YEAR. Next year will be a year of multiple elections for the Komi Republic: aside from the planned elections to the State Duma, Komi voters will elect the republican legislature (State Council) as well as local government bodies. Elections of the latter have been postponed several times for a variety of reasons (see *IEWS Russian Regional Report*, 26 March). No wonder, then, that the republic is experiencing a flurry of political activity. On 1 July members of the Union of Popular Power and Labor, led by former head of Russia's border guards General Andrei Nikolayev, held a founding congress of the movement's regional branch. The branch will be headed by Valeriy Zlobin, formerly the head of the Komi branch of Vladimir Zhirinovskiy's Liberal Democratic Party of Russia (LDPR). When Zhirinovskiy expelled Zlobin from his party, Zlobin took many local LDPR activists with him, thus seriously wounding what used to be a formidable party organization that commanded great support in the previous two Duma elections.

While Zhirinovskiy's personal ambitions seem to be hurting his party, the no-less powerful ambitions of General Nikolayev might help him forge a leading political force in Russia. However, with only a year and a few months left before the election, he is fighting an uphill battle, and strong regional organizations will be crucial to his success. Nikolayev seems to understand this fact, which is why he has been focusing on local-level party building.

In another political development, representatives of eight republican movements (People's Home of the Komi Republic, the Intelligentsia Congress of the Komi Republic and the regional branches of Russia's Democratic Choice, Women of Russia, Our Home Is Russia, Democratic Russia, Social-Democratic Party, and Republican Party) formed a public movement called Transformation of the North (*Preobrazhenie Severa*). The movement's official statement says that anti-reformist policies can return the country to the past and demote the Komi Republic into a raw material colony for Moscow (*Molodezh Severa*, 2 July). The movement's founding conference will take place in October. While Transformation of the North will exist as a confederation of independent political movements, it also plans to defend the interests of Russia's northern territories beyond the Komi Republic. Despite the similar name, the Komi organization is not related to Sverdlovsk Governor Eduard Rossel's Transformation of the Ural. However, Rossel and Komi leader Yurii Spiridonov maintain good relations, so future ties may be possible. - Yurii Shabaev in Syktyvkar

ATTACK ON KIROV EDITOR. Sergey Bachinin, the controversial editor-in-chief of the *Vyatskiy Nablyudatel* newspaper, a frequent critic of the Kirov city government, was hospitalized in Kirov on 29 June with a fractured skull (for earlier reports on Bachinin, see *IEWS Russian Regional Report*, 2 April 1998, 6 November 1997, and 30 October 1997). Bachinin's deputy Vera Yakubovich contested the official version submitted by the police that the incident was a result of a biking accident. Bachinin was found unconscious in his apartment on 29 June after failing to show up for work that morning. After taking him to the hospital, the police questioned the editor-in-chief for an hour and a half, even though Bachinin kept fading in

and out of consciousness and could not remember anything that had happened to him. His memory still did not return after a week, which did not prevent the police from issuing the official "biking accident" story.

The Glasnost Defense Foundation filed a letter of protest with the procurator general and President Yeltsin, Yakubovich said. Foreign and Moscow journalists have been calling the newspaper office for more information. Even the usually pro-administration local media sources have been covering the story. The *Vyatskiy Nablyudatel* remains Kirov Oblast's most widely read newspaper with a circulation of 50,000. Most recently, the paper won a case against the Kirov city government, which had tried to censor its content. In 1996 Bachinin ran for mayor and was the main opponent of the current Kirov mayor. - Alex Levinsky in Bryansk

RULE OF LAW TAKES SMALL STEP FORWARD IN DAGESTAN

by Nabi Abdullaev, *Novoe Delo*

MAKHACHKALA--On Wednesday, 8 July a rare event took place in the Supreme Court of Dagestan. The court heard a plea from Ali Aliev, a first rank naval captain and a famous journalist and human rights activist, who was suing the Popular Assembly and the Constitutional Assembly for infringing upon his constitutional rights. He demanded that the results of the elections for the chairmanship of the State Council be annulled (see *IEWS Russian Regional Report*, 2 July).

Aliev claims that he notified the leadership of the Popular Assembly of his desire to run for the post of State Council chairman on 18 June, and this fact was widely covered in the local media. However, the Constitution stipulates that only members of the Constitutional Assembly can nominate candidates for this position. Thus, Aliev asked Assembly member General Mugutdin Kakhriyanov to sponsor his bid. The general submitted the necessary official letter to both assemblies on 23 June. The next day he was notified by the chair of the Popular Assembly that nominations can only be made at the session of the Constitutional Assembly itself. Kakhriyanov did not have a chance to look at this notification until after the elections took place on 25 June.

On the evening of 24 June, Aliev was out drinking with his acquaintances, and during the course of the evening he lost consciousness, most likely from drugs mixed into his drink, waking up only on the morning of 25 June at a construction site, battered and tied up. Naturally, he could not meet Kakhriyanov, who had been expecting to see him right before the assembly session commenced. Thus, the general never nominated Aliev for the post. The plaintiff claims that no constitutional document stipulates that candidates for the chairmanship of the State Council can only be nominated at the Constitutional Assembly meeting. Thus, Aliev views the refusal to accept his nomination ahead of time as an infringement of his constitutional rights.

The defendant was represented by the head of the Popular Assembly's legal committee Azadi Ragimov, who brought forth the head of the State Council's legal department Mukhtar Omarov as the main witness. Their main argument was that the entire Constitutional Assembly procedure was very open and anybody, including Mugutdin Kakhriyanov, could have made

any nominations. Additionally, the defense argued, even though constitutional documents do not spell out the actual nomination procedure, it is implied that nominations would take place at the assembly meeting.

In the five hours of deliberations, members of the public present at the hearings learned a lot about the views of both sides on the fundamentals of Dagestani state structure, as well as the particular personalities involved. The plaintiff kept stressing the lack of procedural norms, while the defendant insisted that the Constitutional Assembly's rules of parliamentary procedure could be considered such norms. Why then, the plaintiff's side replied, was Kakhrimanov notified of these norms only the day before the meeting? Additionally, it is not clear how any candidate can prepare for the meeting if he does not know ahead of time whether or not he is running in the race? Finally, according to the minutes of the Constitutional Assembly meeting, when the head of the electoral commission was explaining to the deputies the election procedure, he made no mention of nominating candidates at the meeting itself.

After a half an hour break, Judge German Kostrov read his ruling. Ali Aliev's motion was denied with the right to appeal to higher courts. Immediately, Aliev announced his readiness to appeal to the Russian Supreme Court and to the European Court of Justice. He is hoping that the latter will agree with his appeal since Russia recently joined the signatories to the European Charter on Human Rights.

Regardless of the case's outcome, the very fact that Dagestan's highest court heard Aliev is a notable event. For the first time a citizen and the government faced each other in court to publicly sort out their differences. More importantly, the government took the matter seriously, judged by the high level of its representation in the court. Of course, the republic's legislation is far from perfect, and the government was prepared to admit it in front of the public and the press. This kind of dialogue is bound to improve the quality of Dagestan's legal norms as well as the relationship between the authorities and civil society. In any case, a court deliberation is preferable to the kind of violent interaction between the state and its citizens that we witnessed recently on Makhachkala's main square (see *IEWS Russian Regional Report*, 21 May).

TVER GOVERNOR BODYGUARD DISMISSED FOR BUGGING BOSS'S OFFICE. In the scandal over the dismissal of two Tver Oblast deputy governors, the press at first overlooked the firing of the head of Governor Vladimir Platov's personal security detail, Lt. Colonel Sergei Kondakov. According to the newspaper *Veche Tveri* (30 June), Kondakov had been suspected of wire-tapping his boss's office from the time of his appointment in 1996. Now that Kondakov is gone, the newspaper is seeking information on the person who authorized this action, noting that only the Federation Council can authorize the wire-tapping of one of its members. However, the newspaper was highly skeptical that the necessary documents authorizing the wire tap actually exist. At the same time, the paper emphasized the connection between Kondakov and one of Platov's deputies, Igor Yalyshev, who had promoted the guard during his tenure. It is quite possible that this regional story could gain national attention. - Boris Goubman in Tver

RULING COMMUNISTS BATTLE EACH OTHER IN BRYANSK. The Bryansk Oblast Arbitrage Court is hearing a case brought by the oblast дума against the Bryansk city administration. The oblast дума is demanding that the city stop building an elite housing project in the center of Bryansk. According to the presiding judge, the case is unprecedented and will therefore require expert studies and complex interpretations of the law. What makes this case truly unique, though, is not its legal intricacies, but the fact that a Communist-dominated дума is suing a Communist city government. Another peculiarity is that the construction of the elite housing is long under way, and the subcontractor has already spent 200,000 rubles (\$32,000) on the project.

Even before construction began, the residents of neighboring "proletarian" housing complexes strongly objected to the "rich folks" building. They also feared that the construction might cause a landslide, which could endanger the safety of their own buildings. At that stage the city government managed to get approval from environmental and construction experts. Now, the oblast authorities are trying hard to portray themselves as "the people's defenders." As the construction project has been halted for the duration of the court proceedings, it is not clear who will have to compensate the subcontractor for his inevitable losses. Before taking the case to court, the oblast дума tried to use party discipline to influence their comrades who dominate the city council. However, the council rejected the proposals of the oblast legislators, pointing to the Constitution which forbids regional authorities to interfere in local government affairs. - Alex Levinsky in Bryansk

PRESIDENTIAL PROFILE

LEONID POTAPOV: THE REPUBLIC OF BURYATIYA

Buryatiya President Leonid Potapov, 62, is best known for the variety of scandals that have followed him through his career. The first major scandal unfolded during his first presidential campaign. In December 1993 the local newspaper *Buryatiya* printed two stories accusing Potapov of using one third of the money that had been allocated by the Supreme Soviet for eliminating floods in the republic to finance his campaign. Potapov denied all of the allegations and went on to secure a presidential victory on 30 June 1994.

He won a second term as president on 21 June 1998, beating out nine other candidates and securing 63% of the vote. The second place finisher was Vladimir Saganov, the chairman of the Budget Committee of the Buryatiyan legislature, who received 6.5%. Potapov's strong electoral finish was attributed in part to the fact that his main competitor, president of Buryatia's Union of Industrialists and Entrepreneurs, Aleksandr Korinev, withdrew from the race three days before the election, throwing his support to the incumbent.

Despite the strange evolution of the campaign, Potapov possesses attributes attractive to the diverse electorate of the republic. An ethnic Russian, Potapov learned to speak the Buryat language while living in a Buryat village as a child during World War II (*Nezavisimaya Gazeta*, 16 June). He has also expressed a deep respect for Buddhism, claiming that it is the most democratic religion.

Such comments should be considered within the context of the scandal surrounding

Potapov's use of about 100 troops to disperse a demonstration by Buddhist monks in May 1998. The monks were protesting the removal of a rare 17th century Tibetan medical atlas for a US tour. Thirty of the protestors were beaten, fifteen were detained, and three were arrested. A spokesperson for the president remarked that Potapov felt that the use of force was justified (*Moscow Times*, 7 May). Officials in Buryatiya claim that the protest was planned to discredit Potapov before the June election. These allegations seem plausible given other events surrounding the monks' protests. The Dalai Lama wrote a letter to Potapov supporting the exhibit, and the President had offered the monks the opportunity to accompany the atlas on the tour but they refused.

Platform

In his 1994 campaign, Potapov spoke in favor of maintaining control of prices and greater state direction of Russia's transition to capitalism. He believes that liberalizing prices was a mistake that hurt farmers, an important issue to the president since 40 percent of the republic's population live in the countryside.

Potapov is against the sale of farmland and organized a referendum on this question that was held 5 July 1998. The referendum was invalid since only 40% of the electorate participated, short of the necessary 50% voter turnout. Nevertheless the results suggest widespread opposition to private property since 83% of those who did vote supported the moratorium.

Potapov believes that state subsidies are crucial in financing economic reform in Buryatiya (<http://www.nns.ru/restricted/persons/potaple6.html>). The collapse of the local timber industry, which relied on markets in Central Asia, is one of the region's greatest problems.

With Lake Baikal straddling its western border, Potapov has spoken out strongly in favor of protecting the environment. Nevertheless, these ecological concerns are balanced by an interest in attracting investment and developing new markets for the republic's mineral resources.

Policies

Many of the president's policies have been focused on protecting the republic's industries and furthering economic development. In September 1996, Potapov signed a decree that made it difficult to sell vodka from other regions in Buryatiya. In November 1996 he set up a temporary special economic regime aimed at improving Buryatiya's economic and social situation without using additional federal funds (see *IEWS Russian Regional Report*, 13 November 1996). The plan included deferring some tax privileges, issuing republican securities, and temporarily suspending some federal programs financed from the republican budget.

Home District

Elections to Buryatiya's parliament, the People's Khural, took place in June and July 1998. Essentially, an entirely new assembly has been formed that appears to share Potapov's

views. Potapov is unlikely to experience any strong opposition in the new Khural (*Nezavisimaya Gazeta*, 7 July)

Potapov removed the former mayor of Buryatiya's capital Ulan-Ude, Valerii Shapovalov from office and had him arrested in October 1996 and January 1997 for allegedly committing a number of crimes. Shapovalov subsequently won the right to run for reelection as mayor, but did not emerge victorious. He also ran unsuccessfully against Potapov in the 1998 presidential election.

The regional and republican courts ruled that Potapov's removal of Shapovalov from his position was unlawful. In October 1997 the Constitutional Court ruled that the regions have the right to remove elected local officials who have been found guilty of violating federal and regional laws (*Rossiiskaya Gazeta*, 23 October 1997). However, no court had found Shapovalov guilty of a crime prior to Potapov's action to remove him from office, therefore he was in jail facing accusations although he was still formally mayor.

Ties to Moscow

Potapov supported Yeltsin in the 1996 elections because he believed there were no reasonable alternatives (*Nezavisimaya Gazeta*, 16 June). He has not always stood behind Russia's president. When Yeltsin was in conflict with the Supreme Soviet in March-April 1993, Potapov supported the legislature. He also condemned Yeltsin for the October 1993 storming of the White House. Potapov is highly critical of Yeltsin's approach to transition and feels that Yeltsin is to blame for Russia's economic problems.

On 29 August 1995 Potapov signed a power sharing agreement with Yeltsin. Potapov claims that relations between the center and Buryatia are good, although he has criticized the Kremlin in the past for ignoring the needs of the regions.

Potapov announced in a Buryat newspaper that Boris Yeltsin supported his candidacy in the 1998 republican presidential election. In his reelection campaign, Potapov also tried to secure support from Chernomyrdin, Zyuganov, and Zhirinovskiy, yet received it only from Zhirinovskiy.

Relations with other governors

Buryatiya's strongest relations are with Irkutsk. In December 1997 the two regions signed an economic and social cooperation agreement that included provisions to protect Lake Baikal and work on a joint energy development program (*Radio Rossii*, 9 January).

Ethnic Buryats span across three of Russia's regions. In addition to the Republic of Buryatiya, two autonomous okrugs, Agin Buryat and Ust-Orda Buryat are also Buryat regions. These two okrugs were separated from the Buryat-Mongol ASSR (present day Buryatiya) in 1937 when the Soviet government reduced the Buryat-Mongol titular territory in an attempt to suppress alleged nationalist sentiment. During glasnost, Buryatiya demanded that its pre-1937 borders be restored, but eventually recognized the constitutional status of the two autonomous okrugs.

In August 1997 Potapov signed an agreement with Moscow mayor Yurii Luzhkov. The agreement stated that the Moscow government would develop an investment partnership with Buryatia, specifically in ore mining, tourism, bottling Baikal water, and in pharmacology (*Nezavisimaya gazeta*, 16 June). In this arrangement, which Luzhkov pledged to invest up to \$8.6 million, Moscow agreed to finance the reconstruction of the Ulan-Ude airport under the guarantee of the Buryatia government. The goal of this project is to raise the airport to international standards so that transport between Moscow and Asian-Pacific countries can be increased. Luzhkov and Potapov are in agreement that the chief economic task right now in Russia is to revive industry, and that all anti-crisis measures will be only mildly effective without such a revival. Moscow and Buryatia would also like to provide supplementary free medical services to their citizens. Part of this project includes the creation of a cooperative pharmacological enterprise that would produce conventional drugs as well as medicines from Tibetan recipes.

Buryatiya is a member of both the Far East and Baikal and the Siberian Accord regional associations. The Far East and Baikal Association is headed by Khabarovsk Krai Governor Viktor Ishaev, and includes Sakha (Yakutiya) Republic, Primorskii Krai, Amur, Kamchatka, Magadan, Chita, and Sakhalin oblasts, the Jewish Autonomous Oblast, and Koryak and Chukotka autonomous okrugs. Buryatiya is the only member of the Far East and Baikal Association that also belongs to the Siberian Accord Association, currently headed by Novosibirsk Governor Vitalii Mukha. The other members of the Siberian Accord Association are Altai and Khakasiya republics, Altai and Krasnoyarsk kraises, Irkutsk, Novosibirsk, Tomsk, Tyumen, and Kemerovo oblasts, and Agin-Buryat, Taimyr, Ust-Orda Buryat, Khanty-Mansi, Yevenk, and Yamal-Nenets autonomous okrugs.

Foreign relations

Potapov has been discussing a major investment project with South Korea. The main focus is Buryatiya's gold-mining industry, although the renovation of Ulan-Ude's airport and rebuilding a main highway have also been discussed (*Buryatiya*, 4 September 1997). Potapov's negotiations with South Korea are part of a larger interest in further developing economic relationships between Siberia and Asia. The Far East and Baikal regional association agreed in April 1997 that they should work more closely with the Asian-Pacific Region. The goal is to invite Asian-Pacific countries to participate in joint venture projects for extracting Far Eastern mineral resources in addition to exporting machinery and raw materials to them (*IEWS Russian Regional Report*, 30 April 1997).

Attitudes toward business

The Trans-Siberian and the Baikal-Amur railroads, connecting European Russia with the Far East and South-West Asia run through Buryatiya. As a result, China, Japan, Mongolia, and North Korea are the republic's main trading partners. The largest investors in Buryatiya are Mongolia, North Korea, the US, and South Korea.

In January 1997 Potapov signed a cooperation agreement with Ingosstrakh, Russia's largest insurance company. Ingosstrakh agreed to provide medical and social insurance to the population, as well as insure export and import operations, the assets of budget organizations, and the obligations of local manufacturing and service-providers (*IEWS Russian Regional Report*, 29 January 1997). The primary advantage of this agreement is Ingosstrakh's good reputation, which could improve Buryatiya's image to foreign investors.

In October 1997 the republic signed a cooperation agreement with the oil company Sidanko. The goal of the agreement is to guarantee the stability of Buryatiya's oil enterprises, clean up the region's environment, particularly in the Baikal zone, and create favorable conditions for the development of the enterprise Byryatnefteprodukt (*Finansovye Izvestiya*, 30 October 1997). - Danielle Lussier

ECONOMIC ISSUES

CHELYABINSK MARBLE MAKER TO CAPITALIZE ON NEW TECHNOLOGY.

Koelgamramor, the largest marble making and processing factory in the CIS, located in the town of Koelga, Chelyabinsk Oblast, has launched a new \$1.5 million Italian-made production line. The automated equipment will produce 200 square meters of marble tiles during each 8-hour shift. The equipment was supplied by the Italian firm Gaspari Minotti and will enable Koelgamramor to make marble and other kinds of tiles in sizes varying from 300 by 300 millimeters to 610 by 610 millimeters, with thickness ranging from 10 to 20 millimeters. The company is currently experimenting with several new types of granite for making tiles, mostly from the newly developed deposit nearby, which has 160 cubic meters of raw marble. Koelgamramor also plans to make tiles from unique types of granite imported from Sverdlovsk Oblast. Recently, the company signed an agreement with the government of Kazakhstan to supply the country's new capital Astana with 1 million rubles (\$167,000) worth of granite borders and marble tiles. After the company fulfilled the large order for marble fixtures for the newly rebuilt Christ the Savior Cathedral in Moscow, it has had to seek out a variety of smaller customers. Thus, Koelgamramor's latest products include several types of stone window-sills as well as marble bas-reliefs and figurines. - Igor Stepanov in Chelyabinsk

CROSS-BORDER TRADE

FAR EASTERN SHUTTLE TRADERS FEAR CHINESE COMPETITION. The news that Chinese retailers might invade the local market in the city of Vyazemskiy, Khabarovsk Krai has caused a great stir among domestic entrepreneurs specializing in the import and sale of Chinese-made consumer goods. The Russian retailers staged a strike of sorts: they sat in their kiosks refusing to sell their goods. They only resumed normal market activities after a reassuring meeting with the head of raion administration, Anatolii Panchenko. However, the retailers still anxiously anticipate the possible appearance of Chinese competitors on the Vyazemskiy markets. Consumers, however, would only benefit from some foreign competition, which would undercut the current prices for imported Chinese consumer goods, inflated by several levels of domestic middlemen. - Sergei Shilo in Khabarovsk

REGIONAL LINKS

Central Electoral Commission (<http://www.fci.ru/>) The Central Electoral Commission has opened a new web site. The site has lots of electoral statistics from recent national and regional elections. The information includes the winners of regional executive elections since January 1995. There is a list of local legislative elections, but no data on the results or their meaning. Additionally, the site provides a list of upcoming elections.

REGIONAL PROFILE: REPUBLIC OF DAGESTAN

Chairman of the Republic's State Council: Magomedali Magomedov

Magomedali Magomedov was reelected Chairman of the State Council on 25 June 1998 by the Republican Constitutional Assembly with 162 votes to 78. He had been in this position since July 1994.

Magomedov was born in Dagestan in 1930. He is an ethnic Dargin. In 1952, he graduated from the Dagestani Pedagogical Institute and became a principal. In 1954, Magomedov joined the Communist Party and soon was recruited to full-time party work as the chairman of a district executive committee. By 1979, Magomedov had become first deputy chairman of the republican government and four years later became the prime minister. In 1987, he was elected chairman of the republican Supreme Soviet, where he served for the next seven years. He was also a member of the USSR and RSFSR Congresses of People's Deputies. In December 1993, Magomedov was elected to the Federation Council, the upper house of the new Russian parliament, where he is a member of the committee on federation affairs and regional policy. Since March 1997, he is also a member of the federal commission on Chechnya.

Brief Overview

Dagestan is located in the eastern part of the Caucasian Mountains, along the Caspian Sea. It borders Kalmykiya, Stavropol Krai, Chechnya, Georgia, and Azerbaijan. Dagestan is the largest republic of the North Caucasus in terms of territory and population. Over 30 ethnic groups reside in the republic, including: Avars (27.5%), Dargins (15.5%), Kumyks (12.6%), Lezgins (11.3%), Russians (9.2%), Laks (5%), Tabasatans (4.3%), Azeris (4.2%), Chechens (3.2%), and Nogais (1.6%).

The republic is rich in oil, gas, copper, sulfur, sands (about 15% of the country's total reserves), and mineral waters. Regional industry specializes in oil and gas extraction, machine building, chemicals, food processing, and light industries. Traditional crafts, such as jewelry and rug weaving, are of great importance. Republican farms produce grapes, fruits and vegetables, and breed cattle.

The republic exports oil, ferrous metals, sulfur, cement, copper, timber, wool, leather, and equipment. The major import articles are: petroleum products, machines, equipment, and consumer goods. Dagestan trades with over 40 foreign countries, including Iran,, Turkey,

Norway, Great Britain, United Arab Emirates, China, Azerbaijan, Ukraine, Belarus, Kazakhstan, and Georgia.

According to *Ekspert* magazine, investment risks in the republic have increased by 15 points since 1996 (the 13th largest increase in the country). However, the same survey ranked Dagestan 16th according to favorable legislative conditions for domestic investors, and 22nd -- for foreign investors.

Basic Facts

Population (as of Jan. 1, 1997): 2,073,600 (1.41% of Russian total)

Urban population (1989 census): 42.1% (Russia overall: 73.0%)

Student population (1996): 167 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 19.61% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 8.3% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 17.7% (Russian average: 29.9%);

Agriculture: 30.4% (12.8%); Trade: 5.9% (9.1%); Culture: 16.1% (13.6%); Management: 2.6% (2.3%)

Average monthly personal income in 1996: 244,000 rubles (Russian average: 764,000 rubles)

Average monthly personal expenses in 1996: 117,000 rubles (Russian average: 753,000 rubles)

Average monthly subsistence requirement in 1996: 270,500 rubles (Russian average: 369,400 rubles)

Consumer price index (as of Dec. 1996): 94.42 (Russia overall = 100)

Industrial production as percentage of all Russian production (1996): 0.08%

Proportion of loss-making enterprises (1996): 71% (Russia overall: 56%)

Number of enterprises which have wage arrears (1996): 732 (3.34% of total number of regional enterprises)

Agricultural production as percentage of all Russian production (1996): 0.86%

Number of private farms (as of Jan. 1, 1997): 16,685 (5.99% of Russian total)

Capital investment (1996): 1,915,400 rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): federal budget: 23.0% (Russian average: 9.2%); regional budget: 8.2% (9.6%); enterprises: 23.1% (66.3%)

Number of joint ventures (as of Jan. 1, 1997): 6 (0.04% of Russian total)

Fixed capital investment in joint ventures and foreign companies (1995): 18,127 million rubles

Number of small businesses (as of Jan. 1, 1997): 1,676 (0.20% of Russian total)

Number of enterprises privatized in 1996: 42 (0.84% of Russian total), including those which used to be municipal property: 54.7% (Russian average: 67.1%); regional property: 42.9% (14.3%); federal property: 2.4% (18.6%)

Number of telephones per 100 families (1996): in cities: 32.8 (Russian average: 48.7); in villages: 10.5 (19.7)

According to a 1997 survey by *Ekspert* magazine, the republic is ranked 54th among Russia's 89 regions in terms of investment potential and 85th in terms of investment risks. A 1995 survey by Bank Austria ranked the republic 86th in terms of investment climate.

Electoral History

1996 Presidential Election

Yeltsin: 28.52%/52.65% (first round/second round)

Zyuganov: 63.23%/44.81%

Yavlinskii: 1.70%

Lebed: 1.34%

Zhirinovskiy: 1.12%

Turnout: 68.94%/74.07% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Communist Party of the Russian Federation: 43.57%

Our Home Is Russia: 14.55%

Russia's Democratic Choice: 13.49%

Agrarian Party of Russia: 7.18%

Transformation of the Fatherland: 2.48%

Russian Muslim Movement "Nur": 2.02%

In single-member districts: 1 independent

Turnout: 76.47% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 24.88% "No" -- 75.12%

1993 Parliamentary Elections

Communist Party of the Russian Federation: 54.00%

Agrarian Party of Russia: 18.36%

Party of Russian Unity and Concord: 6.82%

Democratic Party of Russia: 4.32%

Liberal Democratic Party of Russia: 3.38%

Yabloko: 3.27%

Women of Russia: 2.34%

Russia's Choice: 2.03%

In single-mandate districts: 2 independent

From electoral associations: 1 Communist Party of the Russian Federation

Turnout: 57.58% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 65.86%

Ryzhkov: 11.39%

Makashov: 6.95%

Tuleev: 5.74%

Bakatin: 5.58%

Zhirinovskiy: 2.99%

Turnout: 78.73% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [*Russian regions on the eve of 1995 elections*], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [*Results of the 17 December 1995 elections, regional breakdown*], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [*State Duma elections 1995*], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [*Governors of Russia*], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regioni Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.

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BREAKING NEWS

POLITICS

REGIONAL ELECTIONS ANALYZED. Galina Kovalskaya examines why some regional executives seem able to win repeated elections while others are removed after their first term in an article published in *Itogi* (13 July). The success of the governor or president does not depend on the state of affairs in the region. The rich residents of Moscow, for example, re-elected Mayor Yurii Luzhkov just as the poor in Kabardino-

Balkariya continue to support President Valerii Kokov. There is also no consistent set of personal characteristics that add up to success: some leaders are elected because they are young (Kalmykiya's Kirsan Ilyumzhinov), while others are elected because they are more experienced (Orel's Yegor Stroev). Primorskii Krai backs Yevgenii Nazdratenko because he is in constant conflict with Moscow, while neighboring Khabarovsk Krai supports Viktor Ishaev for his ability to maintain good relations with the Kremlin. The "level of democracy" also does not seem to matter. The Europeanized St. Petersburg and the "red" Smolensk and Kareliya have all witnessed recent handovers of power, while Moscow, Orel, Mordoviya, and Bashkortostan have not.

Political life in the regions generally ends once the elections are held, since it is considered extremely difficult to make a career in opposition to the sitting governor. As in the Soviet era when everyone joined the Communist Party, most competent and politically ambitious people join the "governor's team." Voters commonly see elections as a means to choose a person who then becomes an authoritarian leader, Kovalskaya argues. There are few mechanisms for the average person to influence the governor once he is in office. Once the governor is out of office, however, he may face charges for misdeeds during his tenure. St. Petersburg Mayor Anatolii Sobchak (who had the status of governor) and the former governors of Vologda and Tula must now defend themselves in court.

The most competitive regions have at least two major enterprises that can provide support for alternative candidates. If there is only one major enterprise, the governor usually controls it and can cut off financial resources to potential opponents. In Krasnoyarsk, Krasnoyarsk Aluminum Factory and Norilsk Nickel made intense competition possible in the last gubernatorial election between challenger Aleksandr Lebed and incumbent Valerii Zubov. In Vologda, geography plays a role too, because the administrative center in the city of Vologda is physically separated from industry concentrated in Cherepovets.

SHUMEIKO CALLS FOR CREATING BALTIC REPUBLIC IN KALININGRAD.

In an *Izvestiya* (17 July) article, Vladimir Shumeiko, the former speaker of the Federation Council who is currently head of the Reforms-New Course movement, proposed making Kaliningrad an autonomous Russian Baltic Republic in order to strengthen Russia's western border. Shumeiko, who represented the oblast in the national legislature's upper house from 1993 to 1995, did not define what benefits Kaliningrad would obtain from being deemed a republic, however, he noted that it would be worth changing the constitution to achieve the goal. His immediate cause for concern was a bill introduced into the State Duma that would revoke the oblast's status as a special economic zone where import and export tariffs are waived. Since Lithuania, Latvia, and Belarus separate the oblast from the rest of Russia, Kaliningrad relies on foreign imports for much of its food and consumer goods (see *IEWS Russian Regional Report*, 9 April). The government wants to revoke the special economic zone status in order to increase revenue, but Shumeiko argues that such a move would cost the federal government more and produce dire social consequences in the oblast, including widespread social unrest. According to *Kommersant Daily* (14 July), Russian customs officials have already changed their regulations, making it more expensive to ship goods from Kaliningrad to the rest of Russia and slowing the inflow of foreign investment and the establishment of joint

ventures in Kaliningrad.

The change in legislation would affect 24 other special economic zones with a combined population of 10 million people (including Kaliningrad). The zones, ranging from Kalmykiya to Vladivostok, were established due to the political influence of regional leaders rather than economic logic (*Izvestiya*, 10 July). Bilateral treaties signed by Kaliningrad and Primorskii Krai and the federal government prohibit the special economic zone designation from being lifted unilaterally, and the adoption of legislation abolishing the free economic zones would violate those treaties. Revoking the benefits would also make it harder for Kaliningrad to compete with its neighbors, because Poland and Lithuania are each setting up free economic zones near the border with Kaliningrad.

KALMYKIYA PRESIDENT FAVORS BUDDHISM, CHESS. Since the murder of opposition journalist Larisa Yudina, the Russian press has turned its attention to Kalmykiya, trying to explain the situation in the republic. According to a lengthy report in *Izvestiya* (21 July), Kalmykiya President Kirsan Ilyumzhinov is trying to turn his republic into the center of world Buddhism. He is building expensive Buddhist shrines even though many of the region's workers have not been paid in three years. Ilyumzhinov pays for the temples out of his own pocket, but the source of his money is unknown. He has also invited the Dalai Lama to make Kalmykiya his permanent residence, although the exiled Tibetan leader has agreed only to visit.

Chess is Ilyumzhinov's other passion. School children must play chess twice a week and government bureaucrats usually decorate their offices with a chess set. Ilyumzhinov is the president of the World Chess Federation (FIDE), and the International Chess Olympiad will open in the republic on 26 September (see FIDE's website for a schedule, <http://193.192.227.142/>). The lowest estimates of the cost of the tournament are \$150 million. Chess City, a complex of buildings being constructed for the event, is far from complete, and 2,500 laborers are working round the clock to finish it in time. Once the festivities are over, Ilyumzhinov plans to sell apartments in Chess City for about \$200,000 each – a price that is unaffordable for most of the region's residents.

According to the *Izvestiya* report, Ilyumzhinov drives around the capital of Elista in one of the four white Rolls Royces he owns. In total he owns 36 cars, kept in different cities around the globe, which he uses when he travels. Ilyumzhinov became rich in the early 1990s through his diversified trading company, San. His 1993 campaign slogan, when he was first elected president, was that he would make everyone in the republic rich because he knows how to do it. He also said Kalmykiya should become one gigantic firm. He hopes the chess games will give the republic wide international publicity that will attract western investment in projects as varied as oil processing plants, a Caspian Sea port, and public videophones on the streets of the capital. None of the plans are realistic, according to *Izvestiya*. For instance, Kalmykiya currently produces 350,000 tons of oil a year, but a processing plant is not economically viable unless at least one million tons are produced annually.

KIRIENKO ATTENDS DAGESTANI INAUGURATION. Prime Minister Sergei Kirienko attended the inauguration of Dagestani Prime Minister Magomedali Magomedov on 15 July. In a symbol of Moscow's special relationship with Dagestan, he promised real economic aid to the republic. Moscow hopes the money will help bring

stability to the troubled region on Chechnya's borders. Minister of Internal Affairs Sergei Stepashin, who has close ties to Magomedov, also attended. Stepashin's troops are increasing their presence on the Chechen-Dagestani border to block Chechen efforts to unite with Dagestan. (*Kommersant Daily*, 16 July)

IVANGOROD WANTS TO JOIN ESTONIA. The residents of Ivangorod, Leningrad Oblast, sent a petition to President Yeltsin asking him to let them unify with the Estonian city of Narva, which is just across the Narva river. Unemployment in Ivangorod is 20 percent and most of those with jobs have not been paid in months. Although more than 5 percent of the residents have signed petitions for a referendum on the issue and to recall locally elected officials, the authorities have not set a date for the referendum as required by law. Leningrad Oblast Governor Vadim Gustov's representative in the city says the protests are merely attempts to draw attention to the city's problems and that residents have no real desire to join Estonia. (*Kommersant Daily*, 16 March)

TATARSTAN REJECTS RUSSIAN TELEVISION. Tatarstan President Mintimer Shaimiev refused to allow the Tatarstan State Radio and Television Company to join the Russian TV network as decreed by President Yeltsin. Joining the network would have forced the station to reduce its broadcasts from six hours a day to one and a half. Shaimiev stressed that Tatarstan was unique because the republic was the only Russian region that owned its broadcast station and financed it from republican funds. Shaimiev proposed preserving the status quo for the time being and giving Russian TV its own broadcast channel in a few years. Russian Television Chairman Mikhail Shvydkii had no choice but to agree. (*Kommersant Daily*, 16 July)

FOUR ARRESTED IN MANEVICH MURDER. Four men were arrested in Kyrgyzstan and Uzbekistan and charged with killing St. Petersburg privatization chief Mikhail Manevich last summer (see *IEWS Russian Regional Report*, 21 August 1997, and 18 December 1997). The men, former special force members, apparently worked as hired assassins. They are suspected of committing as many as 20 other killings in Moscow, St. Petersburg, Lipetsk, Tambov, Arkhangelsk and elsewhere. They confessed to the Manevich killing on 21 July, according to RFE/RL Newswire (22 July). Despite the arrests, the authorities are not optimistic about finding the person or persons who actually ordered the hit. (*Kommersant Daily*, 17 July)

FORMER GOVERNOR TO HEAD WATCH FACTORY. Former Leningrad Oblast Governor Aleksandr Belyakov was appointed director of the Petrodvorets Watch Factory last week on the recommendation of St. Petersburg Governor Vladimir Yakovlev. Belyakov lost his post on 29 September 1996 to the opposition-backed Vadim Gustov, by a margin of 53 percent to 32 percent. Belyakov's major mistake in the election was trying to turn the campaign into an ideological battle against communism, a theme that worked for Yeltsin's 1996 presidential campaign but had little resonance at the regional level (see *Russian Regional Report*, 2 October 1996). Immediately after his loss, he began to work for SBS-AGRO bank but he did not fit in well and was quietly let go in a reorganization last winter (see *IEWS Russian Regional Report*, 4 September 1997). The factory is now idle and is scheduled for bankruptcy hearings on 18 August. The plant has the capacity to

produce four million watches a year and Belyakov is apparently hoping for financial support from Yakovlev to keep the factory going. (*Kommersant Daily*, 18 July)

GAZPROM, LUKOIL TO BACK "RUSSIAN REGIONS" CANDIDATES.

Gazprom and LUKoil have concluded that their sponsorship of former Prime Minister Viktor Chernomyrdin's Our Home is Russia was a "strategic mistake" and have now decided to support candidates associated with the Russian Regions State Duma faction, according to a *Nezavisimaya gazeta* report (18 July). The support was conditional upon the faction's ability to provide a list of 150 candidates to run in single-member district races, a task apparently accomplished in early July. The Russian Regions' faction was founded by Deputy Duma Speaker Artur Chilingarov and Duma member Vladimir Medvedev. Its leader is now Oleg Morozov. Former members of the faction who have gone on to win governor's elections include Magadan's Valentin Tsvetkov and Agin-Buryatiya's Bair Zhamsuev.

FORMER PERM DEPUTY GOVERNOR ARRESTED. Former Perm Deputy Governor Leonid Valko was arrested last week for allegedly selling state flour and sugar and pocketing the proceeds. Investigators detained Valko last March for questioning, but Governor Gennadii Igumnov defended him against what he described as unfair accusations. The two have been friends for over 20 years. Prosecutors in the region have been unsuccessful in obtaining convictions in similar cases. (*Nezavisimaya gazeta*, 15 July)

COMMUNISTS LOSE IN CHUVASH LEGISLATIVE ELECTIONS. In the 12 July elections to the 87-seat legislature of Chuvashiya, only eight members of the Communist Party were elected. Communists previously held more than 30 seats in the old 47-member house. One member of Our Home is Russia and 55 independents were also elected. Elections in the remaining 23 districts were not valid because turnout was less than the required 25 percent. New elections will be held in those districts. (*Nezavisimaya gazeta*, 15 July) Reform-minded Chuvashiya President Nikolai Fedorov, who was re-elected on 28 December 1997, has long battled the republican legislature. When he tried to disband it in 1995, the legislature called a referendum that nearly succeeded in abolishing the office of republican president. The new legislature is likely to be more willing to cooperate with Fedorov.

UNION OF RUSSIAN CITIES HOLDS EXTRAORDINARY MEETING TO ADDRESS TAX ISSUES. The Union of Russian Cities held an extraordinary meeting 14 July to discuss how proposed changes in federal budget and tax laws will affect local governments. The meeting was the first act of the Congress of Municipalities, which was founded last month although the name of the organization can not be used because it has not been registered yet (see *IEWS Russian Regional Report*, 25 June). If current draft legislation is approved, local governments' share of overall tax income will drop from 14 percent to between 1 percent and 1.5 percent. Despite the cut in funding, the municipalities will still be responsible for providing such services as education, healthcare, and housing. (*Russkii Telegraf*, 16 July) Deputy Prime Ministers Viktor Khristenko and Oleg Sysuev told the group that they would not accept any changes to the

legislation.

The growing gap between local governments' shrinking revenue and need to spend money on programs is an on-going problem. From 1992 to 1997, local government expenses grew to 32 percent of the consolidated budget (federal, regional, and local) while income shrunk to 24 percent, thereby causing local governments to become one of the main links in the non-payments crisis. (*Nezavisimaya gazeta*, 16 July) To increase their influence, local leaders announced a contest to find someone whom they believed would make the best presidential candidate in 2000. (*Izvestiya*, 16 July) The Kremlin has tried to use the mayors as a weapon to keep the governors in line, and now local governments are seeking to play a stronger role.

LEBED LAYS OUT THINKING FOR RELATIONS WITH MOSCOW. In an interview with *Kommersant Daily* (8 July), Krasnoyarsk Governor Aleksandr Lebed explained his philosophy for conducting relations with the federal government. He believes that the regions should only give the federal government responsibility for functions that no one else can perform. Other functions and the lion's share of tax revenues should go to the regions. Strong regions will make a strong state, he said. He called on President Yeltsin to work on consolidating the nation and all political groups to address Russia's systemic crisis. He suggested that Yeltsin should make a speech similar to Stalin's WWII address, "Brothers and Sisters, my friends, this is a bad time for us all, we are in danger."

KRESS HOPES TO STRENGTHEN SIBERIAN AGREEMENT ASSOCIATION. Tomsk Governor Viktor Kress, recently elected the chairman of the Siberian Agreement regional association, hopes to turn the group into an influential organization. The association unites 19 Siberian regions. Kress replaced Novosibirsk Governor Vitalii Mukha, who took over the association in December 1996 (See *Russian Regional Report*, 22 January 1997). Mukha had also hoped to make the association more effective, but apparently was bogged down in conflicts with Kemerovo Governor Aman Tuleev (*Nezavisimaya gazeta*, 10 July). Kress is one of the most respected governors in the region. In his new position, he will have to deal with the ambitions of the newly elected Krasnoyarsk Governor Aleksandr Lebed. Lebed did not attend the meeting where Kress was elected but claims that he will be active in the association.

ECONOMIC ISSUES

STANDARD AND POOR'S AFFIRMS NIZHNI'S B+ RATING, CHANGES OUTLOOK TO NEGATIVE. Standard and Poor's affirmed Nizhnii Novgorod's rating as B+ on 20 July, but changed its outlook from stable to negative (Standard & Poor's Press Release, 20 July). The agency changed the rating for three reasons. First, the oblast has delayed repaying a \$19.7 million loan to cover wage arrears borrowed from funds acquired in a \$100 million Eurobond issue. Repayment of that loan was supposed to commence in April but has been delayed until January 1999. The money was earmarked for investment in projects that would generate profits to repay the Eurobond issue. The delay means the projects will not begin as scheduled and will have to generate income more quickly than anticipated to meet the repayment schedule. Overall difficulties in the

Russian economy further complicate the situation. Second, the difficulties surrounding the March mayoral elections in Nizhnii Novgorod increases political instability in that city, which is the primary source of revenue in the oblast. The 29 March elections were annulled after a convicted criminal, Andrei Klimentev, won (see *IEWWS Russian Regional Report*, 2 April). The elections have been rescheduled for 27 September and Klimentev has said he will run again or support a surrogate candidate if he is barred from the race. Finally, the agency is monitoring the performance of the oblast's new director of finance, the third person to hold that position in the last six months.

TRANS-SIBERIAN BLOCKADE COSTLY. The 16-day blockade of the 110 km Yurga-Anzhero-Sudzhensk leg of the Trans-Siberian Railroad, which began on 3 July, caused 57.9 million rubles (\$9.3 million) in losses. (*Finansovye izvestiya*, 21 July)

DROUGHT WORSENS. The June drought has the agricultural sector 2 billion rubles (\$323 million), according to the Agriculture Ministry. The wheat harvest will be 20 million tons less than last year, and by September prices will likely rise by 20 percent. Russia harvested 88.6 million tons last year and 68.1 million tons in 1996. The Volga region has lost between 50 percent and 70 percent of its harvest, shattering hopes for strong grain exports. Russia is likely to produce just enough wheat for its own needs, avoiding the need for massive imports but dashing hopes to profit from exports. In the fall, grain is likely to cost 1,000 rubles (\$160) a ton, rather than the current 700 rubles to 800 rubles. Higher feed costs will in turn lead farmers to slaughter more of livestock. (*Kommersant Daily*, 16 July)

AVTOVAZ IS SEEKING RELIEF FROM TAX DEBT. Samara's AvtoVAZ has won an agreement from the federal government to reduce the debt-repayment schedules that it signed in October 1997 because demand for its cars on the Russian market has dropped dramatically (see *IEWWS Russian Regional Report*, 2 October 1997). According to the old agreement, the federal government took a 50 percent plus one share stake in the firm as collateral and can sell the stake if AvtoVAZ falls behind in its payments. Such a turn of events is unlikely, because it would be difficult to find a buyer for the factory. Despite its problems, AvtoVAZ paid 90 percent of its obligations between January and May. (*Finansovye izvestiya*, 16 July) The federal agencies working with AvtoVAZ have recommended that it reduce the prices charged for its cars and eliminate many of the middlemen that make up its dealership network. The dealership network siphons off much of the profit from car sales. (*Kommersant Daily*, 15 July)

ULYANOVSK AUTO FACTORY CUTS PRICES, SEEKS FOREIGN INVESTOR. The Ulyanovsk Automobile Factory (UAZ) has lowered the price of its off-road jeep from about \$29,000 to \$19,500, making it more competitive with Chevrolet Blazers assembled in Tatarstan. Analysts claim the UAZ vehicle is of relatively low quality and could not compete with the Blazer at the former price. Like the region's other car manufacturers, the firm has had difficulty selling its products. This year the factory has only paid 8.7 percent of its federal taxes. Given the overall decline in the previously reasonably well-off Russian automobile industry, UAZ is stepping up its search for a foreign partner before its problems scare off all potential investors. (*Kommersant Daily*, 8

July)

FOREIGN BUS MAKERS EXPANDING IN RUSSIA. Currently three foreign bus makers are assembling their models in Russia: Hungary's Ikarus, at the Tushino factory in Moscow; Germany's Mercedes-Benz at the Golitsyn Factory in Moscow; and Sweden's Volva at the Polet factory in Omsk. Italy's Breda has registered a joint venture in St. Petersburg and Germany's MAN has registered one in Leningrad Oblast. Other joint ventures that have been announced include: Holland's P. Beckers in Sverdlovsk, Ikarus in St. Petersburg, Volvo in Nizhnii Novgorod, Slovenia's Automontage at Tatarstan's KamAZ plant, and Daimler Benz in Novosibirsk. Russian firms naturally do not like the foreign competition. Aleksandr Kvoretiskii, the commercial director of the Likin Bus Factory (LiAZ) in Moscow Oblast, argued that his firm's buses cost only half as much as foreign models assembled in Russia and doubted whether the foreign firms would ever produce parts for their buses in Russia. His firm is trying to improve the quality of its output and is using Caterpillar engines in its most popular model. LiAZ is actively marketing its city buses in the Russian regions and is even considering joint ventures with MAN or Volvo to produce tourist-class buses. (*Kommersant Daily*, 9 July)

BUSINESS BRIEFS

-- The sea-based rocket launching platform Odyssey, which was modernized and outfitted in **ST. PETERSBURG**, is now enroute to its launch site in the Pacific Ocean. The companies participating in the project include the US's **BOEING** (<http://www.boeing.com/defense-space/space/sealaunch/>), Russia's **ENERGIA** (<http://www.energiatd.com/>), Norway's **KVAERNER MARITIME A.S.**, and Ukraine's **YUZHMAH**. Twenty launches are already planned, with the first scheduled for October. Energia refurbished the platform, which was originally intended for oil drilling in the North Sea, and outfitted the Sea Launch Commander ship, which will transport the rockets to the platform. The platform should reach its destination by late August. (*Obshchaya gazeta*, 25 June-1 July) The Sea Launch Commander ship arrived in Long Beach, California on 13 July.

-- Aleksandr Smolenskii's **SBS-AGRO** bank group and **MOSCOW OBLAST** Governor Anatolii Tyazhlov signed a cooperation agreement last week. The two sides will work to improve the oblast's productive capacity, attract investment, and develop small and medium enterprises. The bank will also help the oblast raise capital and introduce modern banking technology. (*Finansovie izvestiya*, 21 July) SBS-AGRO has signed similar agreements with more than 40 regions. (*Russkii Telegraf*, 21 July)

-- All the companies bidding to build compressor stations on **GAZPROM'S** new Yamal-Europe pipeline proposed using turbines built by **PERM MOTORS**. When the final results of the tender are in, the contract could be worth \$60 million. The turbines were developed as part of Gazprom's five-year, \$70 million investment in converting the country's airplane engine manufacturing plants to other uses. Besides Perm Motors, Gazprom has invested in **MOSCOW'S** Lyulka-Saturn, **SAMARA'S** Trud, and Ukraine's Mashproekt. (*Finansovie izvestiya*, 21 July)

-- **GENERAL MOTORS** signed a deal with the **YELABUGA AUTOMOBILE FACTORY** in Tatarstan on 14 July to build a DM50 million painting line in their joint venture. In addition to assembling Chevrolet Blazers at the plant, GM is considering assembling up to 100,000 Opel Vectras a year there. If this project is realized, GM's stake in the joint venture would rise from 25 percent to 50 percent. (*Russkii Telegraf*, 16 July) The number of Blazers produced by the end of last year fell far short of the planned output.

-- The **AVTOTOR** plant assembling Kia cars in **KALININGRAD** may soon assemble **FORDS** instead if Ford and Mazda succeed in buying the bankrupt Korean car manufacturer. Avtotor hopes to win funding from the EBRD with Ford's support to increase its production from the current 400 to 500 cars per month to 2,000. (*Kommersant Daily*, 8 July)

-- Following a meeting with **TOMSK** Governor Viktor Kress, Prime Minister Sergei Kirienko transferred the federal government's 36 percent stake in the **EASTERN OIL COMPANY** (VNK) to the oblast. Rosprom-Yukos owns a controlling interest in the company. (*Russkii Telegraf*, 15 July)

-- Kirienko removed the closed -zone status of **ARKHANGELSK'S** Lomonosov diamond deposit last week, giving **DE BEERS** and its Russian partner **SOGLASIE** direct access to the site. Yeltsin's personal intervention was reportedly necessary for the decision. Pavel Borodin, the powerful manager of presidential business affairs and one of Soglasie's founders, provided access to the president. De Beers is extremely interested in the deposit because it is seeking to preserve its monopoly on the sale of Russian diamonds and is apparently willing to put up half of the \$740 million required to develop the site along with the \$50 million needed for exploration. (*Kommersant Daily*, 14 July)

CENTER-PERIPHERY RELATIONS

SARATOV GOVERNOR DISCOVERS COST OF SUCCESS

by Aleksandr Nesterov

SARATOV--The higher Saratov Oblast Governor Dmitrii Ayatskov climbs in the lists of Russia's most influential politicians, the more attractive a target he becomes for Moscow politicians, who jealously guard the federal political Olympus from intrusions by provincial outsiders. According to the May rating in *Ekspert* magazine (22 June), Ayatskov ranks sixth, behind only President Yeltsin, Moscow Mayor Yurii Luzhkov, Tatarstan President Mintimer Shaimiev, Belarus President Aleksandr Lukashenko and the head of the Unified Energy Systems power monopoly Anatolii Chubais. The attacks on Ayatskov are growing increasingly difficult for the Saratov governor to deflect.

Ayatskov most recently came under the scrutiny of Luzhkov-controlled newspapers *Obschaya Gazeta* (25 June-1 July) and *Rossiya*. Their analysis of the governor's performance was uncharacteristically detailed and the conclusions were not in

Ayatskov's favor. Those attacks naturally upset the ambitious governor, who is anxious to repeat the spectacular rise of Petr Stolypin (1862-1911) from Saratov governorship to chairmanship of Russia's Council of Ministers, with an eye on the presidency. Among Ayatskov's failings, the papers listed: neglect of political and economic leadership, excessive obedience to Yeltsin's team, obsequiousness before the "commander-in-chief," and a Communist-era management style (i.e. authoritarian tendencies, such as setting up "Potemkin villages," propaganda initiatives, loud campaigns, and making personnel decisions based on personal loyalty even if they defy common sense). When compared to the independent behavior of his colleagues in the Federation Council, such as Luzhkov, Primorski Krai Governor Yevgenii Nazdratenko, Krasnodar Krai Governor Nikolai Kondratenko and Krasnoyarsk Krai Governor Aleksandr Lebed, Ayatskov's actions seem like provincial buffoonery.

Ayatskov's eager obsequiousness before Yeltsin seems even more ridiculous given the widespread criticisms incurred by the aging president. That often causes Ayatskov to make rash moves, which he must later retract. For instance, on 15 July he told Interfax that the errors by the new Kirienko government can lead to its downfall and premature presidential elections. On the following day, as if terrified by his own bravery, Ayatskov denied ever making such statements in the local pro-government newspaper *Saratovskie Vesti*. He further tried to patch things up on his way to attend the Romanov's funeral in St. Petersburg by stating to Interfax that while the government's anti-crisis program is adequate, its execution will be problematic and Kirienko's team might not be up to the job.

The political passions surrounding the burial of the Romanovs' remains has also caused much discomfort for the Saratov governor. At first he obediently fell in line with Yeltsin, who announced that he would not attend the ceremony. Only a phone call from Deputy Prime Minister Boris Nemtsov several hours before Yeltsin's announcement that he had changed his mind helped Ayatskov save face. Upon announcing his sudden decision to attend, Ayatskov had to charter a plane in such a rush that only four other people were able to come along. During the entire procession, Ayatskov stood quietly behind his patron Nemtsov, but was never allowed to approach Yeltsin.

At one point, Ayatskov tried to lobby Kirienko to take Saratov's Deputy Governor Vyacheslav Volodin into the federal government, but failed. Armed with that experience, he publicly asked Yeltsin to promote more regional leaders to cabinet-level positions. This time his efforts were not wasted, but on 18 July when Kirienko announced the possible members of his new team, the list included Nazdratenko, but not Ayatskov. Again Ayatskov had to explain to *Saratovskie Vesti* that he did not really mean to suggest himself as one of the potential ministers and that he has no plans to move to Moscow.

Another cause of grave concern for Ayatskov is the possibility of a deal between Yeltsin and the State Duma: the president might sign into law the conservative Land Code in exchange for the Duma's support of Kirienko's anti-crisis program. Recall that Saratov Oblast was the first to adopt in December 1997 the groundbreaking Land Law, which legislated private ownership of land with the rights to buy and sell it, thus giving Ayatskov a nation-wide reformist reputation. The Duma-approved Land Code, also backed by the Federation Council, does not include such liberal provisions. Meanwhile, the Moscow press has been criticizing the Saratov law as ineffective in practice, so the governor met with his economic council to discuss the issue. Unfortunately, the

governor's advisors had little encouraging news: nobody was buying land, not because of some bureaucratic hurdles, but because most of the oblast's rural population is impoverished. On top of all that, experts from the local agricultural research institute told the governor that the oblast law was in a legal vacuum: before it could become operational, it required a federal law on privatization of state lands. Once again, Governor Ayatskov seemed to have run ahead of himself, too eager to be noticed in high places.

PILOT PROJECT HOPES TO MAKE TULA SELF-SUFFICIENT. Under the new Russian government's program designed to help regions dependent on federal subsidies become self-sufficient, SBS-AGRO is launching a pilot project in Tula Oblast, *Veche Tveri* reported on 16 July. The pilot's success will determine whether or not the program will be extended to other regions, including Tver Oblast. Tula was chosen by the Economics Ministry because its economic problems are typical of many other old Russian industrial centers. The task of transforming Tula from a recipient of federal aid to a donor region will be undertaken jointly by SBS-AGRO, the Ministry of the Economy, the Federal Securities Commission and the Moscow Inter-Bank Currency Exchange. No public funds will be used in the project; instead it will rely on market forces and the resources of Russia's big business. SBS-AGRO will finance the program's investment projects. It will also help restructure various branches of the oblast economy. Among its planned activities are: reform of enterprises and creation of favorable conditions for foreign investment, creation of a market for industry securities, and development of the insurance market in the region. Experts from the ministry project that, if regional budget revenues double, Tula Oblast will reach self-sufficiency by 2005.
- Boris Goubman in Tver

GAZPROM GETS TOUGH IN DAGESTAN. Despite the growing payment arrears, which as of 1 July amounted to 565,833,000 rubles (\$94 million), Dagestani residential and industrial consumers continue receiving gas. Mezhrefiongaz had been trying to squeeze payments out of its Dagestani customers for a year, but so far managed to collect only 5.5 percent of the revenue due. The firm had been unwilling to turn off gas supplies completely because it feared the resulting instability.

Now, even though the situation is difficult, Mezhrefiongaz had no other choice but to shut down gas supplies to many customers. For over a week the city of Buynaksk, population 100,000 has been without gas, while the similar-sized Derbent has been on a 60 percent limit, and the town of Dagestanskije Ogni (25,000) has had to make due with a 30 percent limit. The Kumtorkalinsk raion (50,000 residents) of Dagestan is preparing for a complete shutdown, while gas supply to Kizilyurt and Khasavyurt will be halved.

Mezhrefiongaz does not want to be in a position to deny gas to those who honestly pay their bills, but have to suffer because their neighbors do not pay. However, as the head of the company's Dagestani branch said, Mezhrefiongaz is a wholesale supplier and cannot attend to the needs of individual consumers, which falls under the purview of municipal gas sales agencies, middlemen whom Mezhrefiongaz would love to bypass by entering into individual contractual relationships with clients. These middlemen are the company's main debtors. They collect money from individual consumers and then use it to pay hefty staff salaries. Meanwhile, the lawful owners of

that money (Dagestangazprom and Mezhrefiongaz) cannot even pay their own workers on time.

However, despite the critical situation in the republic's gas industry, not a single ruble of the profits on imported Russian gas leaves Dagestan. All the money is used for developing the local industry, and Dagestan's gas infrastructure is growing at record rates. Furthermore, the Gazprom gas monopoly is building residential housing, hospitals and coastal sanatoria in the republic. Mezhrefiongaz always pays on time to the local gas producer Dagneft. Yet, this good relationship is in jeopardy if Dagestanis continue not paying for their gas. The government of Dagestan has asked Mezhrefiongaz on numerous occasions either to get rid of the grabby middlemen or to force them pay their due. - Polina Sanaeva, *Novoe delo* , in Dagestan

PATTERNS OF REGIONAL DEVELOPMENT

NEW MEMBERS APPOINTED TO KARELIYAN CABINET. The day before leaving for summer break, on 10 July, the parliament of the Republic of Kareliya overwhelmingly approved the nominees for the republican cabinet made by newly elected Prime Minister Sergei Katanandov. The prime minister submitted the following candidacies: agricultural executive Viktor Maslyakov for deputy prime-minister, economist and entrepreneur Aleksandr Kolesov for deputy prime-minister and minister of finance, Kondopoga Mayor Andrei Kriger for deputy prime -minister and minister of the economy, and fishing industry executive Boris Zhitniy for deputy prime-minister. All of the new cabinet members come to the government with industry experience and three of the four deputy prime-ministers have had agricultural experience in the republic's periphery. The appointments suggest that the government plans to pay special attention to rural problems.

Overall, Katanandov has had a productive honeymoon with the Legislative Assembly, and much has been accomplished so far. The Constitution now recognizes the existence of the cabinet of ministers, whereas previously it only mentioned the prime-minister. Additionally, the executive branch has acquired some structure: 12 ministries and 8 state committees, somewhat less than the previous administration. In a related move, Katanandov signed a decree cutting the amount spent to support the executive branch by 20 percent. - Boris Matveev in Petrozavodsk

ANOTHER ASSASSINATION ATTEMPT ON MAKHACHKALA MAYOR

by Nabi Abdullaev, *Novoe Delo*

MAKHACHKALA--Assassins made an eighth attempt to murder Makhachkala Mayor and Dagestan Deputy Prime Minister Said Amirov, already confined to a wheel-chair by a previous attack, on 22 July. The assassins approached the city government building at 2:50 PM in a car and opened fire with grenade launchers, aiming at the office windows. One of the grenades hit Amirov's office and lodged in the wall right above the mayor's chair, but did not explode. No casualties were reported as a result of this attack. The police guarding the building returned fire and a fierce battle ensued: two policemen and one terrorist were wounded. The attackers were able to leave the scene in their car

without being apprehended.

Two motives have been proposed for the attack. The first one, shared by most observers, suggests the attack was staged by an extremist wing of the Wahhabi religious movement. During the last several weeks Dagestan has seen an explosion of extremist religious activities, complete with calls for unification with Chechnya and establishment of a single Muslim state. Last week Said Amirov sharply criticized these calls in the media, threatening the most extreme Wahhabis with persecution.

In contrast, the official explanation is that the attack was the result of an ongoing feud between the city administration and market traders, whose stalls the city wants to move from downtown to the outskirts of Makhachkala. The conflict has provoked several instances of violence between the retailers and the police. The traders have staged numerous demonstrations demanding that Amirov leave them in peace, since they had paid the previous city administration for their centrally located lots. However, Amirov has proven to be intransigent and his staff has been working on a grand plan to decisively push the retailers out of the city center. In turn, the retailers have formed a union, heavily financed by its members to buy legal counsel and, reportedly, weapons.

This incident again emphasizes the weakness and ineffectiveness of Dagestan's law-enforcement agencies. In the last two weeks alone there have been attacks on such political leaders as Popular Assembly member Said Fattakhov, director of the Makhachkala dairy plant Sultan Sultanov (severely wounded), Popular Assembly deputy and director of the Makhachkala international sea-port Sirazhutdin Yusupov (murdered), and director of the Dagestan office of Rospechat publishing company Urudzh Ibragimov. The list can go on and on. Obviously, the police simply lack the resources to protect high level officials and businessmen. Under these circumstances the common people can hope to enjoy even less protection, as reflected by rising weekly crime statistics.

CIVIL RIGHTS GROUP CREATED IN ULYANOVSK. A new public organization, called For Constitutional Democracy, has been registered in Ulyanovsk Oblast. Its mission is to defend the constitutional rights and liberties of Russian citizens, spread democratic values and ideas, and organize programs promoting democratic development in the region. Speakers at the movement's first meeting noted that Ulyanovsk Oblast lacks real democracy and that its authorities often violate the civil rights of its residents. Group members argued that the situation in the region is but a microcosm of the general state of affairs in Russia, where instead of genuine popular democracy, there is a rigid authoritarianism run by the former party nomenklatura.

The activists believe that the former party elite was able to grab power because the vast majority of Russians have yet to overcome their economic and political illiteracy. Therefore, the movement For Constitutional Democracy plans to conduct public educational activities. According to the chair of the movement's council, Sergei Svetunkov, an economist and the head of the Institute of Business and Economics at Ulyanovsk State University, the organization will use all available methods to achieve its educational goals: media publications, brochures, conferences, public discussions, electronic mail, and an Internet home-page.

During the registration process, the oblast Justice Department asked the new group to remove a clause from its charter that would prevent members of the movement council from running for public office. The authorities claimed that this clause violated

citizens' rights. However, the movement's members decided to adhere to this formula as a matter of principle to ensure that their organization remains non-political. - Sergei Gogin in Ulyanovsk

REGIONAL BANKING

NEW BANK TO BE CREATED IN KOMI. In the wake of the recent banking crisis, the influence of Moscow banks in the provinces has increased dramatically, at the expense of many regional banks. For example, Komi banks like the European North Bank and Komibank, one of the largest in Russia, have closed while Moscow banks opened regional offices in the Komi Republic and elsewhere. Komi's Chief Executive Yurii Spiridonov has often spoken out against the expansion of Moscow banks, arguing that local financial institutions should instead be strengthened because they have more incentive to re-invest in the region. As a part of that effort, the management of the local Ukhtabank was bolstered when former republican Deputy Economics Minister Galina Knyazeva became the bank's president.

Komi's resources are insufficient to withstand Moscow's pressures, so the most logical solution is to combine the resources of several regions with Western capital. The republic is thus trying to create a new Russian-European bank. Commercial establishments from more than 10 Russian regions will join British financiers as partners in the venture. Spiridonov believes all the regions of the Nechernozemye (non-Black Earth) area will be partners in the new bank, which will finance large regional projects of national significance (*Region*, No. 6, 1998). Projects proposed to finance the bank include: building two heating power stations in Inta and Syktyvkar; extracting salt from the Seregovsk deposit and creating a gas storage tank in its place; constructing a new international airport in Syktyvkar; extracting bauxite and manganese; and constructing a railroad between the Urals and Finland via Arkhangelsk. All the regions through which the latter project will pass have already budgeted money for it. - Yurii Shabaev in Syktyvkar

EAST SIBERIAN BANK SEEKS REGIONAL GOVERNMENT BAILOUT

by Yekaterina Vorobieva, Teleinform

IRKUTSK-- The East-Siberian Commercial Bank (VSKB), one of the largest banks in the area, has asked the Irkutsk Oblast administration to buy 26% of its stock so that it can avoid collapse. The bank's assets are valued at 194 million rubles (\$32 million) and to date VSKB has issued 8 million shares of stock. This means the oblast government would be purchasing 25 million rubles (\$4 million) worth of bank shares, even though this figure does not reflect the bank's market valuation. The VSKB purchase would cost the oblast 12 million rubles (\$2 million), or even less if the oblast transfers its accounts to the bank. Although formally an "authorized bank" of the oblast administration, VSKB has not managed any public money yet, according to the bank's President Tamara Tsarik.

Experts say that the region's deep economic crisis drives the bank's desire to cooperate with the oblast. Tsarik told reporters that the bank is suffering from the lack of cash in the region. The tax police have begun examining the accounts of tax debtor enterprises with deposits at the bank, causing a drop in cash turnover. Additionally, the

bank had invested in large industrial enterprises, which are now unable to pay back their loans in full.

VSKB was spun off from the stable Promstroibank and for a time was a very successful institution. But the good days are long gone: its clients want to withdraw their deposits and many enterprises are transferring accounts to other banks. The situation is frighteningly analogous to that of the Russian-Asian Bank (RAB). When RAB was in a financial crisis, it also sought the help of the oblast administration. In the end, though, thousands of people lost their deposits and investments. One can hope this does not happen to VSKB--as of 1 January the bank had 175 million rubles (\$29 million) worth of savings from small clients and a panic among them could finish off the bank completely.

Tsarik claims that VSKB has enough money to pay all its clients as long as the payments are not made all at once. Simultaneously, other entities owe the bank 437 million rubles (\$73 million), 67 percent of overall assets, while overdue payments amount to 58 million rubles (\$10 million), or 13% of all credits issued. According to the oblast's Deputy Governor Yurii Berezutskiy, the collapse of VSKB would inevitably bankrupt most of its clients and borrowers. Of course, financial stabilization measures might not avert the bankruptcies, but could help make their consequences less devastating. Over 1,600 shareholders own the bank's stock.

Many banks now want to acquire the VSKB by purchasing a controlling stake in it, which the bank's management would only welcome. Back in early June the company wanted to sell itself to Moscow's powerful Inkombank, which sought VSKB's wide network of branches and its marketable image. A Moscow bank, however, would likely siphon resources from the oblast, so the deal has not been signed even though Inkombank is still helping VSKB.

The bank's willingness to sell itself to both the oblast administration and Inkombank is puzzling. Some believe that the Siberian bankers could not find common ground with the Muscovites, or that Inkombank was interested in VSKB only if the latter could secure the oblast government's accounts.

Deputy Governor Berezutskiy views the possible purchase of the bank's shares by the oblast not as an attempt to gain a puppet bank for laundering public money, but rather as a move to acquire a tool for implementing a regional investment policy and for borrowing on foreign markets. Many industrial and political leaders in the region have long been asking for such a structure. Should the administration approve the deal, however, the bank would have to reorganize its operations. As Berezutskiy complained, the bank has a history of making loans for financially and technically unsound projects. The bank's staff does not seem to be qualified to conduct careful credit investigations. The Central Bank's Irkutsk Oblast Department also feels that VSKB often exceeds acceptable risks in its investment decisions. The bank's management is more than happy to acquiesce and make appropriate personnel changes, as the oblast administration sees fit.

Right now opinions are split whether or not the oblast should buy the bank. According to Yurii Kovalev, the manager of Rossiiskiy Kredit, the timing of the proposal is very bad--on 15 July the oblast will be dividing up the most recent federal subsidy and will hardly have the money to spare on such a purchase. Additionally, federal authorities do not look favorably upon regional governments buying commercial banks. On the other hand, Gennadii Komarov, the head of the East Siberian Rail Road and chairman of

the oblast's Employers' Union, feels that the oblast cannot ignore VSKB's offer. He thinks the administration could buy the shares without paying cash. General Director of Irkutskenergo power utility Viktor Borovskiy says that buying 26 percent of the bank will not turn it into an oblast puppet--for that the administration would have to own 75 percent of the shares. The oblast's participation in the bank's ownership could only be a measure to reassure the bank's clients and shareholders and to help it offset exorbitant infrastructure costs.

At the same time, the East-Siberian Commercial Bank is one of the largest in the region and ripple effects from its collapse could bring other banks to the brink of crisis, said Deputy Governor Valentin Mezhevich. Furthermore, the smaller banks will not be able to fill in the vacuum should VSKB disappear, so the oblast will lose a large and important financial institution. Meanwhile, the oblast administration has suggested the bank increase its financial resources by attracting more money from current shareholders and by issuing more stocks. Additionally, VSKB was advised to consider a merger with another institution, as long as the total capital of the new entity is equivalent to at least ECU 1 million (\$1.11 million).

CHELYABINSK ACCEPTS TAX PAYMENTS IN BANK PROMISSORY NOTES.

Chelyabinsk Governor Petr Sumin signed a decree allowing oblast taxes to be paid in promissory notes from six commercial_Moscow banks and four Chelyabinsk banks. Accredited institutions and private entrepreneurs may use notes from the following banks: Moscow's Avtobank, Inkombank, Menatep, Promstroibank, Sberbank of the Russian Federation, and SBS-AGRO along with Chelyabinsk's Chelindbank, Chelyabinvestbank, Dorozhnik, and Uralliga. The oblast's finance department can revise the list depending on the banks' credit status.

To make tax payments to the oblast , the promissory note must be presented to the oblast's main finance department, which will accept it at face value. Only after the issuing bank pays off the note's obligation will the oblast credit the sum to the taxpayer's account. The oblast can also use the promissory notes to finance public projects or local government. Promissory notes will be accepted for all tax payments, within limits set by the oblast finance department. According to the oblast press-service, this new tax payment system is designed to address the region's insolvency crisis and to help institutions make payments to the oblast and to each other. - Igor Stepanov in Chelyabinsk

FOREIGN TIES

UNCTAD PROMOTES BUSINESS IN ROSTOV OBLAST. On 24-25 June, the United Nations Conference on Trade and Development (UNCTAD) held a small and medium business seminar under the auspices of its Empretec program in Rostov-on-Don. Governor Vladimir Chub and the UN Development Program (UNDP) representative Amb. Filipp Elguayel signed a memorandum on the further development of Empretec in Rostov Oblast. The high level of its delegation indicates that UNDP is serious about working in the region. The group included UNCTAD experts, the TACIS representative for Russia, Dario Liguti, the chief public relations officer of the Presidential Administration, Vladimir Popov, as well as UNCTAD experts from Empretec-Latin

America (highly successful since its founding in 1988). A Volgodonsk city government official for international relations, Sergei Runov, attended the seminar and was able to interest two UNCTAD representatives in visiting the city on 28-29 June to take a closer look at the its economic potential.

Both regional and local government officials, as well as small and medium entrepreneurs, see the program as an opportunity to interact with the graduates of Empretec seminars. To date, the program's participants network with over 100 large companies, including Siemens, Coca-Cola, Dupont and others. Besides providing educational opportunities, Empretec helps the development of businessmen's associations and civil groups. These practices will find fertile ground in Volgodonsk, which already has the Association of Small and Medium Enterprises, the Union of Volgodonsk Builders, the Consumers' Association and the Southern Regional Union of Quality Business. - Milana Slinko in Volgodonsk

REGIONAL LINKS

Czar's Burial in St. Petersburg (<http://www.spbnews.ru/>) - This site contains extensive documentation about the burial of Russia's last czar in St. Petersburg on 17 July. There are numerous photographs and video clips available. There is also extensive information about the czars and St. Petersburg's Peter and Paul Fortress.

REGIONAL PROFILE: REPUBLIC OF ADYGEYA

President: Aslan Dzharimov

Aslan Dzharimov was elected President of Adygeya on 5 January 1992.

An ethnic Adyg, he was born in 1939 in Adygeya into a peasant family. He graduated from the Kuban Agricultural Institute in 1964 and the CPSU Central Committee's Academy for Social Sciences in 1985. Dzharimov began his professional career as a worker at his native kolkhoz in 1957. In 1970 he accepted a full-time position with the party. By 1989 he rose to Adyg party committee first secretary.

In 1989 he was elected to the USSR Congress of People's Deputies, where he was a member of the Communist deputy group. As a national legislator, he spoke out strongly against annulling the constitutional provision that guaranteed the leading role of the Communist Party in the country, the infamous Article 6. In 1990, Dzharimov was elected chairman of the local legislature, where he served until becoming republican president. Dzharimov supported Mikhail Gorbachev and his economic policies, including the introduction of market mechanisms. He joined Gorbachev in denouncing hard-liners within the party. He also supported President Yeltsin during his clash with the parliament in fall 1993.

In December 1993 Dzharimov was elected to the Federation Council, the upper house of the Russian parliament, where he is a member of the Committee on Defense and Security.

Other local leaders

Chairman of the State Council – Yevgenii Salov, elected in January 1995.

Brief Overview

The Republic of Adygeya is located on the northern slope of the Caucasus Mountains and is surrounded by Krasnodar Krai, of which it was a part until 1991. Maikop, the republican capital, is located 1,670 km south of Moscow and 160 km from the city of Krasnodar. Members of over 50 ethnic groups reside in the republic, with the Adygs making up 22.2 percent of the total population.

The republic's territory is rich in mineral resources, including gas, oil, rare metals, silver, gold, precious stones, and construction materials. Agriculture is the major regional specialization. Local farms cultivate grain and vegetables and breed cattle. Yet much of the region's agricultural output is wasted because regional processing plants have insufficient capacity. The republic's industrial complex specializes in food processing (50 percent of regional GDP), lumber and cellulose production (18 percent), and machine building and metal processing (14 percent).

The republic has economic ties with over 20 foreign countries, including Great Britain, the US, Turkey, Japan, Germany, and France. The largest joint ventures are Russian-British Mavel, Russian-Cypriot AO KAD, and Russian-American Intergas.

According to the republican administration, the region offers numerous investment possibilities but ethnic conflict in neighboring republics dissuades most investors from the area. The republican legislature has approved some benefits for foreign investors.

Basic Facts

Population (as of 1 Jan. 1997): 450,000 (0.31% of Russian total)

Urban population (1989 census): 53.8% (Russia overall: 73.0%)

Student population (1996): 213 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 27.42% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 9.1% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 25.1% (Russian average: 29.9%);

Agriculture: 18.5% (12.8%); Trade: 10.1% (9.1%); Culture: 11.5% (13.6%); Management: 3.5% (2.3%)

Average monthly personal income in 1996: 384,000 rubles (Russian average: 764,000 rubles)

Average monthly personal expenses in 1996: 312,000 rubles (Russian average: 753,000 rubles)

Average monthly subsistence requirement in 1996: 332,100 rubles (Russian average: 369,400 rubles)

Consumer price index (as of Dec. 1996): 99.18 (Russia overall = 100)

Industrial production as percentage of all Russian production (1996): 0.06%

Proportion of loss-making enterprises (1996): 54% (Russia overall: 56%)

Number of enterprises with wage arrears (1996): 247 (3.40% of total number of regional enterprises)

Agricultural production as percentage of all Russian production (1996): 0.46%

Number of private farms (as of 1 Jan. 1997): 1,518 (0.54% of Russian total)

Capital investment (1996): 335,900 rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): federal budget: 34.0% (Russian average: 9.2%); regional budget: 2.8% (9.6%); enterprises: 50.6% (66.3%)

Number of joint ventures (as of 1 Jan.1997): 21 (0.13% of Russian total)

Fixed capital investment in joint ventures and foreign companies (1995): 528 million rubles

Number of small businesses (as of 1 Jan. 1997): 2,147 (0.26% of Russian total)

Number of telephones per 100 families (1996): in cities: 44.4 (Russian average: 48.7); in villages: 20.0 (19.7)

According to a 1997 survey by *Ekspert* magazine, the republic is ranked 72nd among Russia's 89 regions in terms of investment potential and 51st in terms of investment risks. A 1995 survey by Bank Austria ranked the republic 73rd in terms of investment climate.

Electoral History

1996 Presidential Election

Zyuganov: 51.50%/60.53% (first round/second round)

Yeltsin: 20.02%/34.48%

Lebed: 13.99%

Yavlinskii: 5.29%

Zhirinovskiy: 5.07%

Turnout: 66.97%/64.85% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Elections

Communist Party of the Russian Federation: 41.12%

Liberal Democratic Party of Russia: 9.60%

Communists – Worker's Russia: 5.70%

Party of Workers' Self-Government: 5.08%

Yabloko: 4.50%

Our Home Is Russia: 4.13%

Congress of Russian Communities: 4.10%

In single-member districts: 1 Communist Party of the Russian Federation

Turnout: 64.23% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" – 38.24% "No" -- 61.76%

1993 Parliamentary Elections

Communist Party of the Russian Federation: 28.87%

Liberal Democratic Party of Russia: 18.11%

Yabloko: 10.88%

Party of Russian Unity and Concord: 9.96%

Russia's Choice: 8.15%

Women of Russia: 7.13%

Agrarian Party of Russia: 5.49%

Democratic Party of Russia: 5.24%

In single-mandate districts: 1 independent

From electoral associations: 1 Communist Party of the Russian Federation
Turnout: 61.73% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 51.22%

Ryzhkov: 22.96%

Zhirinovskiy: 10.36%

Tuleev: 7.81%

Makashov: 2.37%

Bakatin: 2.25%

Turnout: 73.23% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [*Russian regions on the eve of 1995 elections*], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [*Results of the 17 December 1995 elections, regional breakdown*], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [*State Duma elections 1995*], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [*Governors of Russia*], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regioni Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.

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Regional Profile - Note to readers: We have now completed profiles of all the regions except Chechnya and they are available on the IEWS web site (<http://www.iews.org/>) to

Executive Edition subscribers. In a few weeks, we will begin the cycle again with up-dated information.

BREAKING NEWS

POLITICS

REGIONS POINTMAN NAMED HEAD OF FSB. President Boris Yeltsin appointed First Deputy Chief of Staff Valenin Putin director of the Federal Security Services (FSB) on 25 July (http://www.maindir.gov.ru/Administration/Press_Release/Jul/svwi3040.html). Since 25 May Putin has been the presidential administration's pointman for relations with the regions. Yeltsin has yet to name a replacement for Putin, although there are rumors that Deputy Prime Minister Oleg Sysuev, who is in charge of social policy, will be appointed to the position (see RFE/RL Newslines, 30 July). Sysuev was the mayor of Samara before joining the federal government last spring.

In his post as liaison with the regions, Putin replaced the much less effective Viktoriya Mitina (see *IEWS Russian Regional Report*, 28 May). During his short tenure he used the presidential administration's Main Oversight Administration to collect information on how the governors used state credits and the operations of mines and enterprises in their jurisdiction. He said having the data in hand made his conversations with the governors much more effective. (*Russkii Telegraf*, 28 July)

SAMARA GOVERNOR CALLS GOVERNMENT DICTATORIAL. Samara Governor Valentin Titov accused the federal government of instituting a dictatorship after it raised the value added tax on necessities from 10 percent to 20 percent, disregarding the fact that both houses of the national parliament had rejected that idea. He said he would appeal to the Constitutional Court. "We are heading toward totalitarianism," said Titov, according to a 30 July *Izvestiya* report.

GOVERNORS VISIT LUKASHENKO IN MINSK. A delegation of governors visited Minsk to discuss the development of a union between Russia and Belarus and deepening direct-trade ties between specific regions and Belarus while excluding Moscow. The group included Krasnodar Governor Nikolai Kondratenko, Tula Governor Vasilii Starodubtsev, Yaroslavl Governor Anatolii Lisitsyn, Stavropol Governor Aleksandr Chernogorov, and representatives of Krasnoyarsk Governor Aleksandr Lebed. Initially, organizers hoped the delegation would include 40 governors, but Moscow's displeasure with such high-level representation limited the number of regional leaders willing to make the trip. The governors of Vladimir and Kostroma have visited Minsk in the last several weeks and Russian regional leaders show up about once a month. Saratov Governor Dmitrii Ayatskov has twice postponed a visit. (*Izvestiya*, 30 July). The Kremlin clearly does not like Lukashenko developing relations with Russia's regional elite and on 2 October 1997 it blocked him from visiting Lipetsk and Yaroslavl (see *IEWS Russian Regional Report*, 9 October 1997).

MANEVICH'S SUSPECTED MURDERER NAMED. The Russian General Procurator announced that one of the four men arrested as suspects in the murder of St. Petersburg privatization chief Mikhail Manevich last summer is Sergei Yakovlev, a 33-year old member of a raion council in Tambov Oblast (see *IEWS Russian Regional Report*, 21 August 1997). The local authorities believe he was probably a middleman, neither the person who ordered the murder nor one of its executors. Yakovlev and his colleagues are also suspected of murdering two businessmen in Tambov Oblast. (*Kommersant Daily*, 23 July)

IZVESTIYA: KALININGRAD LIVES IN FEAR UNDER GORBENKO. Governor Leonid Gorbenko, the former director of the local port, has created an atmosphere of suspicion and fear in Kaliningrad, according to a report in *Izvestiya* (29 July) based on conversations with dozens of individuals who refused to publicly reveal their names for fear of retaliation. The governor refused to meet with the paper's correspondent. The article charges that Gorbenko's appointees lack professionalism and a strong moral sense; that Vice Governor Ivan Pimenov serves as Gorbenko's right-hand man because he is good at organizing parties; and that Vice Governor Georgii Topazly holds a top position even though he was implicated in 1992 for selling weapons in Poland.

When the *Izvestiya* article was being prepared, unknown assailants beat the editor of the local opposition newspaper *Novyi koleza*, Igor Rudnikov, who is also a member of the city council. That paper often criticizes the governor and has faced several threats in the past. Such political violence is unprecedented in Kaliningrad. A series of suspicious violent events also occurred after investigations began into whether Gorbenko had used his position at the port to enrich himself.

According to the report, Gorbenko changed local customs regulations to hinder the KIA automobile assembly project in the oblast, effectively sinking Volkswagen's plans to assemble cars in Kaliningrad. He made that move, the report charges, out of jealousy and vengefulness that his predecessor Yurii Matochkin had initiated the projects. He has also managed to offend his neighbors, accusing the Poles, for example, of never having been good neighbors for Russia.

Gorbenko has an erratic work style, disappearing for up to two weeks a month without explanation. Many locals believe a vice governor, Mikhail Karenyi, is really running the oblast. He is also head of the Baltic bank conglomerate, director of the oblast development fund, and chairman of the board of the Yantar defense factory. When he became vice governor, many powerful clients and oblast organizations began to use his bank. The development fund is often compared to a giant vacuum cleaner that sucks up whatever its directors want. In particular, the fund owns a large share of the port. His management of the defense factory has forced it to focus increasingly on finding new credits.

NIZHNII VOTERS ANGRY OVER ELECTIONS. The 17 candidates who hope to compete in the 27 September Nizhnii Novgorod mayoral elections are having trouble collecting the necessary 21,500 signatures because up to 70 percent of the voters are refusing to sign, according to *Russkii Telegraf* (28 July). Two thirds of those will only support Andrei Klimentiev, who won the annulled first election and was promptly jailed (see *IEWS Russian Regional Report*, 2 April). The other third backs the "party of power," which has yet to identify a unified candidate. Governor Ivan Sklyarov cannot find a "strong manager" among the candidates and therefore backs none of them.

PRIMORSKII KRAI DUMA DEFENDS CHINESE BORDER WITH COSSACKS.

Last week the Primorskii Krai legislature voted to build a string of 60 Cossack settlements to defend against illegal border crossings by Chinese citizens, the *Moscow Times* (28 July) reported. The 70.2 million ruble program would provide a 70 percent housing subsidy and 40,000 rubles (\$6,500) for Cossack families that move to the area near the border. The region's 73,000 Cossacks would patrol the border along with state units. The krai government hopes that the federal government will kick in 70 percent of the program's costs. But even raising the remaining 30 percent of the funds will be difficult for the strapped regional government. Members of the official border guard troops are not excited about the idea, claiming that it will be difficult to integrate the Cossacks into their work because they are generally "undisciplined and ineffective," according to *Kommersant Daily* (21 July).

PETERSBURG REFUSES TO SIGN FEDERAL TREATY... The St. Petersburg city government has refused to sign a treaty with the federal government on improving financial relations, *Kommersant Daily* reported on 23 July. On 5 May Yeltsin ordered his government to sign such treaties with all regions except Chechnya by 5 July (see *IEWS Russian Regional Report*, 11 June). Moscow will withhold federal funds from the local government, including money for construction work on the metro, renovating the historic downtown, and ecological programs in the Baltic Sea. St. Petersburg First Vice Governor Igor Artemev said the conditions the federal government wanted to impose, including canceling all raises to civil servants and increasing prices for gas and electricity by 30 percent, were too harsh and would hurt the city's standard of living. Governor Vladimir Yakovlev plans to raise salaries for teachers and doctors in the next few months. However, to get by without federal funds, the city government had to raise rents and the fees for communal services beginning 1 August. Last year Yakovlev stirred vocal opposition for raising such fees and his willingness to do so again clearly shows his strong need to increase revenues (see *IEWS Russian Regional Report*, 22 May 1997). First Deputy Prime Minister Boris Nemtsov argued that the city made the situation worse for itself by not signing the treaty. (*Kommersant Daily*, 23 July) In recent weeks, Perm Oblast and Krasnoyarsk Krai have also refused to sign the agreements, although regions like Khakasiya and Chelyabinsk have (see *IEWS Russian Regional Report*, 18 June).

... AND YAKOVLEV BLASTS FEDERAL POLICIES. Yakovlev complained that the federal government is no longer making payments to the city. He made the charge in an *Izvestiya* interview published on 25 July, saying that Moscow has not made payments to the

university or local defense enterprises. Federal policy toward the regions is poorly constructed, he charged, because the center hands out money to poor regions and thus deprives them of any incentive to earn money on their own. He complained that the government's anti-crisis program is seeking to transfer more power to the center when it should be devolving control to the regions. He advocated local administration, claiming that the federal government does not have the resources to manage numerous regions and enterprises.

Yakovlev still supports building a high-speed railroad between Moscow and St. Petersburg, a plan Yeltsin has cancelled. The governor plans to run for a second term in 2000. In other comments, he downplayed comparisons between himself and Moscow Mayor Yurii Luzhkov and admitted making mistakes when he raised rents last year. He said he should have done a better job explaining what was happening to the population and moved more quickly to open compensation centers to provide subsidies to families that could not meet their suddenly higher expenses.

VORONEZH LEGISLATURE CALLS FOR INVESTIGATION OF SOROS. The Voronezh Oblast legislature has asked the Federal Security Service (FSB) to look into the activities of George Soros. The majority of its members believe Soros could be damaging Russia's national interests. The activities in question are the general operations of Soros's organizations in Voronezh and other regions. The local FSB does not believe there is anything suspicious about Soros's activities. (*Kommersant Daily*, 23 July)

SUPREME COURT CITES VIOLATIONS IN BASHKORTOSTAN ELECTIONS. The Russian Supreme Court ruled that the Bashkortostan electoral commission's decision to refuse to register two candidates in the 14 June republican presidential elections was illegal (see *IEWS Russian Regional Report*, 25 June). The two candidates, State Duma member Aleksandr Arinin and former Bashkortostan Prime Minister Marat Mirgazyamov, charged that President Murtaz Rakhimov wanted them out of the race so he would not have to face real opposition. A third candidate, Communist State Duma member Valentin Nikitin, filed a suit charging that the elections were invalid because they had been rescheduled for a date before the end of Rakhimov's term. The court rejected that argument because if Bashkortostan's elections were deemed illegal for that reason, elections held under similar circumstances in many other regions would also have to be declared invalid. Regional leaders often move up election dates because adjusting the timing can offer a better chance of winning. Bashkortostan's excluded candidates will now try to get the Bashkortostani court to overturn the results of the elections. If that court refuses to do so, they will appeal again to the Russian court. (*Kommersant Daily*, 25 July) Whatever the outcome of the court cases, the republic is unlikely to hold new elections.

ECONOMICS

VOLOGDA PACKAGING FIRM THRIVES. The brothers Oganess and Rafael Mosikyan have transformed a Volgoda smelting factory into a profitable packaging concern. Eleven years ago the brothers rented space in the factory to set up a cooperative. Their enterprise flourished

while the factory went bankrupt. The factory workers then asked Oganets to take over as director. He gradually remade the factory into a producer of packaging material. The Moskiyans bought equipment from the German firm Mauser and combined it and a variety of other used equipment into one line. To expand further, they needed a foreign partner. The Dutch packaging producer Van Leer, which has 140 plants in 45 countries, provided the capital after the Vologda firm began competing with it on the Nizhnii Novgorod market. By 2000, the Vologda firm should be producing 600,000 units of packing material that meets European quality requirements. (*Izvestiya*, 29 July)

DE BEERS IN ARKHANGELSK. De Beers is aggressively moving to end Alrosa's effective monopoly on diamond production in Russia. In a secret deal in early July, De Beers bought a 27 percent stake in Severalmaz, which owns the rights to develop the Lomonosov diamond deposit in Arkhangelsk, from the Moscow-based firm Soglasie, *Kommersant Daily* (28 July) reported. Once it begins producing, the Lomonosov deposit could provide up to 25 percent of Russia's diamonds. Soglasie now also owns a 27 percent stake in Severalmaz. De Beers and Soglasie plan to register a joint venture in Moscow called Soglasie-De Beers Diamond Corporation, which will hold the controlling stake in Severalmaz. Alrosa holds a 10 percent stake in Severalmaz. Without monopoly control over Russian production, Alrosa's attempts to win additional concessions from De Beers in marketing its diamonds on the world market will be even more difficult.

KALININGRAD KEEPS SPECIAL ECONOMIC ZONE. The Russian government has decided to allow Kaliningrad to keep its status as a special economic zone, but will impose more restrictive limits on imports. The purpose of the restrictions is to limit the amount of goods transshipped to the rest of Russia without paying import fees. Such trade costs the federal government several hundred million dollars a year. In May, Prime Minister Sergei Kirienko suggested reforming Russia's 25 special economic zones. He backed off when it became clear that such a move would have drastic consequences for the affected regions. (*Russkii Telegraf*, 28 July)

YAROSLAVL MCDONALD'S SITE PROTESTED. Communists in Yaroslavl are protesting the mayor's decision to allow the construction of a McDonald's restaurant and a gas station in a location now occupied by a building that once housed a Bolshevik press. The local reds have decided to block the project in order to halt the "American expansion." (*Kommersant Daily*, 21 July)

KEY NOVGOROD FIRM FACING DIFFICULTIES. Akron, the Novgorod based fertilizer producer whose taxes provide much of the city and oblast budget, has been experiencing troubles selling its goods since this spring. Akron's production costs have gone up considerably since the early 1990s, while the price of fertilizer has come down. China buys half of the firm's output. There is little hope for growth in the Russian market because of the severe drought that will limit this year's harvest. (*Nezavisimaya gazeta*, 28 July)

LEBEDINSKII SALE POSTPONED. The federal property fund postponed the sale of a 10 percent stake in Belgorod's Lebedinskii Mining and Concentrating Combine from 21 July to 4 September. First Deputy Prime Minister Boris Nemtsov had said the sale could raise as much as \$150 million. However, the ownership of the shares is now in dispute and lawyers involved in the case think it may take up to five years to resolve the differences. Such uncertainty could further delay the auction. (*Russkii Telegraf*, 23 July) Rossiiskii Kredit bank owns 46 percent of the plant and the Oskolskii Electro-Metallurgical Combinat owns 41 percent, and both sides are competing to win a controlling stake (see *IEWS Russian Regional Report*, 23 April and 4 June).

BUSINESS BRIEFS

-- **BANQUE NATIONALE DE PARIS** on 17 July agreed to provide a \$70 million credit to build a second oil terminal at Novorossiisk (**KRASNODAR KRAI**), Russia's main oil export terminal on the Black Sea. **ONAKO**, the Russian oil firm building the terminal, will provide the additional \$11 million for the project. France's **BOUYGUES OFFSHORE**, which built the first terminal in 1988, will be the main contractor. The facility will be able to handle up to 15 million metric tons a year and service tankers up to 200,000 tons. (*Energy and Politics*, 23 July)

-- The **YAROSLAVL** oil refinery **YAROSLAVNEFTEGAZSINTEZ** will receive a \$200 million credit from the **EXPORT-IMPORT BANK OF JAPAN** to overhaul its oil refining facilities. The work will be completed by Germany's **THYSSEN** and Japan's **MITSUI**. The new facilities should allow the plant to increase output by 75 percent to 80 percent. (*Energy and Politics*, 23 July)

-- **SAMARA'S AVTOVAZ** is hoping to finalize an agreement with General Motors' German division, **ADAM OPEL AG** (<http://www.opel.com/>), to assemble cars at its Tolyatti plant. The first step would be assembling 30,000 Astras a year and then boosting production to 200,000 annually. Buyers should be able to purchase the car for \$13,000, a price that would make it competitive with Astras and Sienas produced by Fiat in **NIZHNI NOVGOROD**. AvtoVAZ Board of Directors' Chairman Vladimir Kadannikov hopes to sign an agreement on the first stage of the deal in September. (*Kommersant Daily*, 28 July)

-- The US's **CASE CORPORATION** (<http://www.casecorp.com>) and Belgium's **NEW HOLLAND** (<http://www.newholland.com/>) delivered 125 grain-harvesting combines to Bashkortostan. The combines are 40 percent more efficient than similar Russian models. The firms will supply 200 combines in total. The overall deal is worth \$250 million. (*Finansovye izvestiya*, 23 July)

-- The **EBRD** on 23 July extended a \$100 million loan to **ST. PETERSBURG** for restructuring the city's debt at attractive rates. It is the first such loan that is not guaranteed by the federal government. (*Russkii Telegraf*, 24 July)

-- **LENINGRAD OBLAST** is hoping that Swedish truck and bus maker **SCANIA** will join **FORD** (<http://www.fordworldwide.com/wdmo/country.html?cty=RUS>) and **CATERPILLAR** in setting up an assembly plant in the region. The oblast is planning to give credit guarantees of 300 million rubles (about \$50 million) and hopes that 15 percent of the parts will be produced locally. (*Delovoi Peterburg*) American Tobacco giant **PHILIP MORRIS** is the other major foreign firm currently building a factory in the region. (*Finansovye izvestiya*, 23 July)

-- **WIMM-BILL-DANN**, one of Russia's largest producers of juices and dairy products, is planning to expand in the Volga region and will likely open production facilities soon in **SAMARA**. The company hopes to conquer 40 percent to 50 percent of the market in the oblast and in nearby **BASHKORTOSTAN**, **PENZA**, **SARATOV**, and **TATARSTAN**. As it has done in **NIZHNI NOVGOROD** and **VLADIVOSTOK**, Wimm-Bill-Dann prefers to buy an existing producer rather than build a new one. The firm started in **MOSCOW OBLAST**. (*Russkii Telegraf*, 25 July)

-- **ADDIDAS** is planning to build a \$10 million sports complex in **ST. PETERSBURG** by 2000. The complex will have a soccer field, tennis courts, a swimming pool and a sporting goods store. This is the first time Addidas will build its own complex in Russia rather than lease space in another sports club. (*Russkii Telegraf*, 22 July)

-- The newly formed **AROMA INVESTMENTS** outbid **SIR ROCCO FORTE & FAMILY LTD.** for a 35 percent stake of **ST. PETERSBURG'S** Astoria hotel complex. Aroma Investments bid 34,083,490 rubles (\$5.5 million) to edge out the British hotelier, which bid 34 million rubles. The winner must invest a further \$3.9 million as part of the deal. Governor Vladimir Yakovlev ordered an investigation into who is behind Aroma since there is no public information about it. Last year Rocco Forte paid \$16 million for a 25.5 percent stake in the Astoria. The firm is also planning to construct a hotel in **NIZHNI NOVGOROD**, although that project has run into trouble (see story in Economic Issues below). The *Moscow Times* (25 July) noted that Aroma's victory leaves the hotel in limbo with no one in control.

-- **VORONEZH** will hold a tender for the **VELT TELEVISION PICTURE TUBE FACTORY** in September. The government recently took over an 89 percent stake from **PHILIPS DISPLAY COMPONENTS**. Philips claims to have invested \$64 million in the factory since 1992. Neither Philips nor the oblast government has revealed how much the oblast paid for the stake. The oblast has charged that Philips only spent \$18 million on the plant, that production ceased more than a year ago, and that plant workers have not been paid in months. (*Moscow Times*, 25 July) The oblast also alleged that Philips wanted to close the plant to open the way for imported television sets (see *IEWS Russian Regional Report*, 14 May).

REGIONAL ALLIANCE BUILDING

Two alliances of regional leaders that are clearly aimed at the State Duma elections of December 1999 and the presidential elections of June 2000 recently began taking shape.

Without explicitly recognizing his link to the organization, Moscow Mayor Yurii Luzhkov now has the backing of the Unity Alliance, which includes Kursk Governor Aleksandr Rutskoi and a number of small political organizations (See RFE/RL Newswire 28 July). Additionally, Krasnoyarsk Governor Aleksandr Lebed, Tatarstan President Mintimer Shaimiev, former Prime Minister Viktor Chernomyrdin, and magnate Boris Berezovskii issued a joint statement calling for the federal authorities to establish a clear policy to stabilize the North Caucasus. The four likely have larger common goals than just changing federal policy toward Chechnya. President Yeltsin has denied that he will seek another term, though his final decision is unpredictable.

Saratov Governor Dmitrii Ayatskov will undoubtedly be an important player in this process. He is clearly closer to the Luzhkov camp than the Lebed-Shaimiev-Chernomyrdin-Berezovskii alliance, which he has criticized. Below, he describes what a government of regional leaders might look like.

SARATOV GOVERNOR SIZES UP PREMIERSHIP, MAPS FUTURE CABINET

by Aleksandr Nesterov, *Saratovskie vesti*

SARATOV--In the last several weeks Saratov Oblast Governor Dmitri Ayatskov has made several sensational statements, mostly criticizing the current government of Prime Minister Sergei Kirienko and calling on President Yeltsin to include some regional leaders in the cabinet. In an interview with the RRR's Saratov correspondent, Ayatskov outlined an imaginary cabinet, suggesting specific regional leaders as candidates for top government jobs, including Orel Oblast Governor and Speaker of the Federation Council Yegor Stroev, Samara Oblast Governor Konstantin Titov, Mordoviya President Nikolai Merkuskin, Magadan Oblast Governor Valentin Tsvetkov, Leningrad Oblast Governor Vadim Gustov, St. Petersburg Governor Vladimir Yakovlev, Moscow Mayor Yurii Luzhkov, and President of Kabardino-Balkar Republic Valeriy Kokov.

The governor said that all of those men are strong leaders and any of them could, for example, head the Ministry of Industry and Trade or the Ministry of Regional and Nationality Policy. (Ayatskov had been eyeing the latter post for one of his deputies and was very upset when Kirienko picked Evgeniy Sapiro, former speaker of the Perm Oblast legislature, for the position. See *IEWS Russian Regional Report*, 14 May) Ayatskov believes that Titov would be best as deputy prime minister in charge of finance and economics, replacing Viktor Khristenko. Ayatskov noted that the current government lacks the solid foundation, professionalism and authority enjoyed by the previous cabinet under Viktor Chernomyrdin. He also said that he would never head the government, until his conditions, set forth in December 1997, are met. He refused to enumerate those conditions again.

Analysis of Ayatskov's interview reveals several things. First, his "ideal" cabinet composed of diverse and independently-minded regional leaders would be a government of careful checks and balances on each individual's power, arguably absent in Kirienko's team.

Reformers like Luzhkov and Titov balance the conservatives Stroevev and Kokov. Tsvetkov is a counter-balance to the "rebellious" Primorskii Krai Governor Yevgenii Nazdratenko. The more compliant Merkushkin serves as an alternative to the overly independent Tatarstan President Mintimer Shaimiev. The authoritative leaders of St. Petersburg and Leningrad Oblast suggest that discussion of a post-Kirienko government in the Federation Council is becoming more serious.

Second, of the eight leaders of the regions in the Greater Volga Association, with whom Ayatskov works most closely, he only favors Konstantin Titov. Most Volga governors and presidents hold a grudge against Ayatskov for trying to position Saratov as the "capital of the Volga" and for making territorial claims against his neighbors. Titov, however, has expressed no anger against Ayatskov's regional "imperialism" and, more importantly, at one time refused the post of deputy prime minister in Chernomyrdin's government, thus demonstrating his lack of ambitions for a Moscow position.

Finally, Ayatskov clearly sees only himself at the helm of the government, assured that he has what it takes to be a leader of national importance.

The very scope of Ayatskov's ambition in forming his imaginary cabinet shows that he wants to include all of Russia -- the Center, the North, the South, and the Far East. On 24 July he further criticized the current government for excessive borrowing from the IMF. He claimed that the money will go to commercial banks and will not benefit Russia. He also hinted that Boris Nemtsov will not make it through the summer in his current post of deputy prime minister. That statement seems particularly puzzling in light of the recent favor granted to Ayatskov by Nemtsov, when the latter gave him advanced warning of Yeltsin's change of heart on attending the Romanovs' burial in St. Petersburg and therefore allowed Ayatskov to save face and attend the funeral, thus appearing to be in synch with the president.

REGIONAL PROTESTS

CHELYABINSK MINERS THREATEN TO BLOCK RUSSIA'S EAST-WEST RAILWAYS. On 28 July, the miners of the Chelyabinsk coal mining company informed Deputy Governor Vladimir Bukrin's special task force on heat and power supply that they planned to block the Trans-Siberian Railroad in several points. A day earlier, miners led by the Independent Mining Union already blocked part of the railroad. If the miners make good on their threats, railway transportation between eastern and western Russia will be halted.

The strikers demand fulfillment of a tripartite agreement they signed with the management and the oblast administration on 28 May. At that time, the authorities promised to pay last month's salaries as well as 5 percent of the wages owed for October 1997 thru April 1998. To meet those demands, the oblast must find 60 million rubles (\$10 million), 40 million of which should come from the federal budget (10 million from the Ministry of Fuel and Energy and 30 million from the Ministry of Defense for its power usage). The remaining 20 million

rubles are expected from the company's main consumer, the Chelyabenergo power utility. Overall, the federal Ministry of Fuel and Energy owes Chelyabinsk Oblast 219 million rubles (\$36.5 million) for the comprehensive program to restructure the region's coal industry. The Feds contest that number because the projected subsidy was slashed in the sequestered federal budget. Fuel and Energy Minister Sergei Generalov is due to visit the oblast and meet with Governor Petr Sumin on 1 August to sort out these fiscal differences.

Currently, most large mines belonging to Chelyabinskugol have gone on strike. When they block the railways the miners usually halt cargo trains but let passenger trains pass. The resulting coal shortage forced Chelyabenergo to halt operations at several of its heat-generating stations and import 600 mega-watts of electric power from outside the region. Local industry executives think the miners' actions will hurt not only energy producers but also local metallurgical enterprises, which will be cut off from both their suppliers and their customers. - Igor Stepanov in Chelyabinsk

PENSIONERS BLOCK PUBLIC TRANSPORT IN PERM. Few expected a rally of pensioners to explode into a full-blown protest action that paralyzed Perm's public transportation system. On 23 July a spontaneous and unorganized rally of over 300 angry pensioners erupted in front of the oblast administration building. The senior citizens were protesting one-to-two month delays in their pension payments -- a relatively moderate wait compared to other regions. Deputy Governor Morozov tried to address the crowd but could not speak above loud catcalls. After two hours of picketing, somebody suggested that they should block the tram rails, and the resulting blockade lasted from 11:30 AM to 3:00 PM, despite pleas from city and police officials. The pensioners finally left the scene, most likely due to hunger and fatigue.

Curiously, no specific group claimed responsibility for organizing the protest. Most people learned about the rally from their friends and from spontaneously distributed leaflets. The police can thus hold no one responsible for a major disruption of public life. More troubling is that such an explosive protest by pensioners occurred in a usually stable and quiet provincial city. Most people are out of town for the summer, so one can only imagine the kind of unrest we can expect in the fall. (Radio Prikamiya, TV7, 23 July) - Andrei Suslov in Perm

NUCLEAR SCIENTISTS PROTEST WAGE ARREARS. For the first time in its history, the staff of the Russian Experimental Physics Research Institute in the city of Sarov went on strike. The Institute is Russia's primary center for nuclear research and 90 percent of its budget comes from the federal government. Of 18,000 employees, 3,500 went on strike on 23 July, according to the strike committee. The rest either fear the management's wrath or are employed on the basis of commercial contracts.

Strikers demand payment of wage arrears and a 50 percent base-salary increase. Currently the institute owes its employees four months of wages from 1997-1998. Nuclear scientists are now forced to receive part of their salary in food coupons redeemable only in the

institute's stores. Since the beginning of the year the institute has received only 46 percent of its expected federal subsidy. Prime Minister Sergei Kirienko's pledge to stabilize transfer of funds to the city, made during a recent visit, remains an empty promise as no money was transferred in July.

The nature of the institute's work is such that it cannot stop operations, so all the services responsible for the nuclear safety and smooth operation of the production process were kept online. Strikers obviously hope that the danger of shutting such an important nuclear research facility will prompt the federal government to resume full-scale financing. The management is hoping for the same, even though officially it has condemned the strike. To prevent a government shut-down of the institute, which would force the government to rely on the research muscle of the country's only other similar facility, located in Snezhensk, the unions of both institutions have begun talks on staging a joint protest. - Yurii Rodygin in Nizhnii Novgorod

CENTER-PERIPHERY RELATIONS

SUPREME COURT TO CONSIDER SARATOV'S RADICAL LAND LAW. The federal Supreme Court will hear a case brought by the Russian general procurator examining the legality of Saratov's land law on 13 August, according to the head of Saratov Oblast's land reform committee, Vladimir Prokopchuk. The law, adopted in December 1997, permits the buying and selling of privately owned land. Under its auspices the oblast has already held over 50 auctions and has sold more than 300 plots, or 2,000 hectares of land. The oblast plans to sell 41 plots of Saratov land in Moscow in early September. However, should the Supreme Court strike the law down as unconstitutional, all these sales (along with all land reform in Russia) will become void.

The office of the prosecutor general challenged the law in the Saratov Oblast court in May, specifically questioning the legality of 14 articles dealing with the mortgage, sale and registration of land plots. The prosecutor-general argued that the oblast law is not backed by a federal law that legalizes private ownership of land. Even though Articles 71 and 72 of the Constitution stipulate private ownership of land, that is not enough to back the oblast law in question. Indeed, treating land as a commodity implies that it should be regulated by the Civil Code, the appropriate article of which (Article 17), has not been adopted yet. The oblast court sided with the oblast administration but allowed an appeal by the office of the prosecutor general to the Supreme Court. The case will set an important precedent for all of Russia, especially since over 20 regions have adopted similar or even more radical land laws. - Aleksandr Nesterov in Saratov

LEBED COULD CLAIM CONTROL OVER PART OF NUCLEAR ARSENAL. On 24 July Krasnoyarsk Governor Aleksandr Lebed sent an open letter to Prime Minister Sergei Kirienko describing the dreadful conditions faced by strategic missile division personnel stationed in Uzhur-4 and at the Achinsk Military Technical Aviation School. In the best

tradition of his colorful style, Lebed's letter sharply criticized the Moscow government for neglecting the military in particular, and Russia "beyond the Urals" in general.

The last straw was a recent revolt by the wives of military officers, who blocked a major military route used to transport officers to their missile outposts. The military wives were protesting six-month delays in the payment of their husbands' salaries. The lack of money hurts morale and discipline, provoking anger toward Moscow's policies. Lebed has threatened that if the federal government continues to neglect the missile forces stationed in the krai, the regional government will take them under its jurisdiction. Something similar happened last year, when former Governor Valerii Zubov paid salaries to the missile force officers from the krai budget. General Lebed seems to want to go further and take the division under his wing altogether.

Experts say the division is one of the largest and best prepared among the three missile divisions stationed in the krai. It deploys silo-based missiles, most likely equipped with multiple, independently targeted warheads. Even though Moscow theoretically holds ultimate control over missile launches, division staff members have the technical capacity and the expertise to remove the blocking devices from the rockets' targeting and launching mechanisms. If the soldiers actually did that, Lebed could hold a nuclear trump card in his power game with Moscow, turning Krasnoyarsk Krai into another nuclear power. - Pavel Avramov in Krasnoyarsk

PATTERNS OF REGIONAL DEVELOPMENT

TATARSTAN'S GOVERNMENT RESHUFFLE LACKS TRANSPARENCY

by Midkhat Faroukshine, Kazan State University

KAZAN--Following the appointment of Vasilii Likhachev as Russia's ambassador to the European Union, a fierce power struggle ensued for his old post as chairman of the State Council (legislature) at the body's May plenary session. The candidacy of Prime Minister Farid Mukhametshin, backed by President Shaimiev, was countered by the nomination of the mayor of Naberezhnie Chelny, R. Altinbaev, who, surprisingly, enjoyed the support of quite a few city and raion executives, who are also members of the parliament (see *IEWS Russian Regional Report*, 4 June). Undoubtedly, this came as a shock to the president, who tailored the 1995 electoral system in such a way as to elect heads of municipal administrations, in clear conflict with the constitutionally-defined principle of separation of powers. The idea was to fill the parliament with obedient local executives who would be dependent on the president and fall in line with his policies.

While a democracy would tolerate, and even thrive on, the difference of opinions, an authoritarian regime like Tatarstan's cannot viably accept that part of the ruling elite diverges from the supreme leader. Retribution followed soon enough, as several heads of municipalities

and raions were fired. Many of those dismissals had of course been planned for a long time, but the May "insurrection" in the parliament dramatically increased the scope of the punitive action.

Personnel changes are integral to dynamic governance, especially in a dire economic situation, and the president has the ultimate authority over personnel decisions. But several trends in the president's decision making are greatly disturbing. First, the president never explained his decisions to the public. The people, it seems, only need to be consulted around the time of elections. Second, new appointments were made not on an objective and competitive basis but on the biased opinions of one person, the president. Third, as the press reports, President Shaimiev is prone to placing his relatives in positions of power, a disturbing departure not only from international democratic practices but even from the republic's Soviet era experience under the various first secretaries of the Communist Party.

Focusing on the specific decisions, no explanation was ever given for why former Prime Minister Farid Mukhametshin was demoted from the second post in the republic to the third. Either he under-performed as the head of government, or the president wanted to clear the way for his favorite, Finance Minister R.Minnekhanov. Or it could be a mixture of both reasons. Likhachev's departure and Mukhametshin's appointment as the speaker of the parliament meant that the entire leadership of the State Council became ethnically Tatar. Another deputy speakership was therefore created and offered to Aleksei Demidov, an ethnic Russian and rural local government executive, thus preserving the semblance of ethnic balance in the republic's power hierarchy.

The new prime minister, R. Minnekhanov, was approved by the parliament on 10 July and it is premature to pass judgments on his government's performance. However, we can make some predictions. The nation-wide crisis will prevent the new team from forming a workable plan for improving the situation in Tatarstan. The prime minister's first decision was to tighten regulations on the import of alcohol into the republic. Though admirable in its intent, the policy clearly contradicts the Russian Constitution, which prohibits tariffs on and barriers to the free flow of goods, services and money among regions. The federal authorities can overrule that decision, as they have with similar policies in other regions.

The new team, like the rest of the Russian and Tatarstani political elite, will likely try to grab on to the remnants of state property that has not yet been allocated. Minnekhanov, whose appointment was pushed through by the president, lacks the independent authority of a natural leader and will have to rely on his patron while earning the trust of the elite. Although the prime minister's team is largely young and energetic, it lacks administrative experience, a fault that will inevitably hinder its decision making. Also, it is uncertain whether the new team can effectively negotiate with Moscow in dividing power between the republic and the Center. Negotiating skills are especially important because Tatarstan lacks the resources necessary to influence the Center's policies.

The mass purge of municipal administration heads can be explained only partially by Shaimiev's vengeance for the May revolt in the parliament. The reality is more complex: the republican parliamentary elections are only two years away and the republican presidential elections will take place a year later. In both polls the president has clear objectives. In February 1997, with the help of the servile parliamentary speaker Likhachev, the president had the State Council pass a constitutional amendment that removed the limitation on one person serving more than two consecutive terms as president. Bent on securing a third term, Shaimiev has to ensure that the heads of local government will deliver the necessary votes. If some of them refused to back his candidate for the speaker of parliament, how could he be sure of their support in a much more crucial race?

All of the recent political reshuffling was, in the end, about showing Tatarstan's political elite who is really in charge. After he pushed Mukhametshin to chair the parliament and Minnekhanov to head the cabinet, Shaimiev fired his chief of staff Kh. Nizamov, for alleged involvement in the "conspiracy" to back Altinbaev. Nizamov has been known in Tatarstan as the "gray cardinal" of Kazan, an influential behind-the-scenes power broker. A similar fate was in store for Interior Minister Galimov and for a whole group of local government leaders. Tatarstan is now firmly entrenched in authoritarianism, with no clear prospects for democratic development.

ASSOCIATION OF FORMER STATE SECURITY AGENTS ACTIVE IN SARATOV

by Aleksandr Nesterov, *Saratovskie vesti*

SARATOV--In the seven years since the 1991 coup, the Soviet and later Russian security apparatus has undergone at least five major rounds of reform and reorganization, each presumably accompanied by organizational shifts and downsizing. The Saratov branch of the Federal Security Service (FSB), for example, has experienced a 46 percent drop in the number of agents. Because the nature of their work limits the agents' freedom of movement around the country, today the Union of State Security Veterans counts 800 members in the oblast.

Many retired state security agents have made a successful transition to the world of politics or business. Among the more prominent retirees are the minister for youth, sports, and tourism in the oblast government; the governor's chief of staff; several members of the Saratov city дума; several business executives; several senior leaders of the oblast branch of the tax police; a head of a private security firm and many others. To help newly retired state security agents adopt to the real world, the Union of State Security Veterans has created a special fund that offers retraining classes, supports members' efforts to launch small businesses, and helps them network with each other. Capitalizing on their competitive advantage, former state security agents find lucrative roles in providing analytical, informational, and legal counseling and offering private security services.

Most recently, the state security veterans formed a large umbrella organization, the Association of Economic Security, which is headed by Nikolai Kostikov, a former agent who is now a successful business executive. He offers assurances that the public has no reason to fear former state security agents in their new incarnation. He points out that they have no connection to the mythical "white squadron," a unit allegedly formed by security service veterans to combat crime and corruption, the notion of which frightened Saratov residents for some time. The Association unites many security professionals who were forced to retire while still middle-aged and who intend to remain productive members of society. Association members include various security, legal, detective, informational, analytical and consulting organizations. They focus on providing various kinds of security, for example, performing debt collection or background checks on potential business partners.

The association works directly with many business information agencies in the US, Great Britain, Germany, Spain, Israel, Brazil, Australia, and India, as well as with its counterparts in many former Soviet republics. Similar associations have been formed in St. Petersburg, Nizhnii Novgorod, Tambov, Penza, Voronezh, Saransk, Togliatti, Samara, Perm, Yekaterinburg, Irkutsk, Barnaul, Rostov-on-Don, Volgograd, Astrakhan, Petropavlovsk-Kamchatskiy, Vladivostok and Nakhodka. Given the traditional professional solidarity of all former state security agents, Kostikov is sure his group can provide its clients with top-quality security services throughout Russia and abroad. The oblast administration favors the association's activities because they contribute to a safer and thus more attractive investment climate.

LEBED CRACKS DOWN ON ILLEGAL ALCOHOL PRODUCTION. One of the latest decrees signed by Krasnoyarsk Krai Governor Aleksandr Lebed not only restricts the non-licensed production of alcohol in the region but also curtails imports of alcohol legally produced elsewhere in Russia. Of 70 million liters of vodka consumed by the krai residents annually, only 20 million liters are produced in the region, even though the several plants located in the region have the capacity to produce 60 million liters annually. Only 10 percent of imported vodka meets the krai's new quality standards. Most imported vodka is manufactured largely from industrial spirits. The illegal surrogate vodka is considerably cheaper than what is sold legally. Over 100 warehouses in Krasnoyarsk are now involved in selling illegal alcohol.

The new strict licensing procedures will lead to the establishment of five or six sites that will serve as clearing houses for all imported vodka. Additionally, all the imported vodka will be specially marked before distribution, thus making life more difficult for illegal alcohol producers. Several other Siberian regions, such as Altai Krai and Irkutsk, Novosibirsk and Kemerovo oblasts have already enacted such measures, which is why so many illegal producers have switched to Krasnoyarsk as their new operational base. In addition to the increased regulation, the krai administration is planning to increase alcohol tax collection from a meager 145 million rubles (\$24 million) to three times that amount. Federal courts have ruled that such restrictions on inter-regional trade are illegal. - Pavel Avramov in Krasnoyarsk

MAKHACHKALA MAYOR STRENGTHENS HOLD ON POWER. On 23 July, the day after the latest assassination attempt on Makhachkala Mayor Said Amirov (See *IEWS Russian Regional Report*, 23 July), 5,000 people, mostly municipal employees, rallied on the city's main square. The participants carried pro-Amirov slogans and heard speakers from the city administration. The demonstration passed a three-point resolution. First, it calls for closing the wholesale market in the center of Makhachkala. Amirov wants to move the merchants to the fringes of the city and many believe they are behind the assassination attempt. Although rally participants lack the authority to make such decisions, no prosecutors have so far protested the suggestion. For the time being, Amirov is still squeezing the rebellious traders into the special trading zone controlled by his clan. The assassination scandal has only furthered that effort.

Rally participants also called for instituting tighter control on entering and leaving the city to prevent armed people from penetrating Makhachkala. That measure is unlikely to be effective, as the city is already packed with guns and the police have lost control over the flow of arms. Most arms are in fact carried by representatives of various state institutions and thus enjoy immunity from law-enforcement.

Finally, rally participants called for the creation of a municipal police force, an idea Amirov strongly supports. Experts agree that in reality such a move would mean creating a legalized militia under Amirov's control. While the new force's status has not been legally defined and its responsibilities in relation to the current Interior Ministry police force are unclear, over 500 people have applied for the 50 positions to be created.

On the day of the rally, Dagestani Interior Minister Adilgirey Magomedtagirov put his police force on special alert. Simultaneously, Magomedtagirov fired the heads of two municipal police precincts as well as the head of the republican traffic police. The city's police chief was also asked to resign. The ministry and the regional branch of the Federal Security Service (FSB) have also created a special task force to investigate the assassination attempt. Russia's Interior Minister Sergei Stepashin promised to personally supervise the investigation. - Nabi Abdullaev, *Novoe delo*, in Makhachkala

ECONOMIC ISSUES

VOLGOGRAD OFFERS MAGNESIUM INVESTMENT OPPORTUNITIES.

Volgograd Oblast is home to the world's largest bischofite field, which contains an estimated 500 billion tons of the unique liquid mineral that is a rich source of magnesium. Investments in extracting the element are thought to be more profitable than investing in the oil industry.

Bischofite is used in the pharmaceutical industry and also in agriculture, since it makes a good fertilizer. However, the most promising use for bischofite is as a source of rare chemical elements, particularly magnesium. A cubic meter of bischofite produces 107 kg of magnesium, 6 kg to 9 kg of bromine and other rare metals. Magnesium is the lightest commonly used structural material. Its die-cast alloys are used to make precision instruments in the automotive, power

tool, computer, electronic, and other industries.(<http://www.lunt.com/alloy.htm>) Since the metal burns brightly, it also has applications in fireworks, flashbulbs and flares. Volgograd is not the only source of magnesium in Russia. Perm's Solikamsk Magnesium Plant has developed technologies to extract magnesium cheaply from asbestos mined in Sverdlovsk (See *IEWS Russian Regional Report*, 16 April). Another alternative source of magnesium is sea water, although producing the metal from that source is extremely expensive.

Volgograd authorities have long believed that investments in bischofite would provide considerable benefit to the region, but they have not had the money to finance the necessary operations. Several deals have apparently fallen through. According to a 1995 report from the US Commerce Department's BISNIS office, the US firm Great Lakes was planning to invest \$1 billion in the site, but that investment did not work out.(<http://iepnt1.itaiep.doc.gov/bisnis/country/vlgrep.html>) In 1997 the German firm Bienshof considered a one billion DM investment with financing to come from German banks. (Feller Mining News, 24 January 1997, <http://www.info-mine.com/feller/news/gfjan24-97.html>) The project would have included construction of a plant to produce metal alloys. This deal apparently fell apart when Communist Nikolai Maksyuta defeated incumbent Governor Ivan Shabunin in the elections held on 22 December 1996.

Regional authorities want to be sure the bischofite development works to the benefit of the region and that a firm partly owned by the oblast gains the rights to work on the deposits, according to Nadezhda Potapova, chairwoman of the Volgograd Oblast State Property Management Committee. The regional authorities do not want to repeat the experience of working with a Saratov firm that is extracting oil in the northern part of the oblast but not paying any Volgograd taxes. The original state-owned enterprise MNPO Bischofite was a failure and is now in bankruptcy proceedings. Several Moscow and foreign firms are still eager to acquire licenses to work in the bischofite fields, according to Vice Governor Vasili Galushkin. - Ivan Kurilla in Volgograd and Robert Ortung

NIZHNI'S STAND OFF WITH INVESTORS CONTINUES. The conflict between the Nizhnii Novgorod administration and Spring Investments, the developers who want to build a new business-class hotel on an ancient mass burial site continues (see *IEWS Russian Regional Report*, 2 July). A meeting between the city officials and investors produced no compromise. Oblast Governor Ivan Sklyarov rigidly opposes any construction on the controversial site. One of the main investors in the venture, Sir Rocco Forte, said he has never encountered such a situation in his years of experience building hotels around the world and that such a situation gives the city a bad image in the eyes of foreign investors (see Business Briefs above for information on Forte's activities in St. Petersburg). The developers believe political considerations are behind the government's opposition to the construction and have offered to build a chapel next to the site. Forte is not convinced that the investors will be allowed to build even on a designated alternative site. He vowed to bring the dispute to court. According to the general director of Spring Investments, David Brown, developers encounter archaeological sites, including burial grounds, in almost every project around the world. Usually the discovered

remains are reburied and construction continues, he claimed. Otherwise, he said, "all the cities of Europe would be empty." - Yurii Rodygin in Nizhnii Novgorod

CANADIANS TO MINE GOLD IN IRKUTSK OBLAST. Two Canadian companies, Plaser Dome and Barrick Gold, received a license for exploring the Sukhoi Log gold deposit field, according to Irkutsk Oblast administration officials. The two companies sent their senior representatives to Irkutsk in July to inspect the site. They received full cooperation from the oblast government, and will receive complete information on the deposit's geological composition during their exploration work, which is licensed until 25 December 1998. The Canadians may also transport their geological samples outside Russia.

The administration opened up the Sukhoi Log deposit field for inspection prior to an auction for development rights, hoping to level the playing field for all the bidders. Some of them have considerable advantages. For example, the South African company JCI bought Australia's Star Technology, and with it access to proprietary information about the deposit via Star's partial ownership of Lenzoloto since 1992. Lenzoloto originally held the license to develop Sukhoi Log but had to give it up when its privatization was ruled improper (see *IEWS Russian Regional Report*, 12 June 1997). - Natalia Michurina (Teleinform) in Irkutsk

REGIONAL LINKS

Lebed Mania! There are numerous sites on the web that focus on Krasnoyarsk Governor Aleksandr Lebed. Perhaps the most useful for current news is the home page of the Krasnoyarsk branch of Lebed's Honor and Motherland organization and the Russian People's Republican Party (<http://www.alebed.org/>), which starts out with the phrase "A powerful governor for a powerful krai" (*Moguchemu krayu moguchii gubernator*). The site updates party activities and posts excerpts from the local press as well as press releases from the governor's press office. It will include coverage of the July 30 party congress. In the section titled "leader," an electronic version of Lebed's book *Ideologiya zdravogo smysla* is posted. The site also has extensive information from the recent gubernatorial campaign, including the text of Lebed's campaign program.

Lebed lovers and haters can also find an extensive list of links to Lebed material at (http://www.geocities.com/CapitolHill/2568/1_lebed.html).

The web site of the former Krasnoyarsk Governor Valerii Zubov (<http://www.krasnoyarsk.org/>) is not currently being updated.

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BREAKING NEWS

POLIITCS

SAKHALIN STRIKE SETTLED. Coal miners agreed to remove their blockade from train tracks leading to the electricity generating station in Yuzhno-Sakhalinsk on 6 August. The strike began 24 July. Electricity was expected to be restored by the evening of 6 August, the BBC reported. Sakhalin, an island on Russia's Pacific coast, is not on the country's electric grid and thus depends on the plant for power.

On 4 August, in a meeting with Sakhalin Governor Igor Fakhutdinov, Deputy Prime Minister Boris Nemtsov agreed to provide federal funds to cover the miners' wage arrears but only after the blockade was lifted. Federal officials will visit the region to explain the repayment schedule for the government's 200 million ruble (\$32 million) debt. The regional legislature denounced the strikers, saying they caused considerable damage to the oblast's economy and hurt innocent residents who were uninvolved in the conflict. Electricity cutbacks forced the shutdown of cold-storage units at the height of the fishing season, destroying at least 100 tons of fish. Local fishermen were reluctant to catch more because they have no storage facilities. In a bid to prevent violence, special police (OMON) protected the striking miners from angry fishermen. On 30 July regional authorities considered forcefully removing the miners from the tracks, but Fakhutdinov opposed that plan. (*Kommersant Daily*, 31 July).

CHELYABINSK STRIKERS THREATEN NUCLEAR PLANT. Striking coal miners blocking the Trans Siberian Railroad in Chelyabinsk are reducing energy supplies that could shut down the Mayak complex, Russia's only nuclear waste processing facility. The strikers are blocking the main rail line to the electricity plant that supplies energy to the complex. If the electricity is shut off, security systems for more than 200 nuclear waste storage sites could close down, creating an extremely hazardous situation. Local authorities are near panic, according to *Kommersant Daily* on 4 August. Governor Petr Sumin has been seeking to resolve the conflict through negotiations rather than force. He stopped just short of declaring a state of emergency on 5 August, *Izvestiya* reported the next day. (For more details on Mayak, see the article in Social Issues below.)

TULEEV SEEKS GREATER POWER. Kemerovo Governor Aman Tuleev said on 30 July that he would not sign a power-sharing treaty with Moscow if the federal government refuses to hand over its shares in Kemerovo enterprises to the oblast government and continues to prevent the region from selling coal. Tuleev also wants the state to buy the region's coal rather than force producers to find customers. Additionally, he seeks an increase in the oblast's share of value-added tax fees from customs duties and the sale of alcohol. Those measures, Tuleev believes, would cover the 5.6 billion ruble (\$903 million) deficit in the oblast's budget. (*Novye izvestiya*, 31 July)

US MARINES MOVE LANDING IN FAR EAST. US paratroopers based in Japan called off a landing set for 6-8 August near Vladivostok because of protests by Communists and nationalists. Some exercises will be held at a Russian marine base in a region farther from the city. The soldiers and 15 armored vehicles were scheduled to land just outside the city and march 20 kms. Primorskii Krai Governor Yevgenii Nazdratenko supported the protestors. According to *Vladivostok* (4 August), local military leaders decided to participate in the joint exercises in the hope that the Defense Ministry and federal government would fund the exercise; funding for training is usually unavailable. They sought to save money by conducting the exercises near Vladivostok. Unfortunately, they failed to anticipate the political consequences of the project.

NDR FOCUSES ON REGIONS. The strategic goal of Former Prime Minister Viktor Chernomyrdin's Our Home is Russia is to strengthen its ties in the regions, which now

control 55 percent of Russia's consolidated budget, according to First Deputy State Duma Speaker Vladimir Ryzhkov. (*Itoги*, 3 August) The only parties with extensive regional networks are the Communists, Vladimir Zhirinovskiy's Liberal Democratic Party (with assets of \$80 million-\$100 million, according to *Rossiiskaya gazeta* on 31 July), and Yabloko (which is present in 10-15 regions). Ryzhkov claimed that the NDR's network is comparable to that of the Communists. He also asserted that none of the 52 governors in the NDR's political council have resigned since Chernomyrdin was fired. He believes that the party will be able to attract a solid base focusing on its key themes: political stability; moderate, gradual reforms; developing federalism; and supporting domestic capital, industry, and agriculture.

According to an *Itoги* report from Chelyabinsk Oblast, the NDR still has relatively strong support there, including Chelyabinsk Deputy Mayor Sergei Kozlov and the directors of several large industrial plants. The head of the local branch in Udmurtiya is Udmurtiya's Deputy Prime Minister Sergei Kasikhin. He said half of the heads of the republic's 34 raions support the NDR and would be key in obtaining support in their territories in upcoming elections.

KIRIENKO MEETS WITH MASKHADOV. Prime Minister Sergei Kirienko met with Chechen President Aslan Mashkadov in Nazran on 1 August. Kirienko openly supported Mashkadov and even offered to turn Chechnya into a "free or special economic zone," similar to the one in Kaliningrad, to encourage investment, according to *Nezavisimaya gazeta* (3 August). Moscow supports Mashkadov as the best hope for stability in the region. Kirienko promised to pay pensions and federal benefits in full to residents of the republic. The two leaders also discussed sending more oil through Chechnya's pipelines. Only a trickle of oil now passes through the pipelines that run from the Caspian Sea and across the republic, which hopes to generate revenue from the pipeline.

Granting Chechnya the tax privileges of a special economic zone would only legalize the status quo because Chechnya has largely conducted trade beyond the reach of federal inspectors since 1991. Such benefits, however, would only lure the bravest investors into risking money in the effectively lawless region. Ingushetiya President Ruslan Aushev and North Osetiya President Aleksandr Dzasokhov strongly back the idea of an economic zone. On the same day as the meeting with Kirienko, Moscow Mayor Yurii Luzhkov said Chechnya should be granted independence as long as the safety of the "Russian-speaking" population is protected and border security is enforced. After the meeting, Mashkadov left for a trip to Turkey and the US.

ECONOMICS

NEW REGIONAL RANKINGS PUBLISHED. In June, Bank Austria published a revised regional-risk ranking of Russia's 89 regions, updating its 1995 report. The study is the most authoritative work of its kind. Prepared by Vienna's Institute for Advanced Studies, the report concludes with a general-risk rating based on the combined estimates for environmental, political, social, and economic risk, as well as a region's experience with foreign and joint enterprises and previous foreign investments. The institute ranked the regions in order (1-89) and usefully divided them into six classes, grouping comparable regions together.

Not surprisingly, Moscow and St. Petersburg are ranked No. 1 and No. 2, making up the first class of regions with relatively low risk for investments. Moscow and Tyumen oblasts are No. 3 and No. 4 and pose moderate risks for foreign investors. The third class comprises 13 regions with average risk. Those include Samara, Nizhnii Novgorod, Sverdlovsk, Kemerovo, Irkutsk, Chelyabinsk, Tatarstan, Krasnodar, Volgograd, Krasnoyarsk, Arkhangelsk, Belgorod, and Perm. Investments in the remaining regions should be examined with extreme care.

The regions with the greatest deterioration in risk rating between 1995 and 1998 are located along the north and northeast sub-ring of Moscow. Among them are Ivanovo, Bryansk, Pskov, Tver, Vladimir, Kirov, Kaluga, Novgorod, Kostroma, and Ryazan. According to the institute, this suggests that "regions with modest natural human resources, shrinking population, outdated and depreciated industrial infrastructure against a backdrop of unfavorable climatic conditions are the main victims of the transition." The most surprising member of this group is Novgorod, whose governor, Mikhail Prusak, has been very successful in attracting foreign investment. But his region dropped from 13th place to 46th. Regions making the largest gains are all well endowed with natural resources: Tatarstan, Kamchatka, Sakhalin, Tomsk, Tyumen, Krasnodar, Krasnoyarsk, Komi, Kemerovo, and Magadan.

In general, the outsider regions tend to be republics or autonomous okrugs within the north Caucasus and extreme parts of Siberia. Regional winners are the two major cities, and oblasts located along the west-east belt, with temperate climate, large cities, important industry, abundant skilled labor, well-developed transportation infrastructure, and good communications facilities.

The 194-page "Russia: Regional Risk Rating" is available free of charge from Bank Austria by telephone (+431) 71191-56148 (recorded message) or via e-mail (bank-austria.pub@ba.telecom.at). For questions concerning the content of the study, please contact Ms. Ebner (verena.ebner@bankaustria.com).

FIRST MOSCOW-PETERSBURG BANK FORMED. St. Petersburg's Petrovskii Bank and BaltOneximbank agreed on 21 July to merge into the United Bank of St. Petersburg, creating the first hybrid of a local St. Petersburg bank and a Moscow bank. Vladimir Potanin's Oneximbank will own 51 percent of the new bank and Petrovskii will own 49 percent. Earlier, Petrovskii had joined St. Petersburg's other large banks, Promyshlenno-stroitel'naya Bank and the Bank of St. Petersburg, to form the St. Petersburg Bankers' House. Petrovskii left that alliance one day before announcing the merger. The Bankers' House sought to compete with the Moscow banks by combining local resources (see *IEWS Russian Regional Report*, 25 September 1997). Despite the merger, Promstroibank will remain the largest bank in the Russian Northwest, according to *Chas pik* (29 July). Before the merger, the largest banks in St. Petersburg were Promstroibank-St. Petersburg, Credit Lyonnais-Russia, BNP-Dresdner Bank, Petrovskii, BaltOneximbank, the Bank of St. Petersburg, and Baltiiskii Bank, according to a recent Interfax-AIF ranking, which used assets as the criteria for size. The split between the St. Petersburg banks marks the return of fierce fighting between the city's banks, similar to that of 1994-1995.

Petrovskii Bank is important because it pays the pensions of 90 percent of the pensioners in St. Petersburg and Leningrad Oblast. Since payments into the fund can be

delayed, Petrovskii needs access to large resources in order to make payments on time. Such funds are not available in St. Petersburg or to a St. Petersburg bank in Moscow, which is why Petrovskii needed to form an alliance with a powerful Moscow bank, *Chas pik* reported.

NEW PORT IN KRASNODAR KRAI. Construction has begun on a new \$200 million Black Sea port in Gelendzhik, *Finansovye izvestiya* reported (4 August). The completion date is still unknown. Nevertheless, the region is counting on the new facilities to boost its economy because the number of tourists visiting the area (currently about 500,000 a year) has dropped 50 percent since the end of the 1980s. Russians are now heading for Turkey, Bulgaria, and Cypress, where facilities are better. High prices and scant investment in Gelendzhik make it an unattractive destination, as does the nearby conflict between Georgia and Abkhazia.

The port is designed not to damage the local environment, according to the newspaper. Currently, thirty million metric tons of Russia-bound freight passes through Ukrainian ports each year, costing Russia between \$1.5 billion and \$3 billion annually. The new port will process 0.8 million tons of freight a year. Russian ports handle a combined total of 70 million tons of cargo yearly.

New rail links to the port are unnecessary because cargo will arrive in containers that can be transported on trucks. Leningrad Oblast is also furiously building ports in an attempt to reduce the role of the Baltic countries in transporting goods from western Europe to Russia.

AVTOVAZ PROBLEMS WORSEN. With overproduction levels of more than 100,000 cars, and non-cash payments for over 90 percent of the cars it does sell, AvtoVAZ now admits that it does not have enough money to pay its workers. All employees have been assigned a 20-hour work week. Samara Governor Konstantin Titov noted that the plant cannot meet its October 1997 obligations to pay 100 million rubles (\$16 million) a month in federal tax debts. At that time, it owed the federal government alone over \$500 million in back taxes and fines. Titov believes only an overall recovery in the Russian economy will help the factory. (*Izvestiya*, 4 August)

GROWING INTEREST IN IRKUTSK'S SUKHOI LOG. At least four companies are taking advantage of Irkutsk Oblast's decision to let foreigners examine the Sukhoi Log gold deposits before bidding on the rights to develop the site. The Newmont Gold Company (US) and the British RTZ join Canada's Barrick Gold and Plaser Dome in exploring the site (see *IEWS Russian Regional Report*, 30 July). Other possible participants include Golden Fields (US) working with JCI (South Africa), High River Gold (US), and TECH (US). Among the Russian banks interested are Rossiiskii kredit, MENATEP, Oneksimbank, and Lanta-Bank. The authorities hope that opening access to the site will ultimately increase the price paid for the right to work the deposit. The conditions of the tender will likely be announced this fall. (*Kommersant Daily*, 4 August)

TWG QUILTS BATTLE FOR NOVOLIPTESK. The British Trans World Group (TWG) announced that it will sell its 36 percent stake in the Novolipetsk Metallurgical Combine to firms allied with MFK-Renaissance, ending its struggle to control the

plant. Novolipetsk is one of the world's 25 largest steel producers and the battle between MFK-Renaissance and TWG was seen as an important example of whether shareholder rights would be honored in Russia. TWG controlled the factory until 9 December 1997, when shareholders who had long controlled a majority stake were finally able to gain control of the board of directors (see *IEWS Russian Regional Report*, 18 December 1997). The victorious group of shareholders included MFK-Renaissance and Cambridge Capital Management. The battle had raged for three years and only ended after the plant managers switched from supporting TWG to the shareholders. MFK and its allies now control six of the nine seats on the board of directors while the factory managers hold three seats. (*Kommersant Daily*, 4 August)

CHELYABINSK TRACTOR SUFFERS FROM PIRATE PARTS PRODUCERS.

Unauthorized factories making spare parts for vehicles produced by the Chelyabinsk Tractor Factory have sales over 100 million rubles (\$16 million) a year. Sales by the factory reach 900 million rubles (\$145 million) a year. The factory now wants the unlicensed producers to pay fees for the right to make the parts. Such a move could set a precedent in Russia, since many factories suffer from the same problem. The parts trade is profitable because the tractors and bulldozers the plant produces often break down. The plant had previously been unconcerned about the parts makers, but its new leadership is now trying to make it profitable and is seeking a greater share of the profits from the parts sales. (*Kommersant Daily*, 31 July)

LACK OF ELECTRICITY SHUTS KHABAROVSK BORDER. Khabarovsk had to shut a border checkpoint at one of its ports for at least a day because of a lack of electricity. The station usually approves the passage of 10 ships a day, but could not do so without the use of its equipment. (*Kommersant Daily*, 29 July)

BUSINESS BRIEFS

-- The US's **INTERNATIONAL PAPER** is planning to buy a 90 percent stake in the **SVETOGORSK (LENINGRAD OBLAST)** paper mill, according to a June 26 press release (http://www.internationalpaper.com/ca/page/press_releases.cgi?funcs=links&ID=959228&back=list). **TETRA-LAVAL** bought the plant three years ago and has invested \$127 million in refurbishing it. The deal is expected to be completed this summer, but financial details were not announced. The firm plans to make incremental investments in the plant "to improve upon the mill's current low cost-advantage and to broaden its range of products." Last year Sweden's **SVENSKA CELLULOSA AKTEIBOLAGET** bought a separate part of the mill that produces toilet paper, diapers, and feminine hygiene products for just over \$26 million. (*Moscow Times*, 18 July)

-- The **PERM OBLAST** Legislative Assembly approved an investment of approximately \$353 million to provide nearly 300,000 new telephone lines in the region. (*Finansovye izvestiya*, 30 July)

-- The stock swap in which **YEKATERINBURG'S URALMASH-ZAVODY** is taking

over **ST. PETERSBURG'S IZHORSKIE ZAVODY** was supposed to be completed by 1 August, but the period of exchange has been extended to 28 August. Owners of Izhorskies stocks are supposed to trade them for Uralmash stocks at a ratio of 1:9. So far Uralmash only has a 48 percent stake in the St. Petersburg plant because many of the workers who own the stock are reluctant to trade it for a share of the Yekaterinburg holding company. (*Kommersant Daily*, 30 July)

-- **CHUVASHIYA** was the first region to pay off its agrobonds on time, according to *Kommersant Daily* (29 July). It has cleared its 29.8 million ruble (\$5 million) agrobond debt.

-- **HILTON** began constructing a five-star hotel in **MOSCOW** in early August. The complex will have 312 rooms and cost \$55 million - \$60 million to build. The **EBRD** is investing \$30 million in the project. Hilton is negotiating the construction of a hotel in **ST. PETERSBURG**.

SOCIAL ISSUES

CHELYABINSK MINERS STRIKE CAUSES NUCLEAR STORAGE PLANT SHUT DOWN. For the first time in the history of the Mayak nuclear waste storage plant, two of its nuclear reactors shut down on 4 August, according to the plant's Director Viktor Fetisov (for an additional story on this topic, see Breaking News in this issue). The six-minute shutdown was caused by a drop in electricity. Fetisov warned that Mayak does not have enough steam, which could cause major environmental problems.

The fuel shortages are caused by the continuing blockade of railroad tracks by striking coal miners from the Korkinsk field. The local power station only has coal reserves for 90 days, and freight trains have been blocked from making deliveries since 21 July. Additionally, the station is built to use only coal from the Korkinsk deposit, which prevents its management from substituting coal from another source. Miners, meanwhile, continue working and storing their product, and have accumulated 70,000 tons of coal, a month's worth of production. Accumulation of huge amounts of coal for extended periods of time presents a major fire hazard, as the risk of spontaneous combustion increases.

According to the chief engineer of the Chelyabenergo power utility, the region's electric grid is under a lot of strain, especially after several generators at the Troitsk hydro electric power station had to be shut down due to the unusually high water temperature in the reservoir. Only two generators are running, each producing 180-190 mega watts of electricity, significantly below their normal 300 mega watt output. The striking miners continue to demand that the Chelyabenergo and the oblast government fulfill their 28 May tripartite agreement, according to which miners should be paid their salary by the end of each month plus 5 percent of their salary arrears for October 1997-April 1998. To pay miners' salaries for May and June, the company has to find 40.3 million rubles (\$6.7 million) in cash. Because of the strike, however, the July salaries should amount to only 8.2 million - 8.5 million rubles (\$1.4 million). - Igor Stepanov in Chelyabinsk

PATTERNS OF REGIONAL DEVELOPMENT

LEBED'S PARTY CULTIVATES PERSONALITY CULT

by Pavel Avramov

KRASNOYARSK--The Honor and Motherland (ChR) movement and the Popular-Republican Party (NRP), both founded by Krasnoyarsk Governor Gen. Aleksandr Lebed, held a joint congress on 30 July in Krasnoyarsk. The main item on their agenda was electing a new leader, since Lebed cannot head a political organization while holding the post of governor. By the end of the congress, Lebed had managed to both remain at the head of his party and his movement while satisfying the fine points of the law.

There are now over 500 members of the NRP and 1,500 members of the ChR in Krasnoyarsk Krai and the organizations claim 60,000 members across the country. Internal divisions have split the ChR movement since Lebed's election. Many of the fights are attributed to the dissatisfaction of some of Lebed's supporters with personnel appointments following his victory. A more important problem plagues the movement, however. Many Lebed activists from the krai's periphery suddenly found themselves members of the regional "party of power" and, naively believing in their mandate to improve the region, some began pressuring local authorities for policy changes, including budgetary allocations. That provoked the resentment of local officials and reprimands from the regional party headquarters.

In that atmosphere, one of the activists, a certain Zakharov, unsuccessfully challenged Viktor Zubarev for the leadership of the krai branch of the ChR movement. A young, successful, and reportedly ruthless entrepreneur as well as a member of the krai legislature, Zubarev had invested a lot of time and resources in building up the movement's regional branch. At one point he even pushed aside the branch's founder, and ever since he has been considered a very strong leader in the organization. The long-suppressed rage of the rank-and-file exploded in the face of the party leaders at the Krasnoyarsk chapter of the ChR's 27 July conference, and the attendees had a difficult time electing delegates to the national movement congress.

At the national congress, 250 representatives from 81 Russian regions gathered to discuss and define the two groups' strategy. Organizers had expected 400 delegates. Speaking to the congress, Lebed stressed that the party's goal was "not power, but a worthwhile future for Russia." The two main topics of discussion were the 1999 Duma elections and the presidential elections in 2000. Delegates discussed potential candidates, focusing closely on their most dangerous rival, Moscow Mayor Yurii Luzhkov and his new left-wing coalition Unity (*Edinstvo*).

On the operational side, Aleksandr Lebed resigned as the head of both the NRP and the ChR movement, and his long-time associate Yurii Shevtsov, who founded both organizations with Lebed, was elected in his place. Zubarev became Shevtsov's deputy. Changes were made to the charters of both groups, introducing a new concept of "Leader." Naturally, Lebed became the leader of both.

Local observers were quick to note that as a result of those manipulations Zubarev became one of the leading figures in the movement, due to his sheer proximity and access to the "Leader." Shevtsov apparently has been relegated to the role of an honorary party

chairman, charged with representing the party in Moscow's power circles. It is also obvious that the NRP and the ChR movement have remained "one-man" organizations, saturated with the cult of Lebed's personality. Contrary to historical lessons, in this case the development of such a cult of personality has not been accompanied by the propagation of nationalistic ideas.

ULYANOVSK GOVERNOR TO RE-CREATE COMMUNIST PARTY OF THE SOVIET UNION? Ulyanovsk Oblast Governor Yuri Goryachev is trying to re-create the Communist Party of the Soviet Union (KPSS), starting with his region, *Simbirskie gubernskie vedomoshti* reported (23 July). While the local branch of Our Home is Russia (NDR), on whose political council Goryachev sits, declined to confirm this, the newspaper *Simbirskiy kurier* (28 July) found confirmation in several other sources. The Ulyanovsk branch of the Communist Party of the Russian Federation (KPRF) noted that an organization entitled KPSS already unites various left wing parties in the former Soviet Union, so creating another KPSS in Ulyanovsk would be utterly meaningless.

Simbirskiy kurier interviewed numerous regional politicians, producing two explanations for the governor's behavior. The first is that the governor made a political mistake, manipulated by his emotions and bad advice from his aides. The other is that he is preparing the political playing field for the upcoming gubernatorial elections in 2000. In 1996 he narrowly defeated a Communist member of the State Duma, losing to him in the city of Ulyanovsk. That was a signal that the region's political orientation is not just "leftist" but outright "red." Thus, he decided to "redde" his public persona to pinch some conservative voters away from the likely Communist challenger in 2000. In turn, the local Communists have long considered the idea of an alliance with the governor, hoping to further advance their influence over voters. However, preliminary talks between the oblast Communist leaders and Goryachev have produced no concrete promises. Reportedly, the president's representative in the region and a member of the governor's "team," Valeriy Sychev, let Goryachev know that his shift to the left would be most undesirable. - Sergei Gogin, *Simbirskiy kurier*, in Ulyanovsk

MAKHACHKALA CAB DRIVERS CLASH WITH CITY OVER LICENSES

by Nabi Abdullaev, *Novoe Delo*

MAKHACHKALA--The city of Makhachkala is again locked in conflict with the Independent Trade Union of Entrepreneurs and Drivers. Over 2,000 of the union's drivers of fixed-route cabs rallied on the city's main square on 30 July, outraged by the administration's attempt to control independent cab drivers through the new Makhachkalatrans transport company. Drivers who had refused to comply with the regulations imposed by the new organization had their driving licenses, car registration documents, and trade union authorization forms confiscated by city police. The rally participants accused the city of trying to monopolize the market, in direct violation of Russian and Dagestani laws. The drivers adopted a resolution calling on the city to rescind its decision to create Makhachkalatrans, sought negotiations for a mutually acceptable agreement with the union, and demanded the return of their driving documents.

Mayor Said Amirov met with the union's delegation but was not cordial, saying: "I run this city. What I say goes." Asked to comment on the matter, the city's Department of Industry, Transport and Communications said cab licenses by themselves do not permit drivers to pick up passengers and set their own routes. The department said the city is the only legal customer of cab drivers and it can therefore rightfully dictate all public transport routes. Under the new agency's rules, drivers would have to pay the city 350 rubles (\$56) every month, adding to the usual cost of driving a cab in the city, which includes payment of taxes and license fees. Until recently the trade unions controlled the private car market in the city. Each driver had to pay 30 rubles (\$5) a day in union dues.

Makhachkalatrans has begun operations with 400 drivers under its control. They will have access to special city-sponsored hubs that are equipped with a cafeteria, toilets, medical and technical checkup stations, and a route-control system. The city believes that in the absence of a municipal agency, the independent trade union had acted like a branch of the city administration but did not contribute to the city budget. The union, Makhachkala officials further claimed, is just a front for criminal racketeers, who extort part of the drivers' profits from them. The city's goal, they said, is to free private drivers from criminal pressures.

On 5 August the drivers took more radical action and blocked traffic at one of the city's major intersections. Makhachkalatrans security guards arrested one of the union's leaders, Isalmagomed Nabiev, took him away in a car without license plates, and brutally beat his brother, the chief legal counsel to the union, who had tried to prevent the kidnapping. Nabiev's whereabouts are not known. When the deputy mayor approached the crowd to negotiate, the 500 strikers demanded to speak to the mayor, who refused to see them. The strikers later petitioned the city police chief about Nabiev's kidnapping, but the police did not take that move seriously, saying: "That Nabiev was only fooling you." While OMON special forces troops surrounded the area, Makhachkalatrans security guards harassed the strikers, beating some of them and using rocks and clubs to smash their car windows. A riot ensued, drawing in OMON soldiers and police, who tried to arrest and take away union members. When it became apparent that the strikers were winning the fight because of their sheer numbers, police began shooting into the air and the fighting ceased.

The drivers later reassembled in front the city administration building, asking for support from the union of retailers, which is also at odds with the mayor (see *IEWS Russian Regional Report*, 30 July). The retailers promised all kinds of help, including arms.

The conflict reflects a set of local and national problems, including difficulties with public transport. During the years of reforms, Makhachkala's 500,000 residents saw the fleet of public buses decline from 270 to 80. Recently, eight buses were confiscated and auctioned off by the tax authorities. Private, fixed-route cabs helped fill the need for transportation and quickly proliferated, solving the transportation problem. The city has tried several times to control this private initiative, thus collecting more taxes from drivers without giving anything back. To combat the city, the drivers united in the most organized trade union in the republic. Their union was promptly expelled from the official Confederation of Trade Unions of Dagestan, a descendent of the old Soviet trade unions that is utterly loyal to the government. The drivers' union, meanwhile, scored several victories in court against the police, the local authorities, and other state

structures.

Now the city administration is trying to break up the union from within, and with some success. Striking drivers have attacked several Makhachkalatrans drivers and accused them of scabbing. The strikers eventually returned to work even though the city retained their licenses and the police round them up on the streets.

CENTER-PERIPHERY ISSUES

NIZHNI SEEMS GREATER CONTROL OVER GAS SALES. The Nizhnii Novgorod department of the State Anti-Monopoly Committee has charged Mezhhregiongaz, the Gazprom subsidiary selling gas to individual consumers, with monopolistic behavior. However, gas has always been sold on a monopolistic basis in the oblast, so what is different about the activities of Mezhhregiongaz? Before the appearance of Mezhhregiongaz, the sale of natural gas in the oblast was the exclusive prerogative of Nizhegorodoblgaz. Because it was registered locally, the company could not confront the oblast government, even if public sector enterprises and organizations failed to pay for gas. The situation was similar in other regions. In response, Gazprom created Mezhhregiongaz, mainly to enforce the payment of overdue bills. It began signing contracts with consumers directly, and about 200 such agreements have already been signed. Not only can Mezhhregiongaz ignore local authorities, it pays taxes to Moscow rather than the region in which it operates. Experts from the Nizhnii Novgorod department of the State Anti-Monopoly Committee estimate that the oblast loses 500 million rubles (\$83 million) in taxes every year.

Regional authorities are powerless because gas production and retail sales fall under federal jurisdiction. They have considered two options: to revive Nizhegorodoblgaz by paying back what it owes to Gazprom or to create a Nizhnii Novgorod Fuel Energy Company in August or September as an alternative to Mezhhregiongaz. However, it is not clear how the new entity could compete with Gazprom's subsidiary, selling the same gas at the same prices that are set by the federal government.

A common thread runs through this scandal, the brouhaha surrounding the cancellation of mayoral elections in Nizhnii Novgorod, and the Spring Investments hotel project delays (see *IEWS Russian Regional Report*, 30 July): the prevalence of unspoken rules. Regional authorities enforce the law to the letter when doing so seems in their interest, especially if some unspoken rules of their game have been broken. Yet the prevalence of unspoken rules over the rule of law is bound to produce lawlessness. - Yuri Rodygin in Nizhnii Novgorod

SARATOV GOVERNMENT BLACKMAILS GAZPROM. In reaction to Gazprom's announcement that it will cease supplying gas to Saratov Oblast customers with unpaid bills, the oblast administration declared that it would block the gas monopolist's major Asia-Center pipeline. Shutting down the Yugtransgaz pumping station along the Asia-Center pipeline for Gazprom's payment arrears would virtually halt the supply of export gas to Western Europe. The blockade of the Trans-Siberian Railway by striking miners will seem like child's play should the oblast administration act on its threat. So far, Gazprom has not cut off gas supplies in Saratov, even though it has done so in

neighboring Volgograd Oblast, which does not have a pumping station to use as leverage against the gas monopolist. The last instructions received from Moscow were not to deny gas supplies to residential and social-sphere customers, and to obtain the oblast government's approval for any supply shut downs to large industrial and power producing enterprises. It is unclear whether other regions that host Gazprom's pumping stations will use them to blackmail the omnipotent natural resource monopolist. - Aleksandr Nesterov in Saratov

ECONOMIC ISSUES

LEBED HANDS ROSSIISKII KREDIT VICTORY OVER ALFA IN AGK BATTLE. Last week the Krasnoyarsk Arbitrage Court ruled to extend external management over the Achinsk Alumina Combine (AGK) for eight and a half years and appointed Nail Nasyrov of the Krasnoyarsk Aluminum Plant (KrAZ) as external manager. The decision is a victory for KrAZ, which is allied with Moscow's Rossiiskii Kredit Bank and supported Governor Aleksandr Lebed during his campaign. The main loser is the Alfa Bank group, which previously was the external manager.

The firm representing Alfa's interests sharply criticized the court's ruling and suggested that the judicial panel was influenced by the fact that the presiding judge is a mother-in-law of one of AGK's creditors. At the 3 August press conference, the presiding judge said the court's ruling was not influenced by nepotism but rather by Governor Lebed. He employed a clause in the bankruptcy law that empowers the region's chief executive to make such recommendations to arbitrage courts if the case affects a company of regional significance. In short, with the support of Aleksandr Lebed, KrAZ has won another small battle in the larger war to divide up the region's economy. - Pavel Avramov in Krasnoyarsk

BRYANSK GOVERNOR COMMENTS ON DISMAL ECONOMIC RECORD. As statistics for the first six months of 1998 and the recent interview with Bryansk Oblast Governor Yurii Lodkin in *Sovetskaya Rossiya* show, the outspoken opposition critic of the Moscow regime is persistently trying to build socialism in one region. The oblast's economic performance is characterized by both stabilization and the accumulation of unsold goods (over 62 percent of total production) in warehouses. While average income decreased by 7 percent last year, the amount of cash available to local residents dropped by 15.2 percent. Prices have stabilized, as in the rest of Russia, but the volume of retail trade has decreased by 8 percent.

Lodkin explained the statistics by noting that his administration's goal was to prevent a drop in industrial production, and to achieve this goal his team had to work individually with each enterprise, even in violation of laws forbidding state intervention in private companies. In reality, the administration's meddling with the economy has resulted in unpaid pensions and salary arrears to public sector employees (54 million rubles or \$9 million), including teachers (30 million rubles) and health care personnel (5 million rubles). Lodkin attributed the subsequent disaffection among the oblast intelligentsia to their lack of proper political consciousness.

The region's alcohol producing industry, which provides the most revenue to the oblast budget, exemplifies these points. Vodka production at Snezhnet, the main local

producer of hard liquor, has dropped 25 percent, despite a 240 percent increase in raw alcohol production. That decrease is largely attributable to political games among the company's management and the extension of tax breaks to the monopolist distributor that supported the governor during the elections.

The local wood processing industry, which is profitable, is an exception among the region's industry owing largely to American investments made before Lodkin's current term as governor. The governor believes that a region's success does not depend on the prevalent form of property, but is shaped instead by the style of administration and the efficiency of investments. Lodkin further denied rumors that he would retire. - Alex Levinsky in Bryansk

NIZHNII AGRICULTURE TO BENEFIT FROM DROUGHT. With the June drought destroying 50 percent of the harvest in southern Russia, Nizhnii Novgorod Oblast farmers have a chance to sell their produce for reasonable prices. The head of the oblast administration's Department of Agriculture said all the grain, especially wheat, harvested in the region will be purchased. However, selling rye will be more challenging since the price is a low 300 rubles (\$50) per ton.

The low prices combined with constantly rising costs for raw materials and fuel mean that it is not effective to farm in Russia. Last year the agricultural sector incurred 17 percent losses. That tendency will persist in Nizhnii Novgorod Oblast this year, despite the special attention the oblast government has been giving to agriculture. In February, it adopted a comprehensive agricultural stabilization and development program for 1998-2000. Additionally, it will give 313.2 million rubles (\$52.2 million) in farm subsidies, compared to 212 million rubles (\$35 million) last year. However, a true change in the agricultural sector will require reform in other areas, such as trade, power production, and oil extraction. - Yurii Rodygin in Nizhnii Novgorod

GAZPROM TO INVEST IN TRUCK JOINT VENTURE. Gazprom has confirmed its interest in investing \$11 million in the IVECO-UralAZ joint venture, according to Vladimir Novik, the joint venture's general director. The enterprise is located in the city of Miass, Chelyabinsk Oblast. Even though it has already transferred 3.7 percent of that sum, Gazprom does not plan to invest the rest until October. Gazprom is now strapped for cash, the management explained, as it was recently forced to pay federal taxes. The joint venture's charter capital amounts to \$33 million, and each one of the three founding shareholders (UralAZ, Gazprom and Italy's IVECO, the truck making division of Fiat) has promised to invest \$11 million. So far the Italians have transferred 97.2 percent and UralAZ 4 percent of their respective shares.

During a meeting with Gazprom's management in Moscow, the gas monopolist also confirmed that it plans to buy almost all the machinery produced by the joint venture. That will include UralAZ-IVECO 5531 trucks, newly developed UralAZ-IVECO 6329 cars and various other long-distance transport vehicles. The actual orders will be finalized at the 15 September exhibit Machine Building-98 in Nizhnii Novgorod. The report for 1997 shows that the IVECO-UralAZ joint venture lost \$171,000. This year, the joint venture plans to invest \$50,000-\$100,000 in IVECO's technical support stations, as well as to begin selling a full range of IVECO vehicles. It has already received the necessary license. - Igor Stepanov in Chelyabinsk

FOREIGN TIES

SARATOV OBLAST OPENS SECOND REPRESENTATION IN GERMANY.

Last week Saratov opened a representation in the Russian-German Business Center in Hamburg, its second such office in Germany. The first office was opened in Erfurt, Thuringia in January. Germany is one of Saratov's strategic partners and is the region's fourth largest trade partner, following Italy, Turkey, and Great Britain.

The new office is part of the oblast government's Ministry of International and Foreign Economic Relations' larger campaign to expand economic ties with Germany. It should facilitate business contacts with Hamburg companies. At one of the numerous meetings preceding the launching of the new office, Saratov Minister of International and Foreign Economic Relations Boris Shinchuk discussed the possibility of a Regional G-8 meeting with Germany's acting economics minister. Saratov Governor Dmitrii Ayatskov proposed the idea to bring together heads of leading Russian regions with their counterparts in the G-8 countries.

Other meetings with Hamburg officials touched on the subjects of student exchanges and setting up oblast representatives at specific companies and banks to expedite an exchange of information. According to the newspaper *Hamburger Abendblatt* (28 July), Hamburg is becoming a hub for Russian economic activities: 16 Russian firms are now working in Hamburg, compared to 10 last year. Overall, 60 Russian companies are active on the Elba's banks. Speaking to a group of Saratov businessmen and representatives of such German companies as Alfred Toepfer, International, Ecco, Edding, Bernberg Bank, Mr. Novak of the LUNO Business Center noted that regions want to work with Germany by bypassing Moscow. He cited successful joint ventures between Saratov companies and western firm such as spark plug maker Bosch, cigarette producer B.A.T., and tire manufacturer Continental. Partnerships in Hamburg will most likely focus on machine building, consumer goods, construction materials, and office furniture, among others. - Aleksandr Nesterov in Saratov

NIZHNII ECONOMY BUBBLES WITH FOREIGN INVESTMENT. Foreign investments in the Nizhnii Novgorod Oblast economy in the first half of this year were \$41 million, a significant increase over figures for the same period last year (\$32 million). Last year's total amount of foreign investment was \$154 million. To date, 13 investment projects, worth a combined \$12 million, have been formed with Dutch partners. They include a water purification project, a carbon dioxide emission reduction project, and construction of a wholesale trade center. An important partnership has been formed with the German region of Nordrhein-Westfalen. A delegation from the region's financial circles is expected to visit the oblast in August to discuss five separate investment projects. Winemakers from Bulgaria's Russen Oblast already have put forward several business proposals and many other joint ventures are long under way: the GAZ-Fiat car joint venture; a \$127 million pharmaceutical plant in Kstov; a \$115 million program between the Bor glass factory and Belgium's Glaverbel; and a \$350 million project with Japan's Marubeni to rebuild an atomic heating power station. Parmalat-East is building a \$10 million dairy plant on the premises of the ship-repair company Borremflot. The Spanish concern PASA is constructing a \$12 million food

processing plant on the territory of the Kvarts plant. Dutch companies Pol Moscow BV and Heineken have just completed a \$1.2 million reconstruction of the city's airport. Several programs, worth an overall ECU 12 million, are under way to restructure the region's transportation network. - Yurii Rodygin in Nizhnii Novgorod

TACIS TO TRAIN BUSINESS CONSULTANTS IN TVER. Obtaining the services of the world's best known consulting firms is still too expensive for most Russian companies wishing to increase their efficiency. Thus, the European Union's TACIS program designed to train business consultants in the Russian regions is extremely important. The program plans to open an Enterprise Assistance Center in Tver (*Tverskaya zhizn*, 20 July). In the next two years, TACIS leaders hope, Tver companies will enjoy the advice of foreign experts in such areas as business plan preparation and production restructuring. Western experts will also train local personnel in how to offer consulting services. Such assistance centers began proliferating in Russia's Siberian regions under the aegis of the EU in 1995, and eventually spread to other parts of the country. Last year centers opened in Yaroslavl and Ivanovo.

TACIS decided to create a coordinating hub for consulting activities in the North-West of Russia, and Tver defeated Novgorod in a competition to be the hub's host city. In a tender to identify a Western company to build the ECU 2.5 million Tver center and its branch office in Pskov, Clinvest consortium, composed of French (Credit Lyonnais) and German consulting firms, defeated a field of eight consortia of consulting firms.

When the consortium begins its Tver operations in September-October, it will meet competition from the Upper Volga Center for Reconstruction and Development and from the Tver Regional Development Agency. The TACIS center will first try to identify future clients among local industrial enterprises, which will receive proposals on the reconstruction and reform of their management and finances. While remaining an independent organization, the center might help the oblast administration stabilize the regional economy, an oblast official said. - Boris Goubman in Tver

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BREAKING NEWS

POLITICS

KRASNODAR LEGISLATIVE BATTLE UNDER WAY. Although Krasnodar will not hold its krai legislature elections until 22 November, the battle of *kompromat* is well underway. Former Governor Vasilii Dyakonov (24 August 1991 - 9 December 1992), chairman of the krai Legislative Assembly, is now criticizing Governor Nikolai Kondratenko for pursuing an ineffective economic policy. Kondratenko is also under fire for spending too much money on the oblast administration's newspaper, *Kubanskie novosti*. Critics also accuse vice prime minister of the krai government Nikolai Kryazhevskii and Vice Governor Vladimir Gromov of squandering state funds. Kondratenko's main target is Krasnodar Mayor Valerii Samoilenko, who is running his own slate of candidates for the legislature. The local branch of the Federal Security Service predicts that most seats in the legislature will go to Kondratenko's supporters and candidates affiliated with Krasnoyarsk Governor Aleksandr Lebed's party. Kondratenko's main supporters will be mayors from smaller cities in the oblast. The krai does not prohibit their participation in the elections to the krai legislature, even though such participation violates the federal law separating executive and legislative powers. (*Nezavisimaya gazeta*, 30 July)

PARADOXICAL SITUATION IN KURGAN OBLAST. The economic situation in Kurgan Oblast could become critical in the next few months. The drought plaguing much of southern European Russia has ruined more than 60 percent of the region's crops, wage arrears to public-sector employees are growing, aid to families with children is lagging, and pensioners just received their payments for May. Oddly, though, as those problems mounted, the economy had seemed to be improving. The oblast registered 10 percent output growth this year, with industry growing 15 percent. More taxes are thus being collected and more money is flowing into the pension fund. Governor Oleg Bogomolev blames the problem on the non-payments crisis and the tax system. Factory directors often tell him that "the better you work, the more debts you accumulate that can't be paid off," he said. Managers find it difficult to make good on their obligations because vendors demand cash even though 90 percent of the trade is barter trade. The oblast has the highest prices for electricity in the Urals region, making its products uncompetitive. Only 3 percent of homes have natural gas hookups. Bogomolev believes the region will be unable to improve its situation without federal help. (Russian TV, 10 August)

KOMI LEADER SPEAKS OUT. Komi leader Yurii Spiridonov claims that even though he has led his republic for nine years, he has never opposed the Russian president or government, according to a 30 July *Nezavisimaya gazeta* interview. Nevertheless, he makes clear his preference for former Prime Minister Viktor Chernomyrdin over his successor, Sergei Kirienko. Spiridonov says he would fight with the federal authorities over issues about which he disagrees -- even to the extent of violating the law -- because Russia lacks "civilized federalism and new laws on relations between the center and the regions." He complains that Komi has given 1.4 billion rubles (\$222 million) to the federal budget in the last two years, but received nothing in return.

Spiridonov accused many in Moscow of undermining Russian federalism. He argued that federalism can only be built through "partnership" between the regions and the center. However, he believes that by naming every judge in country, the federal authorities reveal their belief that the regions want to secede. He complained that tax reform merely means that the federal government will receive tax revenues that are easily collected and the regions will be left trying to collect taxes that had been uncollected for years.

Komi gets along better with foreign investors than the Moscow "oligarchs," according to Spiridonov. He claims that Moscow capitalists merely try to take advantage of his region. He accused the Russian oil companies, particularly Yukos, of buying up all the rights in the Nenets Autonomous Okrug (part of neighboring Arkhangelsk Oblast) and then failing to foster productive activities, increasing the unemployment rate. He also blamed Moscow capital for closing down productive Komi mines.

SEMAGO TO RUN IN PLACE OF JAILED KLIMENTEV. The Russian Supreme Court ruled on 10 August that the winner of the 26 March Nizhnii Novgorod mayoral election, Andrei Klimentev, will remain in jail for the next six years, preventing him from seeking to repeat his success in the rescheduled elections set for 27 September. Communist State Duma member Vladimir Semago, who has the trust of Klimentev and his family, will run as a surrogate candidate for Klimentev. Many voters in Nizhnii, however, see the Moskovite Semago as an outsider and he may have trouble winning over Klimentev's supporters. The election will now be conducted in two rounds, further reducing Semago's chances. Klimentev won the initial one-round election with about one third of the votes. Sources in the Communist Party told *Kommersant Daily* (11 August) that Semago, who presents himself as a "red businessman" who runs an elite Moscow club and bank, was unlikely to be chosen for the party's list in 1999. The local "party of power" is split between supporters of Governor Ivan Sklyarov and Deputy Prime Minister Boris Nemtsov, the former Nizhnii Novgorod governor, and has not chosen a unified candidate.

KOMMERSANT: RUSSIA SHOULD EXIT NORTH CAUCASUS. Moscow's attempts to impose order on the North Caucasus have failed because the region separated from Russia long ago and any attempts to treat it as a Russian region will fail, according to an analysis by Anatolii Petrov in *Kommersant* weekly (11 August). He argues that the non-Russian regions of the North Caucasus (Chechnya, Dagestan, Karachaevo-Cherkesiya, Kabardino-Balkariya, Ingushetiya, and North Osetiya) effectively exist outside Russian law. At the heart of the matter is the fact that two civilizations, at different stages of development, cannot survive within one political entity, he says. Petrov believes that rampant gun use, high birthrates, an exodus of well-trained specialists who are not native to the region, and rising unemployment will worsen the situation. It is inevitable that inter-ethnic fighting will consume the region, he predicts. He advocates that Russia drop this part of the country, just as it left the other 14 republics that made up the USSR.

To support the redrawing of the borders, Petrov argues that the North Caucasus is the last "colony" of the Russian Empire and that it should be set free. Russia would gain political dividends from such a decision, he says, because its current inability to assert authority on part of its own territory reduces confidence in its ability to preserve internal political stability. Annexing the region would also save the funds Russia is now losing to the "black hole" made by its attempts to retain the region. Petrov believes it would cost \$600 million-\$650 million to build fortifications along a new 1,500 km border with the North Caucasus.

ECONOMICS

STATE DEPARTMENT BLOCKS SEA LAUNCH PROJECT. The US State Department has suspended all work on the Sea Launch joint venture made up of Boeing, Russia's Energia, Norway's Kvaerner Maritime A.S., and Ukraine's Yuzhmash (see *IEWS Russian Regional Report*, 23 July). The project is the first attempt to launch satellites from an ocean-based platform. Following concern over the possible transfer of missile technology to China during a joint U.S.-China project, the US administration is worried that the project will give the Russian and Ukrainian partners access to sensitive US information, according to the *New York Times* (11 August). Energia Deputy General Designer Valerii Aliev said Boeing had not revealed any secrets and that the project would move ahead once the political and bureaucratic problems were resolved. (*Segodnya*, 11 August)

ROSSIISKII KREDIT EXPANDS REGIONAL REACH. Rossiiskii Kredit bank has just signed an agreement to work with the administration of Smolensk Oblast Governor Aleksandr Prokhorov, who was elected in May, Ekho Moskvyy radio reported on 6 August. The bank will participate in investment projects and help establish a local stock market. Two days earlier, the bank opened a branch in Rostov. Rossiiskii Kredit has signed similar agreements with 35 regions and has 137 branches in 50 Russian cities.

ALUMINUM INDUSTRY SEEKS TO CONSOLIDATE. The aluminum industry does not face many of the problems afflicting the rest of the Russian economy, according to Krasnoyarsk Aluminum Factory General Director Yuri Ushenin. Most of the plants pay their workers regularly and pay federal and regional taxes. To increase its competitiveness, however, Ushenin believes that the industry must unite under vertically integrated holding companies, joining raw materials extraction, energy supplies, basic metal processing, and the production of finished products. (TV-Center, Moscow, 5 August) Samara's Sameko signed an agreement with Khakasiya's Sayansk Aluminum Factory in which it will receive aluminum from Siberia for further processing (see *IEWS Russian Regional Report*, 6 November 1997).

SWISS FIRM GAINS CONTROL OF LEBEDINSKII PLANT. The Swiss firm Nakosta AG announced on 5 August that it planned to buy Rossiiskii Kredit's 46 percent stake in the Lebedinskii Mining and Concentrating Combine (Belgorod Oblast), one of Europe's largest ferrous metal producers. Rossiiskii Kredit has been battling the Oskolskii Electro-Metallurgical

Combinate, one of the main consumers of Lebedinskii's products, for control of the plant. Oskolskii owns a 41 percent stake in Lebedinskii. The Russian government had planned to auction off its 10 percent stake on 21 July, but the sale was postponed when the Belgorod Oblast Arbitration Court determined that the shares belonged to a Lebedinskii subsidiary, Rudmet-Invest (see *IEWS Russian Regional Report*, 30 July). That firm then sold the 10 percent stake to Domedko Hucksley Ltd., which is allied with Oskolskii. Nakosta AG is a partner of Oskolskii and its purchase of the Rossiiskii Kredit stake will give Oskolskii and Nakosta an 87 percent ownership stake in Lebedinskii. Nakosta itself now owns 50.01 percent of Lebedinskii's stock. Rossiiskii Kredit decided to stop fighting for control of Lebedinskii after the court blocked the government's auction of the 10 percent stake. (*Kommersant Daily*, 6 August)

The new owners will appoint a general director in late August. The plant's former director, Nikolai Kalinin, voluntarily stepped down. Kalinin had been appointed on 2 November 1997 by the Belgorod Oblast leadership and Rossiiskii Kredit bank. He angered Lebedinskii's major customers by raising prices.

KALUGA FIRM BEGINS PRODUCING FIBER OPTIC CABLE. Following a \$10.8 million investment in foreign equipment, the Transvok enterprise in Kaluga Oblast has become the first plant in Russia capable of producing fiber optic cable. Initially the plant will produce 6,000 km of cable to fulfill an order from the Railroads Ministry. The Finnish firm Nokia is the main partner in setting up the new plant, which will buy the materials required to make the cable from Corning, Lucent Technologies, DuPont and other firms. Credit Swiss First Boston provided the financing. (*Finansovye izvestiya*, 11 August)

MURMANSK'S SEVERONIKEL LIKELY TO AVOID BANKRUPTCY. The State Tax Service and Murmansk Oblast authorities are working to prevent the region's Severonikel plant from being declared bankrupt because of its federal tax and pension debts. The plant increased its production of nickel, copper, cobalt, and platinum last year, but the drop in world prices for those metals meant smaller income for the plant. Despite its difficulties, the plant paid 59 million rubles (\$9 million) in federal taxes, 138 million rubles (\$22 million) in oblast taxes, and 127 million rubles (\$20 million) in Mozhegorsk city taxes last year. Its contributions make up 15 percent of the oblast budget and 70 percent of the city budget. Murmansk Governor Yurii Yevdokimov fears that if the plant is declared bankrupt, his region will lose jobs and income. A final decision on the bankruptcy is expected soon. (*Finansovye izvestiya*, 11 August)

SMOLENSK DIAMOND DIRECTOR MURDERED. A professional assassin murdered Aleksandr Shkadov, general director of the "Kristall" enterprise in Smolensk Oblast, on 1 August. According to *Kommersant Weekly*, Shkadov carried greater political weight in the region than the oblast's previous governor, Anatolii Glushenkov, and equal weight with current Governor Aleksandr Prokhorov. Shkadov is regarded as Prokhorov's "political father." His official support for Prokhorov's candidacy certainly contributed to the governor's 17 May

victory over incumbent Glushenkov. Some observers suggest that Shkadov's death is linked to the redistribution of power and property in Smolensk, though no direct connection has been established.

Kristall is Russia's largest diamond processor. This year the firm had a falling out with the Almazy Rossii Sakha (ALROSA) company when it obtained the right to buy diamonds from across the border. Previously, Kristall went through ALROSA to purchase diamonds from the South African diamond monopoly De Beers. Now, Kristall can deal directly with De Beers. Shkadov had been diligently pursuing this right and his efforts cost ALROSA its diamond monopoly in Russia. (*Kommersant Weekly*, 11 August 1998)

INCUBATORS PROMOTE SMALL BUSINESS IN YEKATERINBURG.

Yekaterinburg hosts several business incubators that provide young businesses with affordable office space, telephones, and accounting and legal advice. Such incubators have fostered the creation of furniture and machine-building firms. The incubators have also led to the development of new energy-saving technologies. Many of the graduates of the incubators retain close contacts with the program after setting up independent businesses. There are 45,000 businesses registered in Yekaterinburg. Many have helped fund the refurbishment of the city's building facades in preparation for the city's 275th anniversary, according to Deputy Mayor A. Ishutin. (*Radio Mayak*, 10 August)

BUSINESS BRIEFS

-- **CONOCO** announced on 28 July that it was buying a 15.7 percent stake in **ARKHANGELSKGEOLDOBYCHA**, which (along with Rosneft) has a 20 percent stake in the Timan-Pechora Company (TPC). The other owners of the TPC are Texaco (24 percent), Exxon (24 percent), Amoco (16 percent), Norsk Hydro (16 percent). The consortium is planning to develop 11 oil deposits with reserves of 2.9 billion barrels. Conoco is already working with Arkhangelskgeoldobycha in the Polar Lights joint venture to develop the Ardalinskoe field in the Timan-Pechora basin. Conoco did not reveal how much it paid for the stake, but oil industry sources valued the deal at about \$200 million. Conoco has already invested \$500 million in the Polar Lights venture, demonstrating its commitment to the region. Conoco has not joined other western oil companies in criticizing the slow progress of Russian oil projects (*Energy and Politics*, 11 August). In March Conoco signed a deal to work with LUKoil in the region (see *IEWS Russian Regional Report*, 19 March)

-- The Italian ENI's **AGIP** subsidiary will set up a joint venture with **LUKOIL** to develop the Severo-Pokachevskoe field in western Siberia, which is believed to have 130 million barrels of oil. Drilling work on the 20-year contract will begin next spring. LUKoil will own 60 percent of the venture, while Agip will own 40 percent. (*Energy and Politics*, 11 August)

-- **ROSNEFT** and its subsidiary **SAKHALINMORNEFEGAZ** agreed to take a 33.3 percent stake in the **SAKHALIN-3** oil development project on the Sakhalin Island shelf. The

two firms will divide the stake equally. They join **MOBIL** and **TEXACO**, which own the other 66.7 percent stake in the project, according to a Texaco press release (<http://www.texaco.com/compinfo/busnew.htm>). If the State Duma approves the site for development under a production sharing agreement by the end of 1998, exploration work could begin in 1999, Texaco stated. Unfortunately, the Duma has been slow in approving such deals and the Sakhalin-1 and Sakhalin-2 projects have only progressed because they were "grandfathered" in under a previous agreement. The companies have nevertheless agreed to bid on developing the Sakhalin-6 project (Pogranichnii Block), which is adjacent to Sakhalin-3 (Kirinskiy Block).

-- **BMW** will assemble light cars and Land Rover and Range Rover off-road vehicles at the **AVTOTOR** plant in **KALININGRAD OBLAST**, *Segodnya* reported on 6 August. Avtotor is already assembling Kia cars in its facilities, although that project is struggling (see *IEWS Russian Regional Report*, 28 May). The BMW board of directors has approved the project in principle and is forming a working group to develop a concrete implementation plan. An official announcement is expected shortly.

-- **PEPSICO** has opened a new facility in **MOSCOW OBLAST** that has the capacity to produce 24,000 2-liter bottles an hour. It is the largest of five such facilities that the company has built in Russia in the last 25 years. The plant will eventually fill aluminum cans with Pepsi products as well. By the end of the year, Pepsi's overall investment in Russia will be \$110 million. Oblast officials say the plant has brought an additional \$66 million worth of investment to the region. (*Finansovye izvestiya*, 11 August)

PATTERNS OF REGIONAL DEVELOPMENT

VOLGOGRAD PREPARES FOR FALL ELECTIONS. Campaigning for Volgograd's year-end regional legislative elections is already well under way. Despite several victories in past campaigns, including the election of a Communist governor, the Communists still have not acquired full control over the regional legislature. According to the regional electoral law, duma members serve staggered terms and are not all elected simultaneously (similar to US Senate elections). During the coming fall campaign, Volgograd Communists naturally hope to win a majority in the regional legislature.

The anti-Communist wing of the regional elite is also ready for battle. Ever since the 1996 gubernatorial elections, when two candidates divided the non-Communist vote and contributed to a Communist victory, the non-Communist parties have realized the need for unity. Communists have never received an absolute majority of votes in Volgograd, benefiting instead from disarray among their rivals. The most prominent figure now seeking a seat in the regional duma is former Volgograd Governor Ivan Shabunin. He has just resigned as first deputy to CIS Executive Secretary Boris Berezovskii and returned from Minsk to Volgograd. Not only is he a popular local politician whose standing has been boosted by his successor's inability to improve the social and economic situation, he also possesses influential connections among both the

regional business elite and Moscow political circles. Moreover, Shabunin's former rival, Volgograd Mayor Yurii Chekhov, now backs him. Since May, Shabunin has published a series of interviews in local newspapers controlled by the mayor criticizing Governor Nikolai Maksyuta and communist rule in the region. If the non-Communists are successful in the fall elections, Shabunin may be elected speaker of the regional legislature, allowing him to claim a seat in the Federation Council and replace the current regional дума chairman, Leonid Semergei.

To address this challenge, Volgograd Communist leaders are consolidating their grip on the executive branch. Governor Maksyuta recently fired one of his vice governors, Volgograd State Property Committee Chairwoman Nadezhda Potapova (she will work in Moscow at the federal Ministry of State Property, according to the governor's press service). Potapova was one of the few top regional officials who did not belong to the Communist Party. *Kommersant Daily* (August 5) claimed that two additional non-Communist vice governors, Vasilii Galushkin and Anatolii Kraschenko, will be fired in the near future.

If that prediction is correct, Volgograd's administration will be staffed entirely by Communists when the campaign begins. The two highly experienced vice governors may move back to supporting their former boss Shabunin, or join Mayor Chekhov's camp (as several former Shabunin deputies have already done). The severe drought in Volgograd oblast this summer is causing extensive crop failure and will be a major issue in the campaign. Much of the Communist electorate lives in the countryside, but Shabunin worked for a long time in regional agriculture and has influential constituents there as well. After a hot summer, Volgograd residents are anticipating a very hot political season this fall. - Ivan Kurilla in Volgograd

LEBED BATTLES PREDECESSOR'S ECONOMIC LEGACY. In a wide-ranging discussion of Krasnoyarsk's economy, Governor Aleksandr Lebed complained that he had inherited a "difficult legacy" from former Governor Valerii Zubov.

Speaking at a press conference marking his first two months in office on 10 August, Lebed named the krai's 350 million ruble (\$58 million) short-term debt, accumulated by the Zubov administration, as the most difficult economic problem. Forced to service this debt under the threat of having its bank accounts frozen, the krai administration must divert money from pension and public sector employees' salary arrears payments. The previous administration borrowed at least 4 billion rubles (\$666 million), and many new debts are being discovered. The krai budget, meanwhile, brings in only 125 million - 140 million rubles (\$20-23 million) annually. Some suspicious credits are under investigation, as are accusations that Zubov spent some credits on his re-election campaign.

Since the Zubov administration collected six months' of advance taxes at the beginning of the year, current income is only 25 percent of projected revenues. Out of 26,000 companies in the krai, 30 account for 80 percent of budget revenues. Many believe that the Zubov administration handed out the region's resources to its allies. As a result, it had to rely on

expensive credits and conducted a questionable privatization campaign. There is 1.5-1.7 times more money circulating on the black market than there is in the krai budget. This is real money, too, which encourages the development of the shadow economy, while employees of enterprises do not get paid because their employers "do not have money in the bank." So, the krai must deal with striking miners, doctors and teachers, while all the controls over the situation are in Moscow in the hands of the Unified Energy Systems power utility, Rosugol coal company, and others. - Pavel Avramov in Krasnoyarsk

ANADYR CELEBRATES COSSACK DISCOVERY. Under rainy skies on 8 August Anadyr officially celebrated the 350th anniversary of the discovery of the Bering Strait and the Chukotka Peninsula by the Cossack Semen Dezhnev. The city also marked the 109th anniversary of its founding. Even the Day of Indigenous Peoples, normally celebrated in Anadyr on 9 August as part of the United Nations Decade of Indigenous Peoples, was summarily rescheduled for 8 August in order to accommodate the anniversary celebration. The Chukotka administration invited participants who included the governor of Vologda Oblast Vyacheslav Pozgalev and the mayor of the city of Velikii Ustiug' (where Dezhnev's voyage began); representatives from the Ministry of Culture and the State Committee of the North; Atamans of the Siberian Cossack Troops and the Cossacks of Rostov Oblast; and representatives from Ukraine and Belarus (Belarus recently signed an "agreement of cooperation" with Chukotka). Chukotka Governor Aleksandr Nazarov reported that Prime Minister Sergei Kirienko had promised to attend the celebration, but was detained at the last minute. The official speeches emphasized the economic importance of the discovery of Chukotka and the Bering Strait for Russia and the great Russian/Cossack heritage that the explorers brought to Chukotka. A passion play depicting the life of Semen Dezhnev from his childhood to his voyage to Chukotka was enacted on the city's main square, in which Chukotka's native peoples were depicted as willingly accommodating the newly arrived explorers. Several of the city's native inhabitants refused to attend the event, saying they found it offensive that their ancestors, who were long present in Chukotka, were not credited with discovering the territory. - Patty Gray in Anadyr

ONCE AGAIN ASSASSINS FAIL TO KILL MAKHACHKALA MAYOR.

Assassination attempts against Makhachkala Mayor Said Amirov have become almost a norm in the city's political life. However the latest one, which took place on 8 August, could have had much graver consequences than usual. At 4 pm a car with two passengers dressed in police uniforms parked in front of the entrance to a shopping center, which belongs to Amirov and which the latter was inspecting. When the two men refused to comply with the guards' orders to pull away from the building, a gun-fight erupted and one of the guards was wounded in the stomach. Retreating by foot, one of the two perpetrators threw a hand grenade toward his car, but it rolled under another vehicle and exploded. Another guard and an innocent bystander were wounded. Both assassins escaped.

Investigators who scanned the crime scene found a powerful explosive device in the perpetrators' vehicle. Had the 60 kilograms of plastic explosives (the equivalent of 100 kg of TNT) gone off, the consequences could have been devastating. Last February, during the

mayoral election campaign, a similar but smaller (40 kilograms) device was found and disarmed next to Amirov's campaign headquarters. This time, the explosion would have affected not only the shopping center, but the adjacent open street market as well, killing and wounding hundreds of people.

The next day, Chairman of the State Council Magomedali Magomedov held an emergency meeting of all the chief law-enforcement officers in Dagestan. The regional branch of the Federal Security Service (FSB) took the lead in the criminal investigation. No public protest actions, similar to the ones triggered by the last assassination attempt (see *IEWS Russian Regional Report*, 23 July) took place. There is also little hope that law enforcement agencies will be able to apprehend and prosecute the assailants. After all, everybody knows that unlawful violence is often the best way for the powers that be to maintain the delicate system of checks and balances on each other's power. So, even if the FSB catches those behind the assassination plot, the republican leadership will not allow them to pursue the case. - Nabi Abdullaev in Makhachkala

CENTER-PERIPHERY RELATIONS

LEBED NUCLEAR THREATS ECHO IN SARATOV OBLAST. Last week the chief commander of Russia's Strategic Missile Forces, Colonel General Vladimir Yakovlev, visited Saratov Oblast to inspect the Taman strategic missile division, stationed in the city of Tatishev. The division includes the Topol mobile nuclear missile units. As the draft military reform plan stipulates, the Topol missiles will form the core of Russia's nuclear shield in the next century.

Local commentators speculate that the visit was provoked by the recent scandal in Krasnoyarsk Krai, where Governor Aleksandr Lebed threatened to take control of the strategic missile division stationed in Uzhur-4 and provide for its material well-being if the federal government failed to do so (see *IEWS Russian Regional Report*, 30 July). The Ministry of Defense was greatly alarmed at that prospect, and Yakovlev was ordered to inspect all strategic missile divisions to assess the situation. When he met with Saratov Oblast Governor Dmitrii Ayatskov, Yakovlev criticized Lebed, proof that the visit's unofficial goal was to discern local authorities' plans for the Taman division. Taman soldiers work in the same poor circumstances as those in Krasnoyarsk Krai.

Yakovlev sought to win support by convincing Saratov's leadership that the military is deeply interested in the region's industrial potential. He suggested that the oblast's many idle military industrial complex enterprises might receive orders from the missile forces and that construction companies, also in a bind, could be contracted to build military housing. Yakovlev also proposed designating one of the regiments of the Taman division the "Saratov regiment." As a token of cooperation, the general presented Governor Ayatskov with a model Topol missile unit, probably to dampen the governor's desire to command the real things. - Aleksandr Nesterov in Saratov

REGIONAL PERSPECTIVE ON NEW SALES TAX. The federal government has adopted a new sales tax as part of its general anti-crisis program. Nizhnii Novgorod Oblast experimented with a similar tax several years ago when Boris Nemtsov was governor. At that time, the 3 percent levy caused most trade to shift from registered stores to informal street markets, which resulted in a considerable loss of tax revenues. Most importantly, however, real prices for consumer goods increased by 10 percent to 15 percent and never returned to their original level, even though the regional sales tax was eventually outlawed by a Constitutional Court ruling. The State Duma has just authorized an unpopular 5 percent sales tax, but federal legislators have cleverly left regional authorities to levy the tax.

The Nizhnii Novgorod Oblast Legislative Assembly has not discussed the possibility of a sales tax in the region, although the topic will almost certainly be introduced soon. The oblast has no other choice, since the Ministry of Finance in Moscow has already reduced federal subsidies to regions with the projected 5 percent sales tax revenue in mind. By refusing to adopt the tax or setting it lower than 5 percent, the oblast would lose money. Federal laws have recently revoked 15 of the current local taxes and levies. That additional loss of revenue accounts for a 25 percent to 30 percent cut in income to the oblast's budget, according to the chairman of the Assembly's budget and taxation committee, Vladimir Ivanov. The sales tax is intended to alleviate some of that damage.

Governor Ivan Sklyarov said the federal government is simply trying to shift problems from itself onto the regions. Even if the oblast adopts the 5 percent sales tax, it will only retain 3 percent of the revenue, with the rest going to federal coffers. The new Tax Code, as passed by the State Duma, would hurt the regions in much the same way. Local experts predict that while the new code would decrease corporate tax by 5 percent to 7 percent, the oblast would collect 15 percent to 17 percent less in taxes, and local governments' revenues would decline by 12 percent to 15 percent. Federal tax revenues would only see a 0.5-1 percent drop. The Nizhnii Novgorod Oblast administration has suggested several amendments to the federal Tax Code.

Another important player affected by the sales tax is local government. The Union of Russian Cities is concerned that the sales tax legislation shifts major fiscal responsibilities to oblast and republic-level authorities, thus denying local governments control over locally collected sales tax. - Yurii Rodygin in Nizhnii Novgorod

ETHNIC CONFLICT AND REGIONAL SEPARATISM

ETHNIC CHECHENS DEMAND LAND REALLOCATION IN DAGESTAN

by Nabi Abdullaev, *Novoe delo*

MAKHACHKALA--Another potentially explosive problem is developing in Dagestan, this time over the restoration of the old Aukhov raion on the territory of the present Novolaksk raion. In early July authorities were redistributing public lands in the Khasavyurt and Novolaksk

raions, on the border with Chechnya, to the local population. Akkin Chechens, who live in the area, felt they were treated unfairly during the redistribution and 400 of them blocked the main highway connecting Chechnya and Dagestan. Negotiations with the local authorities and police failed, and the picketers stuck by their demands to redistribute land, specifically in the village of Novaya Mekhelta.

In 1943 Stalin deported Akkin Chechens from their homeland in Aukhov raion to Kazakhstan and settled Avars and Laks in their place. In 1990 the leadership of Dagestan decided to restore the Aukhov raion, in line with the recently passed law on the rehabilitation of deported peoples, and allow Akkin Chechens to return. After almost 50 years of living there, the Avars and the Laks created their own homeland, complete with new housing and infrastructure. In 1990 Akkin Chechens tried to push the Avars and the Laks out, which almost caused a bloody ethnic conflict. Today, the largely Avar village of Novaya Mekhelta is under the protection of the Imam Shamil Popular Front, an armed branch of the Avar National Movement. The picketers who blocked the highway are Akkin Chechens, whose ancestors used to live on the site of the village and who now claim the land for themselves.

In response to the crisis, the government of Dagestan sent a special commission, headed by Deputy Prime Minister Nabiyulla Magomedov, which proposed a compromise. Instead of pushing aside Avars and Laks, the Akkin Chechens would receive 400 hectares of outlying lands belonging to state-owned collective farms. The picketers accepted that proposal and dispersed. In early August, however, they again blocked the roads. On 5 August nearly 400 people blocked the federal highway between Khasavyurt and Makhachkala for three days. This time, in addition to calling for land redistribution in Novaya Mekhelta, the picketers demanded that authorities drop the criminal case against Basir Dadaev, the leader of the National Chechen Council of Dagestan. Dadaev was accused of staging mass riots against the police in Khasavyurt last September when two Chechens were arrested and accused of raping a minor. Dadaev's criminal immunity as a member of the Popular Assembly rendered the investigation irrelevant and the case was dropped, so the picketers' demands were pointless and appeared to be a simple political provocation.

Authorities again chose to negotiate. By 8 August the police, aided by local authorities and the prosecutor's office, cleared the roads. However, the following morning a group of 150 Akkin Chechens began taking lands belonging to the Novaya Mekhelta administration. After another round of negotiations the Chechens released the land, but again blocked the road. That same day a delegation of Avars from Novaya Mekhelta arrived in Makhachkala to meet with Nabiyulla Magomedov and with Chairman of the State Council Magomedali Magomedov. The delegates cautioned that if the government failed to protect them from the Chechen demands, they would take their defense into their own hands with the help of the Imam Shamil Popular Front. Magomedali Magomedov promised to find a mutually acceptable solution.

Promises by officials are immediately suspect, however. Authorities have been disbursing funds to relocate the Laks and the Avars for eight years, but to date only a few

buildings north of Makhachkala, utterly unfit for human habitation, have been erected. On the other hand, the government of Dagestan refuses to accept the proposal by the Laks to pay for their own land at market prices. Sensing the support of Chechnya, the Akkin Chechens have intensified their demands, while the Laks have appealed to the very powerful Lak and Avar national movements. If the Makhachkala government fails to develop a coherent policy toward the Akkin Chechen problem, ethnic groups will begin making their own policies, undoubtedly complicating the situation.

SPECIAL ECONOMIC ZONES

TVER TRIES TO KEEP LOCAL COMPANIES WITH TAX BREAKS. Special tax zones have long been popular with Russian companies as a way of avoiding taxes, but they have hurt the budgets of those regions where the firms operate. National and regional media have been exposing various schemes used to avoid taxes in different free economic zones around Russia. The Tver Oblast administration's Economics Committee has asked local entrepreneurs who have registered their companies in free economic zones elsewhere to return to Tver. When Governor Vladimir Platov announced the introduction of some tax breaks to induce the firms to re-register, some businesses decided to return. For instance, the Russian-Bulgarian tobacco joint venture Tver-Khaskovo BT, decided to leave the Agin-Buryat Autonomous Okrug in Chita Oblast and re-register in Tver (*Veche Tveri*, 6 August). After the company launches its second plant in 1998-2000, the oblast budget will receive an additional 18 million rubles (\$3 million) in tax revenue. - Boris Goubman in Tver

KOMI REPUBLIC STRIVES FOR FREE ECONOMIC ZONES. Chaired by Anatoly Karakchiev, the first deputy chief executive of the Komi Republic, a task force on Free Economic Zones (FEZs) held its first meeting on 23 July. The task force will develop the methodology and legal framework for creating special zones in the republic offering companies significant tax benefits. Already 17 Russian regions have tried at one time or another to establish FEZs on their territories, but most have failed. The somewhat successful ones remain in Kaliningrad Oblast, the city of Vyborg, Leningrad Oblast, and the city of Nakhodka, Primorskii Krai. The Komi Republic wants to build on lessons from both Russian and foreign FEZ experiences.

The task force is considering three options. The first, dubbed "the Chinese option," creates FEZs based on the needs of large industrial enterprises, which are not competitive in free-market conditions. A large number of Komi enterprises could become such zones. They would receive FEZ tax holidays and their facilities could be used to run several smaller companies. The second option, based on U.S. FEZs, creates FEZs on regional or district levels. In Komi, that would mean creating special zones in selected raions. The third scenario, developed by local experts, proposes a FEZ along the Belkomur railroad (Perm-Kudymkar-Sykt'yvkar-Arkhangelsk).

Many Moscow experts will take part in developing the Komi FEZ project, and the task force has already enlisted the expertise of Valery Chernogorodskii, one of the best experts in the field and director general of the Fund for Regional Development. Federal Economics Minister Yakov Urinson has already endorsed the creation of FEZs in Komi. (*Molodezh severa*, 26 July) The FEZ proposal is scheduled for completion in time for the as yet unscheduled visit to the republic by Prime Minister Sergei Kirienko. His trip has already been postponed several times. - Yuri Shabaev in Syktyvkar

ECONOMIC ISSUES

JOINT VENTURES IN KOMI REPUBLIC THRIVE AMIDST PROBLEMS

by Yuri Shabaev, Komi Research Center

SYKTYVKAR--Western investments, which Russia badly needs, remain limited and concentrated in select industries and regions. The situation with joint ventures in the Komi Republic is typical of many regions. The joint ventures registered here have proliferated since the first was recorded in 1989, but the proportion of those engaged in real business has declined. For example, in 1993 out of 99 registered joint ventures 62 were functioning. By 1997, only 47 of 147 joint ventures were functioning. This gap is especially dramatic in the timber and timber processing industries: out of 43 registered entities, only nine are operating. But in the energy sector, nearly all the joint ventures are working. Deputy chief executive of the Komi Republic, Anatolii Karakchiev, said Russian firms often form joint ventures to receive government benefits, conceal funds from other companies, or channel their profits to Western banks. Such cheating helps explain the consistently large number of fictitious joint ventures.

Foreign partners include 17 German firms, 16 American firms, 12 Ukrainian businesses, 11 Austrian, nine Swedish, nine Lithuanian, and eight British. While the number of people employed has decreased in recent years, 1997's output was 2.5 times as large as that of 1995, amounting to 2,342 billion old rubles (\$390 million). Other regions of the Russian North have done much better than the Komi Republic in terms of foreign investment. For example, Kareliya hosts 427 joint ventures, while Murmansk Oblast has the highest proportion of operational joint ventures. At the same time, Komi is significantly ahead of other northern regions in terms of production output. Komi does 40 percent better than Vologda Oblast, two times better than Arkhangelsk Oblast, and 10 times better than either Murmansk Oblast or Kareliya. (*Foreign Economic Activity of the Komi Republic*, Syktyvkar 1998)

This performance can be easily explained by the fact that the largest and most efficient Komi joint ventures extract oil. In 1997 those companies extracted 7.5 million tons of oil, or 6.3 percent more than the year before. The eleven joint ventures in the industry account for 58.4 percent of all extracted oil in Komi. In Russia as a whole, only 5 percent of oil is extracted by joint ventures. The largest joint ventures, usually with Komineft as the Russian partner, include: KomiArcticOil (with Great Britain's British Gas); Nobel-Oil (Switzerland's TVCOM);

KomiQuest (Austria's Quest Petroleum); Severnaya Neft (TVCOM); Tebukneft (British and Cyprus-based companies); Bitran (Great Britain's Utro); and AmKomi (Ireland's Aminex).

Karakchiev named Nobel Oil and KomiArcticOil as the best performing companies. (*Region*, N. 6, 1998) Both were founded in 1991, employ sophisticated technologies, and have already reinvested part of their profits in the production process. Nobel Oil extracted 1,118,600 tons of oil in 1997 and plans to extract 1,226,000 tons of oil this year. KomiArcticOil extracted 1,259,000 tons of oil last year and will extract 1,582,000 tons of oil in 1998. Karakchiev said that in addition to bringing employment and tax revenues to the region, joint ventures also import a "new production culture, new management, and new economic and financial relations among companies." They thus help Russian employees adapt to the conditions of the market economy. But Karakchiev also cited some problems with foreign investors, such as the refusal by some partners to fulfill their promises.

PROCURATOR INVESTIGATES VOLZHSKII REORGANIZATION. The Volgograd Regional Procurator's Office opened a criminal investigation into the bankruptcy of the Volzhskii Pipe Factory (VTZ) on 7 August (see *IEWS Russian Regional Report*, 4 June 1998). According to prosecutor's information, the factory registered five joint ventures in April, and in one month those ventures purchased 80 percent of the factory's property. When the factory was declared bankrupt in May, the authorities discovered that they were dealing with the "Old Pipe Factory" that owned just a small part of the factory's capital, but all of its debts. Following the restructuring, VTZ's value dropped by almost 2 billion rubles (\$317 million). VTZ is part of the ROSPROM-MENATEP financial group, and Volgograd officials suspect that the group, rather than Volzhskii's managers, devised the property shift. VTZ employs 9,000 workers and is the largest tax debtor in Volzhskii. - Ivan Kurilla in Volgograd

FOREIGN TIES

SARATOV'S GOVERNOR LEADS ECONOMIC CONQUEST OF CRIMEA. During his recent visit to the Ukrainian Autonomous Republic of Crimea, Saratov Oblast Governor Dmitrii Ayatskov was named a member of the Military Council of the Black Sea Fleet. Ayatskov immediately proposed holding a joint session of the council and his oblast's government. In a meeting with the chairman of the Crimea's Supreme Council, he also proposed joint sessions of the Crimean government and the Greater Volga Association of Russian regions.

Moscow Mayor Yuriy Luzhkov has declared that the "Crimea was, is, and will be Russian." Ayatskov's actions are aimed at achieving that goal though means less provocative than Luzhkov's. Saratov Oblast has become the patron of a marine regiment of the Black Sea Fleet. When the Crimea suffered a deep crisis last year, Ayatskov sent a truck convoy of humanitarian aid and construction materials. He was also among the first Russian regional leaders to discuss economic cooperation with the Crimean government before Ukrainian President Leonid Kuchma signed a decree allowing the Crimea to keep all central and regional

taxes collected on its territory in exchange for ending subsidies from Kyiv. Economically independent from the rest of Ukraine, the Crimea must now rely on Russian financial support. Judging by Ayatskov's push to hold a Greater Volga Association meeting in the Crimea, Russian businessmen, particularly from Saratov, are preparing to take economic control of Ukrainian territory.

Moscow supports such foreign economic activities by regional leaders because they are in the spirit of the Maritime Agreement, due to be signed by President Yeltsin. Under that agreement, for the first time in Russian naval history all civilian and military marine agencies will unite to develop a comprehensive state marine policy. A special interagency committee might be created to coordinate joint programs on issues pertaining to the fleet. The undefined legal atmosphere surrounding the presence of Russian naval forces in the Crimea makes it difficult to tackle questions surrounding the fleet. If Russian entrepreneurs can strengthen their position on the peninsula, however, the situation could change. - Aleksandr Nesterov in Saratov

KOMI REPUBLIC DEVELOPING TRADE WITH IRAN. Iran has long been one of Russia's economic partners, especially in the area of arms sales, much to the chagrin of many other countries. Prompted by Iran's desire to go beyond cooperation with the government in Moscow and access some of the regions directly, the Iranian ambassador to Russia Makhdi Safari visited the Komi Republic on 7-8 August. During his two-day stay, Ambassador Safari met with senior officials, including Chief Executive Yurii Spiridonov. One of the areas of interest for Iran is buying paper and timber products, which it now imports from Austria. The Syktyvkar timber processing combine currently exports paper to Austria, so there is room for direct and cost-saving trade with Iran. Additionally, Iran is interested in the oil-processing sector as well as in buying local mineral water. "We will start with trade, and finish with joint ventures," said Spiridonov during his meeting with Ambassador Safari (*Respublika*, 8 August).

What is behind this surprise visit? Obviously, Iran is concerned that Russia, while still defiant of the US criticisms and intent on keeping its agreements with Iran, is already afraid to expand cooperation. This could jeopardize the prospects of collaboration between Russia and Iran on military and nuclear energy issues, as could leadership changes following the State Duma elections in 1999 and presidential elections in 2000. As the Russian regional elite assumes a stronger position on the domestic political landscape, it becomes an attractive pressure point to influence federal policies.

The Komi Republic is a natural choice for Iran. Had Iran decided to develop ties with an Islamic region, such as Tatarstan, it would have threatened the Russian elite, which fears the spread of Muslim fundamentalism and separatist tendencies in Russia. Islamic leaders in Russia have managed to convince the ruling elite that Russian Muslims are a well-organized political force, comprising 15 percent of the population. These assertions are myths. Indeed, little more than 10 percent of the population describe themselves as Muslim. Islamic groups have negligible influence on public policy and most of them lack unity. Nevertheless, the Muslims are a factor to be reckoned with in Russian politics, so Iran's decision to work with Komi was a

wise one. At the same time, the republic's strong economic and political credentials surely influenced the choice as well. - Yuri Shabaev in Syktyvkar

CORRECTION: The address to obtain the Russia: Regional Risk Rating report from Bank Austria that was given in last week's report is incorrect. The correct address is: bankaustria.pub@ba.telecom.at

REGIONAL PROFILE: SARATOV OBLAST

Governor: Dmitrii Ayatskov

President Boris Yeltsin appointed Dmitrii Ayatskov, now one of Russia's most prominent regional leaders, as Saratov governor in April 1996. He quickly consolidated his power as governor and in September of that year won the gubernatorial race. He defeated Communist candidate Anatolii Gordeev, an economics advisor to Gennadii Zyuganov, by a landslide margin of 81 percent-16 percent even though the region had traditionally supported communist candidates.

Ayatskov has changed his political affiliation several times. Initially, he was the chairman of the regional organization of Vladimir Shumeiko's Reforms -- New Course movement. In 1995, like other regional leaders, he joined the Our Home Is Russia (NDR) political movement. After Prime Minister Viktor Chernomyrdin was sacked, however, Ayatskov loudly announced that the NDR had dubious future prospects. Soon after that, he declared that he would found a new Landowners' political party, which would build a strong local base and address the country's most pressing social problems. He says he is uninterested in support from Moscow politicians and will start building the party in neighboring regions.

Despite his cordial relationship with President Yeltsin, Ayatskov does not always support federal policies. For instance, he wants to change Saratov's fiscal relationship with Moscow. He has threatened not to pay the oblast's federal debts because they resulted from specific conditions that favored republics while creating large tax burdens for oblasts and krajs.

Ayatskov hopes to serve in federal office. Introducing Ayatskov to President Bill Clinton at the May 1998 G-8 conference, Yeltsin described him as the future president of Russia, according to some reports. Ayatskov has said he wouldn't run for president until at least 2004, but he has also stated that he may run in 2000 if Krasnoyarsk Krai Governor Aleksandr Lebed competes.

Other Local Leaders

Chairman of the Duma -- Yevgenii Rogozhin, former head of the local branch of the Federation of Independent Trade Unions of Russia, elected in September 1997.

Presidential Representative -- Petr Kamshilov, former head of the Saratov City Property Fund, appointed in May 1996.

Brief Overview

Saratov Oblast is located in the southeastern Russian Plain in the lower Volga River valley and borders Volgograd, Tambov, Penza, Samara, Voronezh, and Ulyanovsk oblasts and Kazakhstan. Most of the region's territory is steppe, with natural woods and parks occupying about 6 percent of oblast land.

The area is rich in mineral resources, boasting oil and gas fields, sands, mineral paints, cement, and other building materials. Saratov Oblast is the major industrial area of the Volga region and houses over 500 industrial enterprises that manufacture various products. The most developed sectors are machine building (hi-tech electronics and equipment); the chemical and petrochemical industries; energy; and food processing. The cities of Saratov, Engels, and Balakovo are the major industrial centers. Saratov, which manufactures about 50 percent of the region's industrial products, is also an important scientific and cultural center -- it has 13 institutions of higher education, including one of the oldest Russian universities and the third-largest conservatory.

According to the 1997 *Ekspert* magazine survey, regional investment risks have decreased by 36 points since 1996 (the 3rd largest decrease in the country). The oblast was also named among the 20 Russian regions with the most favorable legislative conditions for Russian investors. The survey noted, however, that the oblast has been "underinvested" by both domestic and foreign investors.

Basic Facts

Population (as of 1 Jan. 1997): 2,728,100 (1.85% of Russian total)

Student population (1996): 203 per 10,000 (Russia overall: 171/10,000)

Pensioner population (1996): 26.12% (Russia overall: 25.78%)

Average monthly personal income in 1996: 451,000 rubles (Russian average: 764,000 rubles)

Average monthly personal expenses in 1996: 335,000 rubles (Russian average: 753,000 rubles)

Average monthly subsistence requirement in 1996: 349,600 rubles (Russian average: 369,400 rubles)

Consumer price index (as of Dec. 1996): 106.49 (Russia overall = 100)

Industrial production as percentage of all Russian production (1996): 1.00%

Proportion of loss-making enterprises (1996): 58% (Russia overall: 56%)

Number of enterprises with wage arrears (1996): 2,376 (5.56% of total number of regional enterprises)

Agricultural production as percentage of all Russian production (1996): 2.55%

Number of private farms (as of 1 Jan. 1997): 9,374 (3.37% of Russian total)
Capital investment (1996): 3,660,200 rubles (Russia overall: 370 trillion rubles)
Sources of investment (1996): federal budget: 11.8% (Russian average: 9.2%); regional budget: 11.6% (9.6%); enterprises: 51.9% (66.3%)
Number of joint ventures (as of 1 Jan. 1997): 82 (0.51% of Russian total)
Fixed capital investments in joint ventures and foreign companies (1995): 166,173 million rubles
Number of small businesses (as of 1 Jan. 1997): 9,772 (1.16% of Russian total)
Number of enterprises privatized in 1996: 126 (2.52% of Russian total), including former municipal property: 84.1% (Russian average: 67.1%); regional property: 3.2% (14.3%); federal property: 12.7% (18.6%)
Number of telephones per 100 families (1996): in cities: 33.1 (Russian average: 48.7); in villages: 17.8 (19.7)

According to a 1997 survey by *Ekspert* magazine, the oblast is ranked **11th** among Russia's 89 regions in terms of investment potential and **15th** in terms of investment risks. A 1998 survey by Bank Austria ranked the oblast **21st** in terms of investment climate.

Electoral History

1996 Gubernatorial Election

Dmitrii Ayatskov: 80.19%
Anatolii Gordeev (KPRF): 16.06%
Vitalii Pavlov (Forward, Russia!): 0.61%
Turnout: 56.53%

1996 Presidential Election

Zyuganov: 41.59%/49.94% (first round/second round)
Yeltsin: 28.38%/44.08%
Lebed: 12.76%
Zhirinovskiy: 7.09%
Yavlinskii: 5.28%
Turnout: 73.46%/73.83% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Elections

Communist Party of the Russian Federation: 28.26%
Liberal Democratic Party of Russia: 15.46%
Our Home Is Russia: 7.96%
Communists -- Workers' Russia: 5.79%
Derzhava: 4.67%
Agrarian Party of Russia: 3.96%
Yabloko: 3.91%
Women of Russia: 3.73%
Russia's Democratic Choice: 3.10%
My Fatherland: 3.09%

In single-member districts: 3 Communist Party of the Russian Federation, 1 My Fatherland
Turnout: 68.07% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 49.72% "No" -- 50.28%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 26.63%

Communist Party of the Russian Federation: 15.28%

Russia's Choice: 12.30%

Women of Russia: 9.90%

Yabloko: 8.59%

Agrarian Party of Russia: 7.64%

Democratic Party of Russia: 6.45%

Party of Russian Unity and Concord: 5.68%

In single-mandate districts: 1 Russia's Choice, 1 Liberal Democratic Party of Russia, 1

Communist Party of the Russian Federation, 1 National Republican Party of Russia

From electoral associations: 1 Communist Party of the Russian Federation, 1 Russia's Choice

Turnout: 59.44% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 55.73%

Ryzhkov: 18.67%

Zhirinovskiy: 7.91%

Tuleev: 7.16%

Makashov: 4.84%

Bakatin: 2.55%

Turnout: 79.02% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of the 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; T. Matiyasevich, N. Mogel, S.A. Nagaev, M. Rossmann, L.I. Smirnych, and A. Woergoetter: *Russia: Regional Risk Rating*, Vienna: Bank Austria, 1999; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regiony Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.

IEWS Russian Regional Report
*****Special Report*****
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RUSSIA'S ECONOMIC CRISIS: AN OVERVIEW

GOVERNMENT ADOPTS PAINFUL ECONOMIC MEASURES

by Radoslav Petkov, Institute for EastWest Studies

July's IMF-led bail-out provided only short-term relief for the Russian financial markets. In early August, investors in ruble-denominated assets, especially short-term government securities, began to fear that the government would devalue the ruble and default on its domestic debt. The Japanese yen's plunge to an eight-year low against the dollar on 11 August revived worries that the Asian crisis would further depress Russian markets. Moreover, oil prices continued to fall, depriving Russia of essential hard-currency earnings (Russia exported \$22 billion worth of oil in 1997). The main problem, however, was fiscal. According to the Finance Ministry, the government expected to collect about 106 billion rubles (\$17 billion) in taxes in the second half of 1998, less than the 146 billion rubles (\$23 billion) needed to service the domestic debt.

During the week of 10 August, the Russian stock market fell sharply, with the benchmark RTS index losing more than 25 percent of its value, before recovering slightly on 15 August on a thin volume (\$10 million) of trade. The ruble was pushed out of the Central Bank-set corridor, while Russian T-bill (GKO) yields soared to 125-140 percent for long- and medium-term paper from around 95-100 percent in the beginning of the week. At those prices, the Finance Ministry cancelled three consecutive auctions for GKO's, dashing hopes that it could rollover its debts. Russian banks, which have built substantial portfolios in GKO's and have borrowed heavily

against them, felt a liquidity crunch and failed to meet margin calls and service their interbank loans. As a result, Standard & Poor's placed six major Russian banks on CreditWatch with negative implications and lowered Russia's long-term foreign currency issuer credit rating to CCC from B+. Moody's downgraded Russia's country ceiling for foreign currency bonds and notes to B2 from B1. But it was George Soros who called a spade a spade. On 12 August, the financier stated that the meltdown in the country's financial markets has reached its "terminal phase." To solve the shortfall problem in the debt market and the banking crisis, Soros proposed a 15-25 percent ruble devaluation, followed by the introduction of a currency board backed by an additional \$15 billion from the G-7 countries.

President Boris Yeltsin and his government initially dismissed the idea of devaluation, claiming that exchange policies already in place would bring stability back to the banking system. They changed their minds over the weekend of 15-16 August, when it became clear that another G-7 bail-out was not going to materialize. In a joint statement by the government and the Central bank on 17 August, a new anti-crisis package was announced including:

1. A crawling peg for the ruble that will allow it to float within currency corridor limits of 6 and 9.5 rubles per dollar (allowing it to effectively fall by up to 50 percent). The floating rate is tentatively scheduled to expire at the end of the year. The Central Bank will intervene to smooth sharp fluctuations. On the day this step was announced, the rouble fell 12 percent against the dollar.
2. Restructuring ruble-denominated government securities. T-bills and federal bonds maturing before the end of 1999 will be converted into new, longer-term securities. Detailed payment and rescheduling patterns will be announced on 19 August.
3. A 90-day moratorium on the repayment of credits received from nonresidents, insurance payments on credits backed by securities (margin calls), and payments under currency futures contracts. The moratorium does not apply to state borrowing; it concerns private borrowers with Russian resident status, that is banks and companies that have taken loans from foreign financial institutions.
4. A ban preventing nonresidents from investing in ruble assets with maturities of one year or less.

In addition, the government and the Central bank announced a plan to support the 12 largest Russian banks: Sberbank, Vneshtorgbank, Vnesheconombank, Oneximbank, National Reserve Bank, Menatep, Most-bank, Inkombank, Bank of Moscow, Alfa-bank, SBS-Agro, and Rossiiskii Kredit. The 12 banks are supposed to set up a single pool, strengthened by a Central Bank credit line, thereby assuming joint liability for all their short-term debts. (This system is not working in Chelyabinsk, see below for details.) In June, Finance Minister Mikhail Zadornov predicted that only 30 of an estimated 1,500 banks in Russia will survive a currency devaluation.

The government plan will most likely solve the short-term fiscal problem, but will open the country to the risk of self-perpetuating inflation with all its social and political consequences. The crucial task for the Central Bank will be to control the rate of ruble depreciation with a mix of interest-rate policy and market interventions (on the falling strength of its hard-currency reserves - \$17 billion as of 15 August, \$5 billion of which is in gold). Higher-interest rates, however, will depress the economy, which has already shrunk 0.5 percent in the first half of the

year. An increase in the price of consumer goods and economic decline could ultimately destabilize the government.

The Duma will meet in emergency session on 21 August to consider the crisis. After hearing a report from Prime Minister Sergei Kirienko, a vote on the government's emergency package will take place on 25-26 August. An emergency delegation from the IMF headed by John Odling-Smee arrived in Moscow on 17 August. After talks with the Russian government, Anatolii Chubais said that the "International monetary organizations, naturally, were not enthusiastic about our proposal to restructure the state debt... but they showed an understanding of the situation." Domestic opposition groups and an impoverished population may be less accommodating.

HOW THE FINANCIAL CRISIS AFFECTS THE REGIONS

by Robert Orttung, Institute for EastWest Studies

Extraordinary Federation Council Meeting in the Works

Krasnoyarsk Krai Governor Aleksandr Lebed flew to Moscow 18 August to call for an extraordinary session of the Federation Council to discuss the government's response to Russia's growing financial crisis. Lebed said that the government had essentially declared the country bankrupt, arguing that it was obvious that the regions would bear "colossal losses" and that the "social situation in the regions was strained to the limits." Lebed suggested that the saddest thing is that "we will probably have to abandon our dream of creating a middle class" (Russian Television, 18 August). He was particularly concerned that firms which use foreign currency in their work would not be able to obtain the credits they need. However, he pointed out that raw material exporting enterprises will improve their situation because they will have higher ruble earnings for unchanged hard-currency earnings.

The Federation Council leadership is preparing to hold the special session on 27-28 August, *Izvestiya* reported in its 19 August edition. However, the upper house leadership feels that the session will degenerate into useless discussions unless the State Duma adopts some laws addressing the situation at its sessions. The governors are unlikely to support a Communist Party proposal that both houses meet in a joint session to discuss the crisis, the paper argued.

Governors' Reaction Mixed

Overall regional leaders had a mixed reaction to the government's measures for addressing Russia's financial crisis. Several leaders agreed with Lebed in saying that the measures would lead to dire consequences. Sakhalin Governor Igor Farkhutdinov believes that allowing the ruble-dollar exchange rate to drop to 9.5 would lead to the crash of the country's economy (Russian Public Television, 18 August). Saratov Governor Dmitrii Ayatskov said that the government would not be able to deal with the situation unless Yeltsin appointed Anatolii Chubais as a deputy prime minister and made former acting Prime Minister Yegor Gaidar his assistant. Ayatskov said that the situation was much more serious than it had been in 1993 and that the measures the government had adopted were insufficient. He argued that it was necessary

to make the economy work rather than to take on more debt. St. Petersburg Governor Vladimir Yakovlev said that if the government had adopted the softer measures recommended by regional leaders three months ago, it would not have to take such unpopular steps now.

Others, however, did not think that the results would be so bad. Federation Council Chairman and Orel Governor Yegor Stroev said that "unusual decisions are required in critical situations." He noted that it was long since time for the government to stop playing with GKO's which were "destroying the financial system." He backs the government and Central Bank measures aimed at limiting the influence of foreign speculators and those who were transferring money abroad. He said that the state should spend its money on paying salaries rather than covering its GKO debt (*Segodnya*, 18 August). Khabarovsk Duma Speaker Viktor Ozerov said the measures would positively affect the Far East's export potential. He noted that if the government had not taken some kind of action to address the situation, the social situation in the country would have become significantly worse.

Novgorod Governor Mikhail Prusak argued that there was not a financial crisis as such, but a crisis of authority in which people have lost confidence in their leaders. He suggested that the president rely more closely on regional leaders who are now in the dark about how money lent by the International Monetary Fund is being spent. He repeated some of his earlier calls for a radical overhaul of Russia's political institutions, including transferring all economic functions from the presidential administration to the government, getting rid of the office of deputy prime minister thereby placing one minister in charge of each sector, electing the State Duma entirely from territorial districts rather than partially by party list, and separating the currently combined functions of governor and senator.

Concern in the Regions

News about how the crisis is affecting the situation in the regions is only beginning to trickle in. In St. Petersburg and Novosibirsk, the vast majority of banks stopped selling dollars on 17 August after the government's announcement about its decision to expand the ruble corridor, according to *Kommersant Daily* on 18 August. In Chelyabinsk, consumers rushed to the stores to buy up goods as average prices went up 8 percent. In Yekaterinburg, banks raised the exchange rate to 8.5 rubles/dollar and by 2:00 PM exchange points had to close for lack of dollars. Banks started to run out of dollars in Stavropol in the afternoon after the exchange rate reached 7.2 rubles/dollar in the morning. Banks in Bashkortostan raised the rate to 9.5 at the end of the day. In Voronezh, one dollar went for as much as 10 rubles, among the most expensive in the country. There was increased demand for office equipment, real estate, furniture, and cars in Samara Oblast and prices rose 5-10 percent there. Large stores in Kaliningrad closed in the morning.

Prime Minister Sergei Kirienko canceled a 18 August trip to Arkhangelsk Oblast and the Severodvinsk naval base to work on the crisis in Moscow (Russian Public Television, 18 August). In recent days, he has visited Voronezh, Perm, and Tatarstan.

RUBLE CRISIS: REPORT FROM THE FIELD

CHELYABINSK: REGIONAL BANKS PANIC LESS THAN MOSCOW BANKS. Nina Tlyunyaeva, deputy chairman of the board of the Chelyabinsk Investment Bank, reported that local banks are in a situation of uncertainty following the Central Bank's decision to extend the ruble corridor and declare a 90-day moratorium on paying off credits to non-residents. On 17 August the currency market in Chelyabinsk was barely working: several local branches of Moscow banks were either not selling dollars, or offered to sell only at a rate of 10-12 rubles to a dollar. The Chelyabinsk Investment Bank sold dollars for 7 rubles until 1:00 PM local time, raising the price to 9.5 rubles in the afternoon. The bank retained this rate on 18 August.

Chelyabinsk banks witnessed increased demand for dollars and a surge of clients hoping to make withdrawals, according to Tlyunyaeva. Chelyabinsk Investment Bank fully met all of its clients' demands.

At the same time, Moscow banks temporarily discontinued transactions with several regional banks, Tlyunyaeva said. For example, Chelyabinsk Investment Bank could not settle accounts with one of the Moscow banks that is part of the "pool of 12" with which it has direct correspondent relations because the Moscow bank refused to work with its regional partner. Tlyunyaeva described the situation as a crisis of trust in the Moscow banks. In her opinion, the Moscow banks feel less comfortable in the current situation than do the regional banks because the regional banks work primarily with local enterprises that are producing and trading real goods. - Igor Stepanov in Chelyabinsk

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ST. PETERSBURG: NO PANIC, BUT BUSINESSMEN LOSING MONEY

by John Varoli, St. Petersburg Times

ST. PETERSBURG - There has been no panic to change money or to buy goods in St. Petersburg. Contrary to what *Kommersant Daily* (18 August) reported, one could still easily change money in St. Petersburg on 17 August. But, on 18 August, banks froze exchange activities. Early in the morning of 19 August, Sberbank was still not trading currency, but other banks were. And, even at those banks, there were only a handful of people changing their money. The dollar was selling at a rate of 7.8 rubles.

However, some publications have been keen to capitalize on the crisis and have claimed that there is panic. By the night of 19 August, there is no panic and life continues as previously. Nevertheless, there is an anxiety beneath the calm as most people fear the possibility of higher prices.

One early casualty of the crisis was Bank Imperial, which has closed its doors. (For more on this bank, see articles on Volgograd.) Local enterprises that had accounts there have lost their money.

Businessmen have faced a number of other difficulties. One director of a foreign-owned property management company in St. Petersburg said that his firm had lost \$60,000 on Monday because the company that had just completed renovations on one of their buildings demanded payment at a rate of 9 rubles/dollar. (The contract had been pegged to the dollar, and the property management company had been counting on paying at a rate of 6.2 ruble/dollar.)

"So far our business has not been hit by devaluation, and there is no panic" said Alexander Yufa, the commercial director for a grocery store in central St. Petersburg. "But if the dollar holds at nine rubles, then we will inevitably feel it and have to raise prices, and higher prices will force a significant portion of our clientele out of the market. If this happens, our business, and many others, will find themselves in dire straits and some will have to close."

"Some of our suppliers have temporarily halted their deliveries because of the change in the course of the dollar," Yufa continued. "Unfortunately, everything in Russia is tied to the dollar."

KRASNOYARSK: DESPITE CALM, SMALL BUSINESSMEN, LEBED SEE TROUBLE

by Pavel Avramov

KRASNOYARSK - In Krasnoyarsk many were surprised by the change in the Kremlin's financial policies. On 18 August most exchange places were closed, and the ones that were operating were charging 8-9 rubles to the dollar. Prices on the black market were as high as 10-11 rubles/dollar. However, there was no real panic since there was very little demand for hard currency.

Krasnoyarsk is, of course, neither Moscow nor Vladivostok. In contrast to the capital, life in the Siberian provinces is more expensive (prices are 30-60 percent higher) and the average income is lower (approximately half that of Moscow). During the last year or so, real income and consumption have fallen at the rate of 7-10 percent a year. The average savings rate for krai residents was 400 rubles. Prices for many of the consumer goods produced in the krai have been falling simply because no one has any money to spend. On the other hand, Krasnoyarsk does not rely on foreign trade the way Vladivostok does. Hard currency cash

plays a much larger role in Vladivostok life than it does in Krasnoyarsk. As a result, there was no panic on the Krasnoyarsk hard currency market.

For many small businessmen, the most unpleasant aspect of the crisis was the 90-day moratorium on the repayment by Russian banks and companies of loans borrowed from foreign banks. Yekaterina Melnikova, for example, had been negotiating with local and foreign partners to set up a food processing plant using western equipment. Essentially all she had to do was sign the papers for a \$5 million credit from German sources. But, by mid-week, she said, "It's time to drink vodka. I'm as likely to see the credit as I am my own ears."

Another extremely negative consequence of the crisis is the export of capital from the krai. This process is closely connected to the export of raw materials. Experts believe that the krai exports as much as \$2.5 billion a year. For comparison, annual wages paid to the krai's workers amount to approximately \$5 billion. The export of capital places a greater strain on the economy than the arms race did during the Cold War. Capital flight, whether legal, semi-legal, or illegal, is responsible for the degradation of the Siberian regional economy and the economy of the Russian Federation in general.

One indication of the extent of the capital flight problem is that there are 26,000 enterprises working in Krasnoyarsk Krai, yet 80 percent of the regional budget comes from taxes assessed on only 9 of them. These plants employ just 3 percent of the region's work force.

Krai Governor Aleksandr Lebed noted that the new presidential campaign will begin on the wave of the financial crisis. Thus Moscow Mayor Yuri Luzhkov is spending \$2 million on several Russian media outlets to discredit Lebed just as he completes his first 100 days in office. Local observers believe that Luzhkov is about to launch a campaign focusing on the poor results of Lebed's leadership. A recent article in the pro-Luzhkov *Moskovskii komsomolets* recently described Lebed and the krai in terms that are insulting to Krasnoyarsk residents. The country and the krai are entering a difficult and stormy period.

SARATOV: MOSCOW BANKS IGNORING REGIONS

by Aleksandr Nesterov, *Saratovskie vesti*

SARATOV - Saratov banks are generally buying hard currency, but not selling it. Currently many people are willing to sell their dollars at the rate of 6.8-6.9 rubles/dollar. Most banks have simply run out of hard currency and many bankers complained that they could not get more. The Moscow banks were in no hurry to supply hard currency to the regions, leaving them to their fate.

The crisis has reactivated the black market and this phenomenon has clear ethnic overtones. At several exchange points, men of "Caucasian nationality" offered to buy dollars at

the price of 7.5 rubles. Some were even offering to sell at rates of 9-9.5 rubles to the dollar. The Central Bank has issued a ruling that the difference between buy and sell rates cannot be more than 15 percent.

About two weeks ago the situation of most Saratov banks was considered relatively good. The crisis with the short-term government debt (GKO) did not affect the banks much since practically all banks sold off their GKO and corporate bonds just before the financial storm. Now Saratov banks have invested about 50 million rubles in GKO and a few million in corporate bonds.

The chairman of Konfinbank, Vyacheslav Gvozdyuk, said, "The currency market is stabilizing and soon there will be an adequate ruble-dollar exchange rate. The hard currency reserves of Saratov exchange points has dropped, but mostly for technical reasons. It is now necessary to pay in advance for hard currency on the Moscow markets and then it takes time to bring the money to Saratov." He recommended that Saratov residents not buy hard currency now and wait for the situation to stabilize.

The effects on businessmen are still unclear. There has not been a marked increase in demand for real estate or jewelry. Prices for consumer electronics have gone up by 20-30 percent. According to rumors on the night of 19 August, street traders were planning to raise their prices by 10-15 percent. The tax police have been extremely active at Saratov's exchange places and commercial centers.

Unpaid workers suffered the greatest burden. One young couple on the street said that their wage arrears had amounted to \$2,000 before the drop in the ruble, but now were probably worth just \$1,500.

BRYANSK: CRISIS HAS LITTLE IMPACT; BANKS HELP FAVORED EMPLOYEES

by Aleksandr Levinskii

BRYANSK - Three days after the government had announced its crisis measures and after the beginning of the rush for rubles in Moscow, not one of the Bryansk newspapers, neither the pro-communist nor the liberal, had published anything about these events! Only *Bryanskie izvestiya* warned on 19 August in a small article that as a result of the new ruble-dollar exchange rate the price of medicine was about to go up and suggested that citizens buy up reserve supplies.

On 17 August, the only people to express concern were businessmen and those who had borrowed large sums of money. They both feverishly calculated how the drop in the ruble would effect them since accounts between commercial enterprises (especially between

Muscovite and provincial firms) are determined according to the dollar exchange rate or even in dollars directly.

On the first day of the crisis, the price of the dollar at private exchange points generally located near banks rose to 7.2 rubles. Those who acted immediately after the announcement of the new ruble corridor were able to buy up dollars at the old exchange rate and quickly sell them at the new higher rate.

Many banks in Bryansk cancelled exchange activities, although the large Rossiiskii kredit and Menatep banks continued to provide these services. Nevertheless, the banks actively sold hard currency to their employees at a rate just a little bit higher than the relatively low rate prevailing on the Moscow Currency Exchange, bank sources reported. The head of the banks personally approved of the decision to sell hard currency to "their people."

Many senior citizens withdrew their ruble savings from banks such as Sberbank and SBS-Agro. The banks handed out the money accurately. Not one store was closed and sales activities continued at the usual pace. On Tuesday, the city's fruit and vegetable markets worked as normal, but prices started to go up on Wednesday.

One owner of a stall selling Turkish leather products said that recently he was selling goods based on an exchange rate of 6.4 rubles/dollar but has since raised prices to the level of 8-8.5 rubles. The trader, who refused to give his name, said "it doesn't matter what [Deputy Prime Minister Boris] Fedorov said about fighting with those who sell goods at the higher exchange rate, nobody is going to sell at a loss. Even if they sent someone to monitor my sales, I would simply close my kiosk and sell my goods from basements."

The political situation in Bryansk is unlikely to change as a result of the financial crisis. There are few foreign investors in the oblast; large industry simply works on the basis of its existing facilities and inventories; the local authorities have not addressed the wage arrears owed to public sector workers; and pensions for June have not been fully paid... The economic situation of the majority of the population has not changed so political repercussions are unlikely. The Communists control both branches of the regional government and the crisis only gives them an additional reason to criticize the federal authorities in Moscow.

IRKUTSK: EXPORTERS BENEFIT FROM WEAK RUBLE

by Yekaterina Vorobeva, Teleinform

IRKUTSK - Exporters in Irkutsk Oblast will benefit from the government's decision to let the ruble fall as low as 9.5 to the dollar, Irkutsk Deputy Governor Yurii Berezutskii, the chairman of the oblast's Economics Committee said 19 August. Fifty percent of Irkutsk's products are exported, so the oblast's exporters will now receive more rubles for the goods they sell abroad. Accordingly, the oblast government will be able to collect more money in regional taxes.

However, rising prices will mean that the oblast government will have higher expenditures as well.

We will see increasing inflation, Berezutskii noted. Moscow Mayor Yurii Luzhkov has warned commercial enterprises in the capital that he will carefully monitor their prices and will not allow them to raise prices without good cause. But, Berezutskii said, with our dependence on imported food and consumer goods, it will be very difficult to enforce such an order.

Today the oblast has 11.5 million rubles in outstanding bonds (*oblastnye dolgovye obyazatelstva*). The issuing committee has always insured that their rate is between the interest rate for deposits in the Sberbank (the cheapest money available) and the Central Bank's refinance rate. This policy has been observed for three years and investors have always been paid on time. Irkutsk's bonds are at a level near those of St. Petersburg and significantly better than bonds issued by Novosibirsk Oblast, Sakha (Yakutiya) and Orenburg, Berezutskii said. He claimed that buying bonds will remain attractive even in relation to dollars because the interest on hard currency accounts is not more than 50 percent, while yields for the bonds at the last auction were 70 percent.

VOLGOGRAD: BANK FAILURE THREATENS LOCAL BUSINESSES

by Ivan Kurilla

VOLGOGRAD - After some initial confusion on 17 August when Volgograd banks refused to exchange rubles for dollars and some stores closed early, the situation has improved somewhat. On 18 August, banks sold dollars for 8 to 10 rubles, while the price stabilized around 8.5 rubles/dollar on 19 August. In the early part of the week, many local residents tried to spend their rubles, creating lines in Sberbank offices, stores, and crowded markets. According to Igor Kamynin, the director of Unico, a medium-sized computer retail firm, sales by imported computer and home furnishing retailers were 10 times as large as usual on 18 August. Some prices were higher. However, there was no panic.

Few Volgograd residents have private banking accounts. By the end of the summer vacation season, most people have already spent large sums of money and have no additional rubles to convert. On the morning of 19 August, the situation seemed to calm down: there were no long lines in the stores, and prices have not skyrocketed.

The bank crisis makes the situation much more difficult for local businessmen. After Bank Imperial crashed, LUKoil-Volgograd and its subsidiaries lost their accounts. Experts at the regional Institute for Social and Political Research predict that that the bank failure will lead to a new wave of mutual non-payments because LUKoil was among the largest and most solvent firms in the region.

Computer seller Kamynin notes that the absence of a predictable dollar exchange rate also complicates the work of businesses like his. He and his colleagues believe that the dollar will trade at 7 to 7.5 rubles in the near future, while, by the end of the year, it will reach its upper limit of 9.5 rubles. Kamynin believes that the current situation is not as bad as that of October 1994.

Additionally, the crisis has already created some financial problems for local authorities. Deputy Volgograd Mayor Vladimir Popov said on 18 August that Inkombank had demanded that the city return a loan it had received to pay teacher salaries. Many of city teachers are still waiting for their June salaries.

TATARSTAN: DESPITE CALM, PEOPLE LACK FAITH IN LEADERS

by Midkhat Faroukshine

KAZAN - Average citizens in Tatarstan are not panicking - the majority of them have neither rubles nor dollars. Bankers, entrepreneurs, and the few who have some ruble savings are nervous, but most don't know how the drop in the ruble's value will affect them. The present situation in Tatarstan and Kazan is peaceful, but tense.

In an interview with Russian and local television stations, Tatarstan President Mintimer Shaimiev approved of the actions taken by the Russian government. He argued that it is impossible to live in debt all the time. However, he believes that the most important issue now is to avoid inflation. Shaimiev said that prices can go up, but that he will strictly monitor the situation. He expressed fear that the general population will begin to panic. According to him, the people have no confidence in the country's financial institutions. In my view, the president failed to point out that the people do not trust the authorities in general.

The Chairman of the National Bank of Tatarstan, E. Bogachev also expressed fear that the population would panic. He announced that it was of crucial importance that there not be massive withdrawals on bank deposits.

All of the local papers are commenting on the measures taken by the Russian government. "The federal government's decision means death for producers," according to A. Rakhomova, Chairman of the Association of Tatarstani Industrial Enterprises and the general director of one of the largest enterprises in the republic, Melita (*Respublika Tatarstan*, 18 August). "After the cost of buying dollars soars, the Central Bank's refinancing rate will be at least 150 percent. Only an idiot would take such expensive credit. What will the results be? Loans will be cancelled, there will not be any working capital available for production, and credit will not be accessible to us. What are producers supposed to do?"

"The Russian authorities chose the worst form of rescue," according to T. Abdullin, the director of Tatarstan's housing fund, who until recently was the manager of Ak Bars bank, one

of the largest banks in the republic. The growth of inflation means that the average citizen will undoubtedly become poorer, but goods producers will receive more cash rubles, which will most likely push up the value of the dollar. By widening the limits of the currency corridor, the government is indirectly supporting the dollar and depreciating the value of Russian exports, which now will sell for less. Abdullin believes that the West has done a good job in supporting its own interests in its relations with Russia over the years. Russia, in contrast, has suffered one failure after another without making a real effort to defend itself.

The newspaper *Kazanskoe vremiya* suggested that the banks have been hit the hardest, particularly those which collect cheap western hard currency credits and actively buy up GKO's. A liquidity crisis will hit them in the near future. They will have to make large payments in hard currency, they won't be able to sell their GKO's, the value of securities they hold will continue to fall, and credits will not be paid back. The Russian banking system could easily crash.

Vremya i dengi (18 August) noted that at the end of last week Boris Yeltsin announced that there would not be a devaluation of the ruble. "Precisely at this moment, Russians finally understood: devaluation can not be avoided," the paper claimed. The paper is of the opinion that the situation will be bad for everyone: prices will rise and the markets will fall into long-term hibernation. Banks will face a double blow: while simultaneously dealing with a lack of liquidity, they must address the threat that many depositors will seek to withdraw their money.

Practically all specialists predict a rapid increase in prices and a decline in living standards. Some specialists feel that there is no hope in keeping the ruble within the limits set by the currency corridor.

Potential political consequences of the recent events depend on how quickly the people feel the effects related to the ruble's fall and the subsequent new tax burden. The people are patient, but the old Russian saying should not be forgotten: a Russian man takes a long time to harness, but rides quickly.

PERM: FEDERAL AUTHORITIES' OPENNESS WITH GOVERNORS UNCLEAR

by Andrei Suslov

PERM - Following the Russian government's announcements on 17 August effectively declaring a ruble devaluation, it is not clear how openly Prime Minister Sergei Kirienko speaks to the governors. During a visit to the Perm region just a few days earlier, Kirienko had said that devaluation was one of the worst imaginable blows to the country.

Following the government's announcement, Perm Governor Gennadii Igumnov tried to put the best spin possible on the situation, arguing that widening the ruble corridor would benefit local goods producers. He claimed that an artificially strong ruble had made domestic goods

uncompetitive with imports. For example, he suggested that now it will be easier for the Kamsk confectionery plant to compete with Snickers. The government's moves also makes life better for exporters who were constrained by the previous ruble corridor, Igumnov stated. He believes that it will now be easier for federal, regional, and local governments to collect taxes and therefore make good on their obligations to pensioners and public-sphere employees.

DAGESTAN: CONCERN OVER RISING PRICES

by Zierah Abdullaeva

MAKHACHKALA - Although rumors about the collapse of the ruble have been circulating since spring, most people in Dagestan were completely unprepared for the Russian government's recent decision. In the last twenty-four hours traders have offered to buy dollars at 7-7.2 rubles, and sell them for 7.5-8 rubles. Local banks suspended currency transactions and many exchange bureaus are not open, making the black market the only place to get dollars.

Merchants claim that business is going better than ever despite the general feeling that it is dangerous to sell goods for money that lacks any real backing. Nearly all of the people I know who had money on hand had already converted it into hard currency cash. Those who for some reason did not called all their banker friends today vainly hoping to find dollars for sale at yesterday's rate. No one doubts that prices for imported good (especially clothes and some foodstuffs) will rise, and residents of Makhachkala have swarmed the clothing and food markets over the past few days. Overall, the situation is calm, although grumbles of "prices will go up, but our salaries won't" can be heard everywhere.

CHUKOTKA: TRANSIENT RESIDENTS HOLD DOLLARS, US IMPORTS WILL BE COSTLY

by Varvara Litovka

ANADYR - Most people live in Chukotka temporarily. For many, home is not Russia, but Ukraine, Belarus, and Moldova. Now, Chukotka is driving out those who are not needed. It is not only pensioners who fall into this category, but also doctors, teachers, employees of cultural establishments, builders, and many other professionals. Towns and villages are shutting down, pushing many residents to Russia's central regions. People lost hope in the government long ago. These people placed their savings in dollars - not Ukrainian *grivna*, Belarusian "bunnies," or even rubles.

Chukotka's capital imports most of its food from the USA. Today it is possible for many to easily buy everything that they need, but tomorrow, when the prices go up, only highly-paid individuals, mostly officials and bankers, will have the means to purchase the essentials. More than half of the population will be cooking fish and mushrooms, boiling berries, and

making preserves to hold out for still another winter. Luckily Chukotka offers a bountiful harvest.

NIZHNII NOVGOROD: HEAVILY TAXED BANKS FORCE PEOPLE TO HOLD CASH

by Yurii Rodygin

NIZHNII NOVGOROD - The ruble's crash was long anticipated here. To protect their wealth, most people keep their savings in cash dollars. Most citizens even refused to use hard currency bank accounts because they do not offer attractive terms. Once dollars are deposited into these accounts, they are converted to rubles. The accounts earn only 3 percent interest. At the time of withdrawal, the sum is recalculated back into dollars based on the current ruble/dollar exchange rate. A tax must also be paid at this point. The tax is based on the amount of rubles initially deposited and then withdrawn. Therefore, if the ruble falls while the bank holds the hard currency account, the tax will be considerably larger than the money earned from interest. Additionally, there is the danger that the bank will crash and everything will be lost.

Those who placed their savings in GKO's are in the worst position. In Nizhnii Novgorod, GKO's were considered a lucrative and safe investment for those who had \$3-10 thousand, namely the middle class. People pooled their funds and collectively purchased these securities. Now, they will only get the GKO's nominal value in 2-3 years. During times of political instability, everything could be lost. In many cases, people invested everything that they had.

It is impossible to say what political consequences will result from this financial crisis. Most likely, it will lead to an isolation of the regions. People place all the blame for the crisis on the federal authorities. So far, local officials are remaining silent. The local press is also quiet. Local economic transactions are not proceeding and the volume of local advertisements on television and radio has decreased. Since almost no one trusts the authorities, it is impossible to count on citizen cooperation, particularly concerning the voluntary payment of federal taxes. Therefore, no one is anticipating an end to the crisis in the near future.

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RUSSIA'S POLITICAL AND ECONOMIC CRISIS

LEBED'S BROTHER PUBLICLY DEFIES YELTSIN, LAUNCHES TAX

MUTINY. On 26 August, Khakassiya Prime Minister Aleksei Lebed said: "As a [retired] paratrooper officer, I address to you, President Boris Yeltsin, as the greatest commander-in-chief. Your talent for command has surpassed that of Genghis Khan, Batiy Khan and Hitler, and in terms of your capacity for bringing ruin to [the country], you have left them all behind... As the head of Khakassiya's government, I officially declare that the republic will cease transferring funds to the federal budget." The audience warmly responded and applauded. The local television station described the statement as "patriotic."

Such a mocking official statement could hardly have been made without the knowledge and approval of Aleksei Lebed's brother, Krasnoyarsk Krai Governor Aleksandr Lebed. The statement almost certainly marks the beginning of a regional mutiny against the federal government and the president, likely backed by Aleksandr Lebed and Boris Berezovskii.

A similar tax mutiny launched last spring by Irkutsk Governor Yurii Nozhikov failed because the federal government was relatively strong, but given the current power vacuum in Moscow, the strategy may be more effective now (see *IEWS Russian Regional Report*, 24 April 1997). - Pavel Avramov in Krasnoyarsk

AYATSKOV HARSHLY DENOUNCES CHERNOMYRDIN. After initially giving tepid welcome to news of Viktor Chernomyrdin's designation as prime minister, Saratov Governor Dmitrii Ayatskov on 26 August sharply denounced the re-appointment. In an interview with the German television company ZOLCER-TV, he said, "The economic and political crisis in Russia will continue to get worse with the arrival of Chernomyrdin. It is not Kirienko's fault. If you ask the question 'Who is responsible for the crisis?' the obvious answer is Viktor Chernomyrdin. Having led the government for over five years, only he can bear responsibility for this difficult crisis. They want us to support him in the role of a conqueror entering the Kremlin on a white horse. It is unclear how he plans to lead Russia out of this dead end. Kirienko's program was more appealing, although it did lack a dictatorship of the law."

Such a change in the governor's mood could be explained by the increasing rumors that Yeltsin will be impeached (if he doesn't resign first), which would lead to pre-term elections and the "election" of Chernomyrdin as president. Boris Berezovskii, described as the main architect of Chernomyrdin's return, is actively working for this outcome. Considering Ayatskov's loyalty to Yeltsin and his rocky relations with Chernomyrdin, it is not difficult to understand his motives. Attempts by the Moscow media to show the regional leaders' support of Chernomyrdin are not always convincing. The governors are most likely being cautious, as always, and waiting to see which camp their political enemies will join.

Assuming the Duma confirms Chernomyrdin, Ayatskov is in a precarious situation. Along with many others in the political establishment, he criticized Chernomyrdin's shortcomings after Yeltsin dismissed him as prime minister on 23 March. And after Ayatskov openly chastised Chernomyrdin at the congress of Our Home

is Russia (NDR), many analysts were convinced that the two politicians fell out for good. Even when Chernomyrdin was in power during his first term, his relations with Ayatskov were far from perfect. Last summer the prime minister refused to visit Saratov Oblast just prior to Yeltsin's visit, leading many to question Ayatskov's political future on the national arena.

The Saratov governor is not worried, however. He clearly understands the importance of regional leaders for Chernomyrdin's effort to address the crisis and to succeed Yeltsin as the next Russian president. Many now like to repeat a new rendition of an old saying: "Poets are born in France, but die in Paris." The new version goes: "Politicians are born in Moscow, but die in the provinces," implying that any effort by a federal politician needs the backing of regional leaders. Chernomyrdin will have a tough time dealing with the governors, given the diverse reaction from their ranks to Yeltsin's decision to re-appoint him as prime-minister.

Ayatskov has already consulted with Federation Council Speaker and Orel Oblast Governor Yegor Stroev and with Moscow Mayor Yurii Luzhkov, apparently in an effort to coordinate the actions of those players whom at one time criticized Chernomyrdin. Many in Moscow now believe that Chernomyrdin will enjoy independence from political obligations to his former allies, most of who *de facto* abandoned him after his dismissal in March. However, others predict that he will be ever more dependent on regional leaders, because the outcome of the next presidential elections will be decided not in Moscow, but in the provinces. - Aleksandr Nesterov in Saratov

LEBED IMPOSES PRICE FREEZE. Upon his return from Moscow on 21 August, Krasnoyarsk Krai Governor Aleksandr Lebed signed several important decrees. The first prohibits "unfounded price increases" in retail trade, and is clearly a reaction to the ruble devaluation and a subsequent threat of inflation. The day after the government announced on 17 August the ruble's *de facto* devaluation, virtually all private retailers and wholesale traders hiked their prices by 15 percent - 20 percent. Many customers immediately rushed into stores to invest their savings into expensive imported electronic equipment and jewelry, despite the new prices. Consumers refused to buy food, wines and tobacco products at the higher prices, however, so retailers selling such goods returned to the original prices. [On 27 August, Lebed issued another decree, capping all price increases at 10 percent.]

The second decree deals with financing the region's raions. While the krai administration promises to subsidize the region's constituent units, it imposed rigid conditions on how that money would be spent. To control the allocation and use of funds transferred to the raions, the krai administration has created a 140-member team of police and Federal Security Service (FSB) investigators.

Aleksandr Lebed also talked to the press and commented on the new political realities in Russia and specifically in Krasnoyarsk Krai. First, Lebed said, the large domestic banks are cracking under the current strain: Bank Imperial has collapsed, and SBS-Agro and Most Bank are on the verge of ruin. The regional branch of SBS-Agro

has demanded that the krai pay off 50 million rubles of its debt, and warned that this amount could be confiscated from the krai administration's accounts. However, fearing the wrath of the fierce general, the head of the bank's branch apparently removed himself to Moscow, despite the possibility of the bank's bankruptcy.

While in Moscow, Lebed met with various politicians. He described his meeting with then former Prime Minister Viktor Chernomyrdin as "boring." "Victor Stepanovich [Chernomyrdin] kept telling me how good things used to be during his tenure -- the miners were not striking, and pensions were paid on time. This young guy came, and everything collapsed," Lebed said. The main topic of Lebed's discussions in Moscow, however, was resolving the region's financial problems. There are many people at home and abroad prepared to invest in the krai's economy. The krai, however, has signed an agreement with Credit Suisse First Boston, whereby the bank agreed to manage the region's upcoming issue of Eurobonds and the administration promised not to borrow from other sources until the tranche issue was complete. Because Eurobond issues have been halted, the krai government cannot borrow any more money. Lebed, however, expressed the hope of resolving this issue in the near future. One of his first fiscal priorities will be repaying a 100 million ruble loan borrowed by the previous administration from Inkombank in March with the "insane" condition of an 83 percent annual interest rate. Several other credits taken out by former Governor Valerii Zubov also must be repaid. - Pavel Avramov in Krasnoyarsk

NIZHNI REACTS TO ECONOMIC CRISIS. In response to the ruble devaluation, the Nizhnii Novgorod Oblast legislature tabled a draft law establishing a 5 percent sales tax because the law makers feared that it would dramatically reduce trade in the region. Prices for subsidized foodstuffs have not risen yet and there is still enough grain to bake bread for the next ten months. In this sense Nizhnii, which imports 40 percent of its food products, is doing much better than Moscow, which imports 70 percent of foodstuffs. Most stores selling imported goods have shut down and it is impossible to buy hard currency in exchange bureaus or banks. Many banks do not even have rubles to give to their customers. The majority of the population, who do not have either hard currency or ruble savings, are worried about other things, how ever. The greatest concern is the collapse of retail trade and rumors about the possible imposition of price controls. Everybody knows that such measures would take Russia back to the era of shortages and coupon rationing. Public sector employees are convinced that with each day their chances of getting paid are slimmer and slimmer. However, there has been no decline in industrial production.

A notable consequence of the ruble devaluation in Nizhnii Novgorod Oblast has been an erosion of trust in the federal authorities. Sergei Kirienko was well known in the region as an experienced and solid manager, and the failure of his government to adopt effective anti-crisis measures, in the eyes of the locals, testifies to the general paralysis of the state machinery, not to the personal flaws of the leader.

The head of the oblast construction department told the press on 20 August that despite the government decree requiring an increase in housing utility payments, Nizhnii

Novgorod Oblast residents will not be affected. Local governments are puzzled, as the uncertainty is hampering their planning, impairing their ability to govern. Governor Ivan Sklyarov met with the directors of the nine largest banks in the oblast and asked them to unite their efforts, support the payments system, guarantee the integrity of accounts, and continue making loans to the industrial sector. The bankers supported his suggestions, but have yet to adopt concrete actions.

The President's latest antic of suddenly replacing Kirienko with Chernomyrdin is illustrative of what Russian satirist Saltykov-Shchedrin once said: "The main task of authorities is to keep the people perplexed." Most people, however perplexed, know that the problem with the country is its political system, not the person in charge, and that the way out of the crisis is through reforms. - Yurii Rodygin in Nizhnii Novgorod

TATARSTAN'S OIL PRODUCER GAINS NOTHING FROM RUBLE PLUNGE.

Contrary to official statements that the ruble devaluation will help domestic oil and gas exporters, the experience of the oil company Tatneft tells a different story. In an interview with the newspaper *Kazanskoe vremia* (21-22 August), Renat Muslimov, an energy expert and special advisor for oil issues to Tatarstan's President Mintimer Shaimiev, said the ruble devaluation will not benefit Tatneft or other Russian oil companies. The ruble's fall will not halt the industry's mounting losses from the drop in world oil prices, he said.

A year ago, Tatneft borrowed capital to invest in development and restructuring and agreed to repay its creditors in oil. Today, oil prices have declined by 40 percent, forcing Tatneft to deliver to its creditors 40 percent more oil than originally projected -- a colossal amount of oil. The company committed all its resources to repaying its debts and ended up selling its oil to the West for throwaway prices, simply to stay on top of servicing its loans. After it pays Russian taxes, which Muslimov deemed "exorbitant," the company will see no profits. Devaluation will thus have little effect on Tatneft's situation, explained Muslimov. Put simply, oil companies now lack the foreign currency needed to pay their workers or invest in development. The last time Tatarstan's oilmen were paid was in March, he noted. Muslimov said he does not foresee an improvement for at least another year, and for now the republic must simply brace itself to withstand the crisis. - Midkhat Faroukshine in Kazan

KOMI REPUBLIC CALM OVER FINANCIAL, GOVERNMENT CRISES. The combination of the financial and government crises in Russia has directly affected the situation in the Komi Republic. In the first days following the government's 17 August announcements, many entrepreneurs closed their stores, waiting to see what would happen. One businessman explained that regional retailers directly depend on Moscow, where many wholesale goods warehouses shut down as well. While the exchange rate is in flux, businesses fear bankruptcy (*Krasnoe znamya*, 21 August). Meanwhile, republican officials welcomed many anti-crisis measures from Moscow. For instance, the head of the republican branch of the State Tax Authority, Nikolai Vavilov, thinks a cheaper ruble only helps increase budget revenue: it will cause prices for imported goods to rise, increasing retailers' profits and therefore the tax base for the profit tax.

Additionally, if the Komi legislature adopts a sales tax, the levy will bring more revenue than originally projected. (*Respublika*, 21 August)

The dismissal of Kirienko's government has had almost no effect on the local market. Komi financiers are confident of policy continuity between Kirienko's and Chernomyrdin's governments. Deputy Chief Executive of the Komi Republic Anatoly Karakchiev said that as a matter of principle the republican authorities do not like frequent government reshuffles in Moscow, as it complicates working relations with federal officials. The republican government never really had a chance to build close ties with the young Kirienko government, however, so no questions concerning Komi were ever solved. Chernomyrdin, on the other hand, is well known and respected in the republic, which he has visited many times, enjoying the cooperation of republican officials. Karakchiev expressed the hope that Chernomyrdin will bring back into the government many of his old ministers who are familiar with the republic's problems. (*Panorama respubliki* TV program, 24 August) - Yuri Shabaev in Syktyvkar

URALS DEFENSE INDUSTRY TO BENEFIT FROM CHERNOMYRDIN'S RISE? Speaking at a press conference on 24 August, Chelyabinsk Oblast Governor Petr Sumin said he was not surprised at the president's decision to dismiss Sergei Kirienko's government and re-appoint Victor Chernomyrdin as prime minister. The Communist governor expressed high hopes for the returning premier. Sumin blamed Kirienko's government for growing salary arrears to public sector employees and rising pension arrears in the regions. In the last several months, Chelyabinsk Oblast has received very small transfers from the national Pension Fund, causing monthly pension arrears of 100 million rubles. (The oblast spends 415 million rubles on pensions every month.) Yet during the first seven months of 1998, the oblast has transferred 1.2 billion rubles in cash to the federal budget. Sumin said that on behalf of the Greater Urals regional association he sent a package of proposals to the government in June on ways to address the crisis, but that Kirienko's team chose to ignore it.

The governor said that Chernomyrdin will form a new government only after consultations with regional leaders and the State Duma. Staffed with professionals, the new cabinet will take good care of regional finances and economies, which will help improve the situation in the country as a whole, he asserted. Sumin also thought the new government would include many players from Chernomyrdin's old team, as well as representatives of Our Home is Russia, the Communist Party, Yabloko, and other parliamentary factions.

Chelyabinsk Oblast will be one of the first regions Chernomyrdin will visit, Sumin said, referring to a promise Chernomyrdin made on 19 April, after he had been sacked. Sumin has particularly high hopes for Chernomyrdin *vis a vis* the defense sector, whose problems were virtually ignored by Kirienko's government. The new team will not only focus on the defense complex, but will surely operate with a comprehensive industrial policy, the governor asserted. Restructuring the GKO financial obligations was a reasonable step by the government, Sumin said, because it was ridiculous for the government to pay 32 billion -35 billion rubles a month to service its debt, while it could

only collect 22 billion -24 billion rubles a month in budget revenues. The May interest rate hike imposed by the Central Bank put the region's companies in "impossible conditions," noted the governor. Chelyabinsk Oblast, however, plans to fully service its own financial obligations: 51 million rubles of short-term oblast bonds are currently in circulation (for a dissenting view, see "Regional Leaders Seek Greater Power During Government Crisis" below). In the near future, the oblast plans to issue a tranche of Eurobonds, guaranteeing a 7 percent -10 percent annual return in hard currency. - Igor Stepanov in Chelyabinsk

DAGESTANI LEADERS WELCOME CHERNOMYRDIN BACK. The leadership of Dagestan welcomed the resignation of Sergei Kirienko's government and the re-appointment of Victor Chernomyrdin as Russia's prime-minister. Chairman of the republic's State Council Magomedali Magomedov stated on 24 August that during Kirienko's tenure, not a single government program for social and economic development in Dagestan was financed or executed. Magomedov also said that he hopes to see economic aid to Dagestan resume with Chernomyrdin's appointment. The Dagestani leadership had not welcomed Kirienko's appointment four months ago (see *IEWIS Russian Regional Report*, 2 April). Magomedov and Chernomyrdin have developed warm personal ties and Chernomyrdin has strong support among Dagestan's nomenklatura. - Nabi Abdullaev in Makhachkala

TVER GOVERNOR, BUSINESSMEN RESPOND TO FINANCIAL CRISIS. Tver Oblast Governor Vladimir Platov published an official statement on the financial crisis and its effect on the region in *Veche Tveri* (20 August). While Platov asked the public not to panic over the country's current financial difficulties, he noted that the roots of the problem lie in "old ills," such as a poor industrial policy, the budget deficit, unbalanced credit policies, and shortcomings in tax collection. The governor said that despite the federal government's blunders, the situation in Russia is not nearly as tragic as that of many Asian countries.

Platov also called on law enforcement agencies and tax authorities to keep an eye out for those who might try to take advantage of the ruble's fluctuations and hike up prices for essential goods, such as school supplies, children's clothing and shoes, medicine, and basic foodstuffs. The governor signed a special decree banning price hikes, in an effort to preempt panic among the public.

Tver's business community and top industrial managers also responded to the crisis. The Tver Entrepreneurial Union sent an open letter to President Yeltsin and former Prime Minister Kirienko, sharply criticizing the government's fiscal initiatives (*Tverskaya zhizn*, 21 August). The letter emphasized that the reduction of the unbearable tax burden is the key to the country's economic revival. - Boris Goubman in Tver

REGIONAL LEADERS SEEK GREATER POWER DURING GOVERNMENT CRISIS. "Regional leaders are sensing the total absence of power at the center and will now be looking ahead to what they think the likely outcome of the current crisis will be before deciding what to do next," according to Jeff Robins, a Moscow-based regional

economist at MFK Renaissance, where he covers local debt markets. "Frankly the situation here is very , very fluid at the moment," he said. "At least two different groups (the Duma opposition and the Berezovskii clan) are trying to engineer a light version of a bloodless coup to install Chernomyrdin in place of Yeltsin. I think they could very well succeed. That may sound fairly alarmist, but I think it's a pretty reasonable interpretation of events here. Regional leaders will be watching, waiting, and maximizing local control."

Regional leaders are already taking advantage of the combined economic and political crises. Even before the current crisis began, many regions had defaulted on their Agro bond debts. Saratov Oblast is currently in default of over 100 million rubles in Agro bonds owned by Western and Russian investors. Those bonds were due 17 July. Chelyabinsk defaulted on a 5.5 million ruble Agro bond on 22 July. "Saratov and Chelyabinsk have not paid, and the likelihood is getting smaller that they will," said Robins. MFK Renaissance is currently suing the regions to force them to honor their obligations.

Another example, as explained by Robins, can be found in Novosibirsk. "Novosibirsk on 26 August announced that it will be unilaterally restructuring its municipal bond debt by forcing investors to roll it over into new one-year paper at the lesser of the Russian Central Bank refinancing rate or 50 percent. As I understand it, this is clearly illegal according the Russian Civil Code, but the Novosibirsk administration appears to be counting on a gentle reaction from the center under Chernomyrdin. Also, the regional leaders may be thinking that Chernomyrdin will amend the Civil Code to legitimize his federal debt restructuring."

BREAKING NEWS

POLITICS

FEDERATION COUNCIL PLANS ITS OWN TELEVISION NETWORK. The Federation Council is investigating the possibility of setting up its own television network, *Nezavisimaya gazeta* reported on 21 August. Only Deputy Chairman of the Committee on Science and Culture Anatolii Kostyukovich would confirm that report. Federation Council members have already set up advisory bodies for the new network, which will be called Russian Regions, and have applied for a broadcasting license. The network must still find a financial backer, however. The organizers believe such a network is needed because existing broadcasters generally report only crime-related news from the regions, giving viewers little sense of the true situation on the ground. The editor of the recently established *Parlamentskaya gazeta*, Leonid Kravchenko, is serving as general director of the network. He was the editor of *Trud* in the Soviet-era. Clearly, the governors hope to use the network to increase their influence during the upcoming parliamentary and presidential elections.

OLD GOVERNMENT SIGNS TREATY WITH KEMEROVO. The meeting of the now dismissed government on 21 August addressed the problems of Kemerovo Oblast,

one of the most troubled regions in Russia. Former Fuel and Energy Minister Sergei Generalov said the main problem was that there was no plan for restructuring the coal industry or discussion of how to finance such a restructuring. He charged that simply sending more money to the oblast would not be effective. Kemerovo Governor Aman Tuleev blamed the region's problems on the federal government and accused it of under-financing the region. Former Deputy Prime Minister Boris Nemtsov said both sides had to work together. As a result, the federal government and Kemerovo signed a protocol on a power-sharing treaty. The treaty is the first federal-regional agreement that explicitly recognizes the rights of local authorities. According to the agreement, all sides will develop a stabilization program for Kemerovo. Kemerovo must reduce its 49 percent budget deficit by 13 percent and give the federal government 76 percent of the taxes and pension fund contributions collected in the region. In return, the federal government must reduce the number of bureaucrats it employs in the region and appoint regional representatives to 50 percent of the seats it holds on the boards of directors of regional firms owned by the federal government. *Russkii Telegraf* described the treaty as a victory for both sides, since Moscow was finally able to get Tuleev to accept some responsibility for his actions, something he has thus far avoided. Tuleev gained stature by obtaining such a treaty from the government. The impact of the government dismissal on the implementation of the treaty is unclear.

MANY LOCAL GOVERNMENTS SETTING UP THEIR OWN SECURITY COUNCILS. Many regional and local governments are setting up their own security councils that are chaired by the governor or mayor and include regional and local representatives from law enforcement agencies. This decentralization of law enforcement authority results from the federal government's inability to pay the salaries of its local law and order representatives. When money stops coming from Moscow, local law enforcement officers seek funds from regional and local officials. The regional and local officials then gain control over agencies that are presumably subordinate to the federal government. State Duma member Vladimir Lopatin, who handles these issues in the Duma Security Committee, believes that these practices are illegal. Lopatin claims to have evidence of cases in which regional and local authorities cut funding to agencies that acted too independently. The regions find that having their own security councils is useful in extracting greater power from Moscow. (*Russkii Telegraf*, 21 August)

MOSCOW: EUROPEAN MURDER CAPITAL. For every 100,000 residents, 18.1 were murdered in Moscow between 1995 and 1997, the highest rate in Europe, according to the British police. Helsinki ranked second with 12.5. Washington is the world leader with 69.3 murders for 100,000 residents during that period. In New York, there were only 16.8! (*Kommersant Daily*, 21 August)

ECONOMICS

CRISIS HURTS REGIONAL CREDIT RATINGS. Standard and Poor's affirmed a CCC long-term foreign currency issuer credit rating for the cities of Moscow and St. Petersburg, the republic of Tatarstan, Irkutsk, Samara, Sverdlovsk, and Nizhnii Novgorod oblasts, and the Yamal Nenets Autonomous Okrug. The CCC rating means that the

regions are "currently vulnerable" and "dependent on favorable business, financial, and economic conditions to meet their financial commitments." The outlook is negative for all regions. The agency removed the regions from its Credit Watch, where they were placed on 17 August, because the Russian Central Bank confirmed that the government's 90-day debt moratorium does not restrict the regions from fulfilling their obligations (Standard and Poor's Press Release, 26 August). Moody's dropped the ranking of St. Petersburg, Yamal-Nenets, Tatarstan, Krasnoyarsk, Nizhnii Novgorod, Sverdlovsk, and Samara from B2 to B3. It dropped the rating of Moscow Oblast and Komi from B2 to Caa1. Sakha's (Yakutiya) rating remains unchanged at Caa3. The outlook for all of those regions is negative (*Segodnya*, 25 August)

ALROSA, DE BEERS EXTEND CONTRACT BY THREE YEARS. The Almaz-rossii Sakha diamond producer and South Africa's DeBeers have extended their contract by three years. The current contract is scheduled to expire on 31 December. Alrosa is supposed to supply De Beers with \$550 million worth of diamonds annually. The two sides have set up a committee to work out the details, and Alrosa has requested the approval of the Russian government (*Segodnya*, 25 August). The agreement allows Alrosa to sell 5 percent of the diamonds it mines on the free market and 20 percent of state reserves (*Russkii Telegraf*, 25 August). Additionally, the Smolensk-based Kristall diamond processing factory won the right to buy raw diamonds from De Beers, although Alrosa will remain the plant's main supplier (*Izvestiya*, 25 August).

CAR, TRUCK, BUS PRODUCTION WAY DOWN. During July, the country-wide production of cars fell by 39 percent, trucks by 31 percent, and buses by 4 percent from the same period last year. The drop was attributed to the weakened buying power of consumers, imports from Daewoo's Uzbekistan plant, a huge spike in demand at the end of last year -- before Russia dropped three zeros from the ruble -- and persistent rumors that the government would lift the heavy duties it places on imported cars. The Moskvich plant has been unable to sustain its high levels of growth (last year it revived its production from practically nothing), Samara's AvtoVAZ has flooded the market with its cars, and the Ulyanovsk Automobile Factory found that when it raised its prices, nobody wanted to buy its product. (*Kommersant Daily*, 25 August)

MOSCOW FORMS BANK POOL. Moscow Mayor Yuriy Luzhkov called on Moscow bankers to carry out "non-standard, consolidating" measures to address the financial crisis in the country. He called on the banks to form a pool to guarantee deposits and the rapid payment of funds into the city budget. Among the banks supporting the idea were Bank Moscow, Inkombank, Vozrozhdenie, and SBS-AGRO. (TV-Tsentr, 24 August)

CHELYABINSK PRODUCERS FEAR COMPETITION FROM BOSCH-SIEMANS. Chelyabinsk producers of refrigerators, electric stoves, and washing machines warned that the construction of a Bosch-Siemens plant in the oblast could hurt their business. However, Governor Peter Sumin argued that the plant would make high-quality but inexpensive appliances that would help the entire economy of the oblast. The plant plans to produce \$15 million - \$20 million worth of goods a year. (*Finansovie izvestiya*, 25 August)

GOVERNMENT TO SELL STAKE IN THIRD-LARGEST ALUMINUM PLANT.

The federal government is planning to sell its 6.15 percent stake in the Sayansk Aluminum Factory (Khakasiya) at an auction on 22 September. The starting price will be 50 million rubles, a commitment to invest \$48 million, and guarantees of paying off the plant's debts to the federal government. In April, Sayansk issued additional shares of stock that cut the government share from 15 percent to 6.15 percent. Duma member Pavel Bunich believes that the government is losing a lot of money on the deal because it could have received \$70 million - \$80 million in selling the stake. Only the aluminum plants in Krasnoyarsk and Bratsk (Irkutsk) are larger. But the Sayansk factory, built in 1975, is relatively newer and has more modern equipment. (*Finansovie izvestiya*, 25 August)

SAMARA DEFENSE INDUSTRY SEEKS FUNDS. The federal government owes Samara defense plants 769.4 million rubles. As a result, with Governor Konstantin Titov's support, the defense plants were the first to back the newly formed national group, the League to Support Defense Enterprises, formed to lobby the government to make good on its debts. (*Izvestiya*, 25 August)

BUSINESS BRIEFS

-- **BNR DRESDNER BANK** has given the city of **MOSCOW** a \$35 million credit to import 250 **IKARUS** bus kits for assembly at the Tushino Machine Building Plant. The loan was made at 8 percent interest and must be repaid in four years. (*Segodnya*, 25 August)

-- The city of Khimki (**MOSCOW OBLAST**) announced that investment in a planned Khimki-City project has reached \$20 million of an estimated \$100 million. The project, to be located near Sheremetev airport, will include shopping centers, a four-star hotel, supermarket, and water park. (*Segodnya*, 25 August)

-- **ELF AQUITAINE**, worried about Russia's current economic crisis, has ended its negotiations with **SIBNEFT** on purchasing a 12 percent stake of the company's stock to jointly develop the Sugmut deposit. In April Elf was planning to buy 5 percent of the Yuksi oil company (a planned merger of Yukos and Sibneft) for \$528 million, but that deal fell through when the merger failed to take place. Additionally the **TYUMEN OIL COMPANY'S** \$75 million credit from the French **SOCIETE GENERALE** was frozen and the US's **CHASE MANHATTAN** bank cut off negotiations on a \$40 million - \$50 million credit. (*Russkii Telegraf*, 21 August)

CENTER-PERIPHERY RELATIONS

VOLGOGRAD MAYOR: AS FEDS, GOVERNORS BATTLE, MAYORS GAIN POWER. The political influence of Russia's mayors has increased as the federal government has battled with the country's governors, Volgograd Mayor Yurii Chekhov said in an interview with the pro-mayoral newspaper *Gorodskie Vesti* (12 August). The Russian government now regards the mayors as a group blocking separatist tendencies in

the regions, he said. Yeltsin initially tried to use his presidential representatives to preserve the federation's unity. That scheme failed, however, because the presidential representatives lacked the abilities and resources for fulfilling such a task, and usually had little influence among the regional elites.

Large city mayors possess those abilities and resources, Chekhov believes. "Cities are the most active part of Russia. They are much more reformist and more willing to accept innovations in economic and political life. Cities have to seek new solutions because of the difficulties they face in obtaining funds from regional leaders. The main source of irritation is the unsettled state of relations between cities and their regions -- whether oblast or republic. The absence of legislation regulating these relations, especially in the financial sphere, produces the same conflict situation in a variety of regions.

Chekhov believes that mayors can play a large role in addressing the problems of Russian federalism. "It may seem ridiculous," he noted, "but I was a separatist myself. Six or seven years ago, I advocated the separation of Volgograd from Volgograd Oblast, demanding that it become a special "republican" city. I almost convinced Yeltsin to approve such a move, but he remembered that if he granted Volgograd special status, Yekaterinburg would demand the same, so he did not follow through." Chekhov now believes that there should be no special policies for local or regional officials.

The role of the federal bureaucracy is often overstated in the battle between mayors and governors because there are local sources for the conflict, Chekhov said. Anatolii Chubais was once a popular figure among the Russian mayors. "Now the most popular politician among many of my colleagues is Moscow Mayor Yurii Luzhkov," Chekhov said.

In noting that the city of Volgograd generally supports reformers while the surrounding countryside backs Communists, Chekhov argued that "The term 'red belt' is not an adequate description of our region. Volgograd is not a place where residents hope to return to the old times. The natural desire for people to have a normal life leads them to throw the incumbents out of office and replace them with someone new regardless of who it is. If I, as mayor of Volgograd, can prove to my fellow citizens that reformist politicians (I include myself in this term) are able to solve the people's problems efficiently and quickly, I will have accomplished my task. If we shall manage to do this, the inaccurate label 'red belt' will vanish." - Ivan Kurilla in Volgograd

ETHNIC CONFLICT AND REGIONAL SEPARATISM

DAGESTANI SPIRITUAL LEADER KILLED AMIDST SEPARATIST MUTINY

by Nabi Abdullaev, *Novoe Delo*

MAKHACHKALA--On 20 August the spiritual leader of Dagestani Muslims, 39-year old Mufti Saiid-Mukhamad Abubakarov, was killed in the center of Makhachkala. He

was with his brother and a driver, returning from a Friday prayer service, when a bomb attached to the bottom of his vehicle exploded, tearing the car apart and killing its passengers. But given recent events in Dagestan, one could have predicted the mufti's execution.

Following the 21 May temporary capture of government building in Makhachkala (see *IEWS Russian Regional Report*, 21 May), three villages in the Buinaksk raion of Dagestan (Karamakhi, Chabanmakhi, and Kadar) staged something like a *coup d'etat*. A group of 400 Wahhabis residing in those villages, many with military training from Chechnya, clashed with the police, killing several officers, and successfully expelled law enforcement and government officials from the building. Attempts by the police and para-military volunteers from neighboring villages to restore constitutional order in the mutinous settlements were foiled: the Wahhabis were better organized and armed with superior military equipment, including radar-guided rocket launchers. Thus, a portion of Dagestani territory and, more significantly, a key highway connecting the highlands with the valley, came under the control of the separatist rebels. The separatists did not make any political demands and even met with members of the parliament, but at the same time would not allow any police or military personnel to enter their territory. The government in Makhachkala, its authority shattered by the 21 May events, made careful warning statements and asked the separatists to back down. Yet on the eve of the 25 June elections, nobody wanted to force the issue.

Meanwhile, residents of the rebellious territory established their own form of government. Over 7,000 people came under the jurisdiction of Shariah law, and according to Islamic tradition, men began wearing beards and women started to cover their faces. Prayers five times a day became a norm, and crime went down considerably, probably out of fear of public execution or the limb amputations prescribed by Islamic law for serious crimes. A general assembly of villagers became the main governing body, with voting rights reserved for men. However, relations with the Dagestani authorities worsened by the week, especially after Magomed Talboev, who had managed to engage in some constructive dialogue with the Wahhabi community, resigned as the head of the Security Council.

By mid-August, law enforcement agencies began concentrating their forces on the borders of the rebellious territory. In response, the Wahhabis strengthened their outposts and their leaders proclaimed the creation of an "independent Islamic territory" in the very heart of Dagestan. At the 19 August joint emergency session of the State Council (collective executive), the cabinet, and the Popular Assembly, Dagestani leaders passed a resolution warning of the impending danger of religious extremism and civil war in the republic. The resolution called for further dialogue with the extremists, but, at the insistence of Mufti Saiid-Mukhamad Abubakarov, emphasized readiness to use force if necessary to solve the problem.

However, the problem remained of who exactly was going to disarm the Wahhabis? The police are obviously powerless, and using the Russian army would immediately incite anti-Russian nationalist sentiment, only helping the extremists. The

day after the 21 August murder of the mufti, thousands of his followers came to Makhachkala, armed and demanding revenge. They staged a rally on the city's central square and expressed their willingness to help the republican government punish the guilty. The mufti had consistently criticized the Wahhabis, rejecting any chance of compromise. He even openly advocated armed persecution of the Wahhabis, especially when he said in one interview: "Every Muslim killed by a Wahhabi will be in paradise, as will any Muslim who kills a Wahhabi." His tragic death, therefore, makes it possible to channel the wrath of his spiritual followers toward the Wahhabis, thus throwing Dagestan into the throes of a civil war.

SOCIAL ISSUES

CHELYABINSK MINERS LIFT TRANS-SIBERIAN RAIL BLOCKADE.

Following a decision taken jointly by workers in several mines, Chelyabinskugol mining company workers lifted their blockade of the Trans-Siberian railroad on 21 August. The miners' strike, spearheaded by the regional branch of the Independent Mining Union, began on 27 June, while the blockade began 21 July. The majority of mines should resume operation by next week.

The miners lifted the blockade because the Chelyabinsk Oblast administration fulfilled its portion of the 6 August tripartite agreement signed by Governor Petr Sumin, the company management, and the union leaders. The document stipulated that by 20 August the miners should receive 29.52 million rubles, which would partially cover their wage arrears. The federal government was supposed to contribute 20 million rubles, with the remainder to come from power and heat producers in the oblast, the miners' main customers. By 18 August the debtor companies delivered 4.5 million rubles, and the federal Defense Ministry transferred 10 million rubles to cover its debts to Chelyabinskugol. By 22 August Chelyabinskugol received 29.5 million rubles. To pay the miners in full, the oblast administration took out a short-term 15 million rubles loan at 5 percent annual interest from the local branch of Promstroi Bank. The federal government is expected to transfer the remaining 10 million rubles in the near future, and the debtor companies will pay 5 million more rubles by the end of August.

The total arrears from October 1997 - April 1998 amount to 210 million rubles. At least 5 percent of the debt must be paid to the miners each month. According to Vice-Governor Vladimir Bryukvin, by September-October 1998 the miners should be back on the payment schedule outlined in the 28 May tripartite agreement. - Igor Stepanov in Chelyabinsk

ECONOMIC ISSUES

CHELYABINSK GOVERNOR AIMS TO RAISE BUDGET REVENUES.

Chelyabinsk Oblast Governor Petr Sumin signed a special decree on the execution of the consolidated and oblast budgets for the first half of 1998. The consolidated budget has raised 2.9 billion rubles in revenues from January through June of 1998, or 37.6 percent of the yearly goal. The oblast budget has raised 996 million rubles in revenues for the

same period, including a 130 million ruble federal subsidy, or 27.2 percent of the yearly goal (64.7 percent of the six-month target). Compared to the same period in 1997, the oblast budget revenues raised locally have actually declined by 8.5 percent, despite the increase of cash revenues by 15.1 percent or 93 million rubles.

The expenditure side of the consolidated budget for the first half of 1998 amounted to 39.4 percent (3.3 billion rubles) of the yearly goal. Accordingly, expenditures by the oblast budget for the same time period were 1.2 billion rubles, or 33.8 percent of the yearly goal (77.9 percent of the 6-month target). The oblast owes public sector employees 188 million rubles. Payments of housing utility bills by the population were at a mere 30 percent of the level of expenditures, not 50 percent as projected in the budget, translating into a loss of 189 million rubles. Given all these factors, the governor described the situation with the budget as dire and called for concrete measures to tackle the problem.

For example, the oblast State Property Committee was asked to analyze how vocational training schools use state-owned office facilities and to propose the best way to collect rent on that real estate. Heads of municipal and raion administrations were called on to intensify revenue collection and pick up the slack from the first half of 1998. To this end, law enforcement and tax collection authorities will cooperate to identify companies in each municipality that do not have operating licenses. Additionally, the oblast will strive to collect at least 50 percent of utility bills from private households. - Igor Stepanov in Chelyabinsk

SPECIAL RESEARCH REPORT

GERMANS IN RUSSIA

by Nina Vashkau, Professor of History, Volgograd State University

VOLGOGRAD - The first foreign specialists from Western Europe came to Russia long before Catherine the Great. However, it was Catherine's Manifesto of 1763 that led to the appearance of large groups of German migrants in the Russian Empire - particularly in the Baltic region, St. Petersburg and Moscow, Southern Russia, and the Volga region.

During the last 200 years, the socio-cultural situation in both Russia and Germany has changed greatly, influencing state policy toward Russian Germans. After German unification in the 1870s, Germans in Russia lost their privileges and their local governments. Some groups of Germans suffered under the Russification policy of the Russian government, although these policies affected the Baltic Germans more than the Volga Germans. The First World War stirred anti-German feelings among the Russian population, leading to the closure of German papers and schools.

After the 1917 October Revolution, the Bolshevik government took some measures to fulfill its promises of "self-determination for all nations." It established an Autonomous Republic of Volga Germans in 1924 on land that is now divided between

Volgograd and Saratov oblasts. The territorial designation created better conditions for national education and the development of a national elite.

World War II led not only to the abolition of the republic on the Volga, but also to the deportation of all the Germans to Siberia, Kazakhstan, and the Urals. Rehabilitation began only in 1955. It was not until 1972 that the Germans received their freedom of movement (and, accordingly, the right to return to their native towns and villages).

In 1989, during the era of Gorbachev's reforms, Russian Germans founded the "Wiedergeburt" ("Revival") society. Three governmental commissions studied the situation of Germans living in the Saratov and Volgograd regions. President Yeltsin signed two decrees on ethnic German economic and cultural conditions in 1992.

Ethnic conflict and economic difficulties in Central Asia and Kazakhstan caused Germans living in those areas to migrate to the Volga region. Most of them, however, consider the Volga region just a temporary stop as they seek to move to Germany.

One of the greatest problems for the current German national movement is the impossibility of re-establishing a German republic in Russia. Nevertheless, some politicians exploit this desire in their political maneuvering. Saratov Governor Dmitrii Ayatskov suggested creating a German national district, to include parts of Volgograd Oblast, within his region in late 1997. The proposal has an obvious economic motivation: the exploration of large oil fields has just begun on precisely the territory in question.

The German government and Russian authorities are coordinating support for Volga Germans, focusing on cultural and educational programs. Germany opened a consulate in Saratov, and German schools and newspapers are now active in the region. Several centers to teach the German language have opened in Volgograd, a German Cultural Center is working in Kamyshin, and since 1993 a German Cultural Center and German chorus have been housed in the Staraya Sarepta Museum in Volgograd. The Lutheran parish of Volgograd has been revived and Germany provided financial assistance to restore the Lutheran church in Sarepta, which currently has 100 persons in the congregation. Germany also presented a library on German studies to the Staraya Sarepta Museum. The International Union of the German Culture has organized international conferences since 1994 and, in April 1998, it began publishing a German newspaper, *Moskauer Deutsche Zeitung*, with a print run of 35,000.

The goal of all this activity is to improve living conditions for ethnic Germans in Russia and stem the flow of emigrants to Germany. According to Article 116 of the German Constitution, any German from any place on Earth has the right to return to his "historic Motherland". In the case of Russian Germans, "Germanness" is defined by an individual's passport data or parents' birth certificates. The German population in Russia has the largest percentage of inter-ethnic marriages (70 percent, according to the 1989 census). Many of the "half-German" off-spring from these marriages were registered as Russian, Ukrainian, Kazakh etc. during the Soviet era, but now are immigrating to Germany as Germans. While the German population of the former Soviet Union in 1989

was 1.9 million, according to census data, the number of Russian Germans in Germany has already reached 1.5 million. The number of Germans in the former Soviet Union is unknown, however, but it is much higher than 0.4 million. The large number of immigrants, many of whom are poorly educated and trained, already creates problems for Germany. Russian German intellectuals generally do not relocate because many fear they will not find suitable jobs or feel comfortable living in Germany. Germany now requires immigrants to pass a language exam before they obtain a German visa.

Yet Russia's economic difficulties still push many Germans to seek their future in Germany. Ethnic Germans also leave because the Russian government is poorly equipped to resolve ethnic conflict and has not set up effective procedures to do so. Badly planned attempts at dialogue between the authorities and representatives of national movements have provoked mutual distrust. Only a Russian economic recovery, or the departure of the last Russian German, will stop the flow of emigrants.

Since January 1987, when new federal legislation on emigration came into effect, the number of German migrants from Russia to Germany was:

1987 - 14,488 people
1988 - 47,572
1989 - 98,134
1990 - 147,950
1991 - 147,320
1992 - 195,576
1993 - 1996 about 200,000 each year (exact figures not available)

Since 1996, however, the number of emigrants has begun to decrease. During the first half of 1998, 47,000 Germans moved from Russia to Germany, 25,000 fewer than emigrated during the first half of 1997.

Additionally, 113,000 Germans have obtained emigration documents from the German authorities and plan to stay in Russia while keeping the emigration option open as an "emergency exit."

REGIONAL PROFILE: AMUR OBLAST

Governor: Anatolii Belonogov

Anatolii Belonogov, 59, was elected oblast governor in March 1997 with over 60 percent of the vote, defeating the incumbent Yurii Lyashko. In the annulled September 1996 elections, he won by a handful of votes, a margin so slim that Lyashko's supporters successfully challenged the results and forced a second election in which the voters decisively rejected the incumbent.

Belonogov has long been a devoted member of the Communist Party, which he joined in 1963. He became a party functionary in 1970 and ultimately rose to the position

of chairman of the oblast executive committee. In 1990 he was elected to the Russian Federation parliament, where he was a member of various pro-Communist groups, such as "Motherland," "Communists of Russia," and "Russian Unity." In 1993, he actively participated in the resurrection of the Communist Party of the Russian Federation (KPRF). As the chairman of the regional legislature, in 1995 he restored the name "Soviet." During the 1996 presidential campaign, Belonogov was an aide to Communist Party leader Gennadii Zyuganov.

Belonogov claims to disagree with the policies of Yegor Gaidar, Grigorii Yavlinskii, Vladimir Zhirinovskiy, and Aleksandr Lebed. He also opposed the government of Viktor Chernomyrdin. He most respects Vladimir Lenin and Yurii Andropov, who was head of the Communist Party and the Soviet Union in the early 1980s. A former KGB director, Andropov was known for his preference for imposing order.

Other Local Leaders

Chairman of the Soviet -- Viktor Martsenko, elected in March 1997.

Presidential Representative -- Yurii Lyashko, former governor and chairman of the Soviet, appointed in April 1997.

Brief Overview

Amur Oblast is situated in the south-west part of Russia's Far East, near the Amur River. It borders Khabarovsk Krai, the Republic of Sakha, the Jewish Autonomous Oblast, Chita Oblast, and China. Its population is mostly Russian by ethnic origin (86.8 percent), with smaller numbers of Ukrainians (6.7 percent), Belorussians (1.7 percent), Tatars (0.9 percent), and Evens (0.2 percent).

Woods cover about 73 percent of the region's territory. Amur's complex geological composition offers coal and charcoal, gold, iron, titanium, copper, and precious stones. The region is the country's fourth-largest producer of gold. As a result of the oblast's rich mineral resources, major industries are gold and coal mining, non-ferrous metallurgy, metal processing and machine building, forestry and timber production, energy, and food processing.

Amur Oblast, whose territory includes over half the cultivated land in the Far East, is also an important producer of agricultural products. It is also the country's largest producer of soy beans (65 percent of the country's total) and the largest grain exporter in the area.

The oblast has a favorable location for close commercial relations with China and the countries of East Asia. The cities of Blagoveshchensk, Poyarkovo, Dzhalinga, and Konstantinovka have become centers of intense trade with companies from China, Taiwan, Hong Kong, Japan, and South Korea. Regional exports are mostly composed of

timber materials (36 percent) and metals (17 percent), while major import items are food products and consumer goods.

Investment risks have decreased by 21 points since 1996 (the 7th largest decrease in the country), according to an *Ekspert* magazine survey. The survey also named the region as "overinvested" by both Russian and foreign investors. The regional administration has adopted special investment legislation for domestic investors and has worked out over 50 investment projects in the fields of transportation, mineral resource extraction, hydroenergy, and agriculture where foreign participation is welcome.

Basic Facts

Population (as of 1 Jan. 1997): 1,031,400 (0.70% of Russian total)

Student population (1996): 148 per 10,000 (Russia overall: 171/10,000)

Pensioner population (1996): 19.44% (Russia overall: 25.78%)

Average monthly personal income in 1996: 752,000 rubles (Russian average: 764,000 rubles)

Average monthly personal expenses in 1996: 644,000 rubles (Russian average: 753,000 rubles)

Average monthly subsistence requirement in 1996: 441,600 rubles (Russian average: 369,400 rubles)

Consumer price index (as of Dec. 1996): 100.25 (Russia overall = 100)

Industrial production as percentage of all Russian production (1996): 0.28%

Proportion of loss-making enterprises (1996): 67% (Russia overall: 56%)

Number of enterprises with wage arrears (1996): 631 (4.75% of total number of regional enterprises)

Agricultural production as percentage of all Russian production (1996): 0.89%

Number of private farms (as of 1 Jan. 1997): 2,201 (0.79% of Russian total)

Capital investment (1996): 2,035,200 rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): federal budget: 28.4% (Russian average: 9.2%); regional budget: 7.5% (9.6%); enterprises: 39.4% (66.3%)

Number of joint ventures (as of 1 Jan. 1997): 59 (0.37% of Russian total)

Fixed capital investments in joint ventures and foreign companies (1995): 4,330 million rubles

Number of small businesses (as of 1 Jan. 1997): 6,195 (0.74% of Russian total)

Number of enterprises privatized in 1996: 6 (0.12% of Russian total), including former municipal property: 16.7% (Russian average: 67.1%); regional property: 16.7% (14.3%); federal property: 66.6% (18.6%)

Number of telephones per 100 families (1996): in cities: 33.9 (Russian average: 48.7); in villages: 21.7 (19.7)

According to a 1997 survey by *Ekspert* magazine, the oblast is ranked 62nd among Russia's 89 regions in terms of investment potential and 61st in terms of investment risks. A 1998 survey by Bank Austria ranked the oblast 66th in terms of investment climate.

Electoral History

1997 Gubernatorial Election

Belonogov: 60.51%
Lyashko: 24.41%
Sebina (LDPR): 2.32%
Surat: 2.07%
Simonov: 1.69%
Khakhin: 1.04%
Turnout: 52.13%

1996 Presidential Election

Zyuganov: 41.85%/53.07% (first round/second round)
Yeltsin: 26.60%/40.67%
Lebed: 11.84%
Zhirinovskiy: 7.91%
Yavlinskii: 6.06%
Turnout: 68.58%/65.59% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Elections

Communist Party of the Russian Federation: 34.89%
Liberal Democratic Party of Russia: 12.90%
Women of Russia: 5.86%
Communists -- Workers' Russia: 5.79%
For Motherland: 5.02%
Our Home Is Russia: 3.54%
Yabloko: 3.35%
Party of Workers' Self-Government: 3.05%
In a single-member district: 1 independent
Turnout: 67.43% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 27.54% "No" -- 72.46%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 24.90%
Communist Party of the Russian Federation: 16.23%
Russia's Choice: 12.51%
Women of Russia: 10.31%
Agrarian Party of Russia: 9.78%
Party of Russian Unity and Concord: 7.08%
Democratic Party of Russia: 5.01%
Yabloko: 4.68%
In a single-mandate district: 1 independent
Turnout: 59.44% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 37.72%
Ryzhkov: 31.19%
Zhirinovskiy: 9.05%
Tuleev: 7.20%
Makashov: 5.74%
Bakatin: 4.72%
Turnout: 74.71% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; T. Matiyasevich, N. Mogel, S.A. Nagaev, M. Rossmann, L.I. Smirnych, and A. Woergoetter, *Russia: Regional Risk Rating*, Vienna: Bank Austria, 1998; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regioni Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.

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RUSSIA'S POLITICAL AND ECONOMIC CRISIS

VOLGOGRAD RESIDENTS REJECT CHERNOMYRDIN, FACE RISING PRICES

by Ivan Kurilla, Volgograd State University

VOLGOGRAD--The economic situation and the political changes in the government have provoked feelings of depression among the majority of Volgograd residents. Very few people are happy about the return of acting Prime Minister Viktor Chernomyrdin. The Communists believe that Yeltsin brought him back only because Chernomyrdin is personally loyal to the president. Those who support the reformist cause believe that his first term in office caused the crisis in the first place. They back a new figure, such as Moscow Mayor Yurii Luzhkov or Federation Council Speaker Yegor Stroev, to lead the government.

The Volgograd political elite, despite popular opinion, is more loyal to the acting prime minister. Volgograd Mayor Yurii Chekhov claimed that Chernomyrdin's return may revive old problem-resolution mechanisms and money flows from the government interrupted by former Prime Minister Sergei Kirienko. Chekhov admitted that he had no access to the Kirienko government to solve local problems. Governor Nikolai Maksyuta has not expressed any opinion on the last changes.

Businessmen, who make up the rising middle class, were the first to feel the effects of the crisis. Their bank accounts lost value, even if their bank survived the collapse. TRANTOR - the largest Volgograd firm selling TV sets, video equipment, washing machines, refrigerators and other home appliances -- closed its stores twice during the week and now prices are nearly twice as high as they were two weeks ago. In effect, they are calculating prices on a 13 rubles to the dollar exchange rate. Amazingly, there are buyers in the stores despite the new price levels. Purchasing under current conditions suggests that people are afraid that the collapse will continue.

The majority of Volgograd residents, who have no bank accounts and live "from pay-day to pay-day," are just beginning to feel the impact of the crisis. The prices of imported food have begun to rise. For the first time since 1992, there are shortages of some goods. For example, it is now difficult to find imported cigarettes in street kiosks. The "restructuring" of GKO's has particularly affected Sberbank, insurance companies, and non-governmental pension funds that deal closely with low-income city residents. The Volgograd Pension Fund "Imperia," among the largest in Russia, is now under particular strain.

In political terms, the crisis has dramatically affected the standing of the "party of power". The latest poll ordered by *Gorodskie Vesti* newspaper in Volgograd last week illustrates this tendency clearly. Pollsters asked residents who they would support if presidential elections were to take place this Sunday. The results were:

Gennadii Zyuganov -- 19.2%
Yurii Luzhkov -- 17.8%
Grigorii Yavlinskii -- 15.5%

Aleksander Lebed -- 13.1%
Vladimir Zhirinovskiy -- 6.4%
Boris Yeltsin -- 4.7%
Boris Fedorov -- 4.4%
Viktor Chernomyrdin -- 3.4%
(other respondents choose other names or voted "against all")

If the parliamentary elections were held this Sunday, Volgograd residents would vote for:

Communist Party of Russian Federation (KPRF) -- 23.9%
Yabloko -- 23.2%
Honor and Motherland (Aleksandr Lebed's) -- 12.8%
Our Home is Russia -- 11.8%
Liberal-Democratic Party (Vladimir Zhirinovskiy) -- 6.1%
(no other party gathered more than 2,7%)

ST. PETERSBURG: BEGINNING OF PANIC IN SOME MARKETS

By John Varoli, *St. Petersburg Times*

ST. PETERSBURG--As Russia enters its fourth day without a stable, recognized value for the ruble (31 August), imported food supplies to the city are declining drastically. While most of the city remains calm, some consumers, mostly the city's poorest, have begun to panic and are buying up goods.

The country can at least feel fortunate that the crisis has broken during harvest time. Marketplaces are flooded with cheap locally-grown food, and most people can supplement their diets with what they grow in their garden plots. Such supplies should suffice until early November, by which time the situation with imports should hopefully have stabilized.

Now, however, there are signs of genuine panic in some city markets. "With the ruble falling, I am buying up as much as I can," said one woman shopper on Sennaya Ploshchad, one of the city's largest market places, as she waited in a line of about 15 people to buy canned goods. "The chaos is just the latest proof that the government doesn't care about the people, so we must fend for ourselves."

"A genuine panic has begun," said Svetlana Mollakova, standing in a line of 20 to buy cooking oil and canned items. "My salary now buys less, and I cannot buy what I am used to buying. On top of this, I am afraid that a card-rationing system will be instituted."

According to the Northwest department of the International Association of Automobile Transporters, the volume of cargo transported from Western Europe via Finland was halved last week

The port of St. Petersburg has seen activity drop dramatically, and some ships are turning away with their cargo as wholesalers are refusing to pay due the fact that the ruble has no stable value.

The most important achievement of the post-Soviet Russian economy had been the boom in the availability of consumer goods, most of them imported, that most Russians could never dream of obtaining during the Soviet era. But, unless the government acts fast to stabilize the ruble and lower taxes, that one hard-earned gain will be snatched from the Russian people.

So far, prices are rising by an average of 20 percent, and consumer power is withering as ruble salaries become more and more worthless. Even those with dollars tied up in financial institutions are not immune to the crisis. St. Petersburg, like the rest of the country, has been hit by a dollar liquidity crisis. Many local banks are not readily giving dollars out to their clients who hold dollar accounts, often telling them to come back in a week.

Also, currency exchanges are only buying dollars, at a average rate of 8 rubles to the dollar, from those who want to purchase rubles.

Resignation is prevalent among the population. "Obviously, I don't expect anything good with the falling ruble, higher prices, and the return of the old government that brought the economy to its current disastrous condition," said Maria Tseltsova, a cleaning lady. "Yet, the Russian people calmly accept their fate, and I doubt that we will see any violence or rioting in the street."

The first to suffer, however, are retailers. In some cases, they are seeing supplies disrupted, and rising prices are driving away customers who can buy food, clothing and other items much cheaper at huge outdoor markets which dot the city and Oblast.

"Because of the constantly changing rate of the ruble, many wholesale suppliers who deal in imported goods are not sending us new shipments, unless we pay them up front in cash," said Ludmila Mikhailova, deputy director of a food store in St. Petersburg. Mikhailova added that prices have risen about 10 percent, and the variety of items on sale at her store has noticeably decreased from a month ago.

Small businesses specializing in imported non-perishable goods have been hardest hit. At the end of last week, some local Western stores, such as Nike, Benetton and Reebok had closed their doors. Most bore signs saying 'Sorry, we are closed for inventory,' while others used the excuses, "Cleaning day" or "Closed for technical reasons."

Radio advertisers, however, are taking the crisis in stride. "If you have any spare rubles left in your pocket, spend them at Adamant...." went one radio ad, while another proposed,

"The dollar is rising, ruble becoming worthless, but Teleplus TV dishes has its own anti-crisis program ..."

With rumors flying about imposing Soviet-style controls on the economy, one music radio station, Russkoe Radio, has run the sinister sounding saying, "Better to think about the Kolyma living in poverty in Honduras than to think about Honduras exiled in the Kolyma." (*Luchye kolimichit v gonduras, chem gondurasit v kolimye.*)

BLACK MARKET BACK IN VORONEZH...

by Andrei Muchnik, Voronezh State University

VORONEZH--The financial crisis and ruble collapse have affected Voronezh as much as they have any other big city in Russia. There are lines of panicking depositors at every major bank trying to withdraw their money. However, the banks have already hung signs declaring "No hard currency."

Prices have all gone up and are still rising. According to the local newspaper *Bereg* (28 August), prices went up 15-30 percent for home appliances, and 10-20 percent for perfume and detergent. Prices in kiosks, which generally sell cigarettes, chocolate, and beer, on average rose about 10-20 percent. Many shops are closed.

Sellers at the farmers' markets resisted price increases last week, but this Monday, they raised prices about 20 percent. People rushed there to buy supplies of sugar, flour, grain, etc. Wholesale prices went up as well. Flea markets have been very crowded during the past two weeks as people try to get rid of their cash. *Bereg* reported that the prices for fall and winter clothes at the flea market went up about 15 percent, but prices for summer fashions held firm. At all of the markets, there are scruffy individuals holding up cardboard signs announcing "We buy gold, silver, etc." Such sights are reminiscent of the early nineties - times of hardship and hyperinflation.

... **GOVERNOR ANGRY.** Voronezh Governor Ivan Shabanov has called on President Yeltsin to voluntarily resign. Shabanov has also denounced Yeltsin's decision to fire Kirienko and reappoint Chernomyrdin as prime minister. "We just started to get along with Kirienko and were about to receive a 100 million ruble loan from the federal government, when Kirienko was sacked," he complained. Voronezh Oblast currently owes 400 million rubles in pension and public-sector wage arrears. The governor is also concerned that the new prime-minister will not keep a Kirienko-backed contract from Aeroflot to order 20 planes from the Voronezh Airplane Factory (Aviazavod), one of the biggest enterprises in Oblast (*Voronezhskiy Kurier*, 25 August). The deal, signed on 28 July, is worth approximately \$1 billion. - Andrei Muchnik in Voronezh

TVER ENTREPRENEURS STRUGGLE TO SURVIVE AMIDST CRISIS. Russia's economic crisis has had differing impacts on Tver's businessmen, according to a roundtable discussion among businessmen transcribed in the newspaper *Tver* on 28 August. Naturally, entrepreneurs with enough supplies in storage and reliable domestic and foreign customers have the least to worry about in terms of the effects of the crisis on their business. For example, Vadim Deshevkin, commercial director of Afanasiy-Pivo brewery assured his customers that the company will continue to operate at its normal capacity. He attributed his company's favorable position today to wise decisions taken in early August, when it cut its prices by 10 percent. While Afanasiy-Pivo does not want to raise its prices, the impending inflation might force it to do so. Deshevkin also said that the financial crisis has not affected his relations with foreign clients who have promised to honor their contracts. At the same time, the crisis has forced the firm to move away from importing raw material for brewing and turn to domestic hops producers. In any case, the company has enough raw materials to continue operations for the foreseeable future.

In contrast, General Director of ANTEK trading company Nikolai Karpov and Commercial Director of Bonus Trading House Dmitrii Kargin had a different perspective on doing business under crisis conditions. Karpov said that the vast majority of the Russian population does not comprehend the gravity of the financial crisis because they did not invest in the "pyramid scheme" of federal treasury bills (GKO). He further estimated that 70-80 percent of goods sold in retail stores are either imported or made from imported components, and will therefore rise in price proportionally to the dollar's appreciation in relation to the ruble. Should current prices double, Karpov said, nobody can predict the consequences, but he also expressed hope that the newly appointed government, once confirmed, will successfully address the problem of inflation.

Kargin was even more alarmist in describing the crisis as a consequence of a "high powered game" in the top echelons of the Russian government. Inflation combined with a lack of money in the hands of the general public threatens all entrepreneurs in Russia with bankruptcy. Many imported goods will have to be dropped, he said. For example, U.S. produced chicken legs now cost 30 rubles a kilogram, far beyond the purchasing power of the average Russian. (Poultry is one of the US's largest exports to Russia.) Meanwhile, prices in ANTEK stores have already risen by 30 percent and Bonus has increased its wholesale prices by 15 percent. Many imported goods have disappeared from stores altogether, as retailers cannot predict the dollar exchange rate. Tver residents, meanwhile, are wondering if the times of shortages and empty store shelves are returning. - Boris Goubman in Tver

OFFICIALS, MARKETS REACT DIFFERENTLY IN TATARSTAN

by Midkhat Faroukshine, Kazan State University

KAZAN--When discussing reactions to the financial crisis in the Russian regions, one must separate the official line of the local political elite and the objective reaction of the marketplace.

Tatarstan's leadership has been reacting very characteristically to the government changes in Moscow. When Kirienko was appointed prime minister, it was hailed as good news. When Chernomyrdin made his comeback, replacing Kirienko, it was also hailed as good news. This testifies to the dependency of Tatarstan on the federal government and the desire of the republic's leadership to benefit from subsidies regardless of who is running the show. Right now President Mintimer Shaimiev's priority is to insure that agreements reached with Kirienko during his recent visit to Kazan are promptly carried out by his successor.

Shaimiev's explanation of the roots of the Russian financial crisis is bewildering, to say the least. He claims that the main problem lies not in the country's generally difficult economic situation, which is arguably still a very important source, but in the State Duma, dominated by Communists. This sounds especially strange coming from the former secretary of an oblast Communist Party committee (*obkom*). The president also feels that most anti-crisis measures proposed by Kirienko, including the unpopular ones, will be adopted by the new Chernomyrdin government.

According to E. Bogachev, the head of Tatarstan's Central Bank, most banks in the republic are stable and present no cause for concern. Problems might arise with the local branches of Moscow banks. These banks have loaned a lot of foreign currency to Tatarstan's companies, with the total amount of credits exceeding the sums these companies keep on deposit in the banks by three times. If these banks go bankrupt, Tatarstan will lose nothing, Bogachev said.

One particular reaction to the crisis is very disturbing, however. Citing the financial crisis and the of actions of the central government in Moscow in relation to its treasury bills (GKO) and short term securities (OFZs), Tatarstan's government is effectively defaulting on its short term securities obligations (RKO). According to *Vecherniyaya Kazan* (28 August), after prolonged consultations with financiers, the government of Tatarstan announced that the terms of restructuring the republic's short term debt would be identical to those adopted by the Russian government.

At the same time, *Kazanskoe vremiya* (28-29 August) estimated that the government in Kazan is quite capable of paying off its financial obligations. The Ministry of Finance has taken out 1.24 billion rubles worth of loans, of which 599 million rubles must be repaid by the end of the year, and the rest in 1999. Simultaneously, the republic's budget revenues are projected to be 16 billion rubles.

In the marketplace, food prices in Kazan have risen by 10-15 percent, and prices for consumer goods have jumped 15-30 percent. The situation is only bound to get worse.

HIT BY CRISIS, KRASNOYARSK RETAILERS CLOSE DOWN SHOPS. The Krasnoyarsk regional market is in a state of total chaos. One U.S. dollar can be purchased for anywhere from 9 to 15 rubles. In the course of one day prices can double or come down just

as dramatically. However, market research indicates that only prices for cosmetics have risen steadily and slowly, by 15 percent. Food, both imported and domestic, has rapidly increased in price, by up to 40 percent. The cost of expensive clothing, however, remained almost at the same level, due to low demand. Some wholesale traders have closed down their warehouses with the excuse that they needed to take stock of their inventory. Thus, expensive imported consumer electronics first increased in price by 40-80 percent, but then disappeared from store shelves completely. In the end, many firms dealing in computers closed down altogether. Apparently few are paying attention to Governor Aleksandr Lebed's order to keep prices down. - Pavel Avramov in Krasnoyarsk

NIZHNI NOVGOROD: SHORTAGES AND TOUGH TIMES FOR WORKERS, VETERANS

by Yurii Rodygin

NIZHNI NOVGOROD - Purchasing hard currency in Nizhnii Novgorod is still impossible. The price of imported goods is going up with the dollar, and the price of granulated sugar is going up the fastest. Many wholesale distributors have stopped selling sugar, lowering the supply. Simultaneously, many people are trying to stockpile sugar, commonly used to make preserves for the long winter, thereby increasing demand for it. Yesterday (31 August) lines for sugar were the longest in the stores, and today there was little sugar left, and what there was went up in price by 20 percent. The wholesale markets, which in the past sold foodstuffs cheaper than in the stores, now have higher prices. The variety of goods has also decreased sharply.

The leadership of the Sokol aviation factory, which had hoped to bring back plant workers after their forced three month leave, announced that there would not be any money until November, lengthening the partially paid leave for another two months. Yet, even if the factory receives some sort of credit there will still not be sufficient funds to resume production. The government's decision to postpone its debt repayment could also hurt enterprises that have so far been operating successfully. Yet, FIAT, the Italian partner of the Gorkii Automobile Plant, announced that it has no intentions of changing its plans and still believes its joint venture will be successful.

Veterans holding housing certificates valued in rubles have also been hurt by the drop in the currency's value. Before the crisis, the certificates' value was equivalent to the cost of an average three-room apartment in Nizhnii Novgorod, typical for a four-person family. Now, the cost of housing is increasing with the rate of the dollar.

The Nizhnii Novgorod mayoral campaign is underway, with twelve candidates registered. The most promising candidates are Yurii Lebedev, Vladimir Semago, and Dmitri Bednyakov. Yet, the electoral campaign, marked by scandal after the initial results were cancelled in March, is now taking a backseat to more pressing problems.

CHELYABINSK POWER PRODUCERS HURT BY FINANCIAL CRISIS. The Chelyabinsk branch of Promstroibank, which handles all commercial transactions between the Chelyabenergo power utility and its suppliers and consumers, has refused to disburse any funds to Chelyabenergo or finance any of its other transactions. The bank's actions are motivated by the uncertainty on the market for federal treasury bills (GKOs) and short term bonds (OFZs). Already, as a result of the bank's refusal to perform commercial transactions, several suppliers from Kazakhstan have not been paid for their shipments of coal, and they subsequently stopped further supply until the bills are paid. The situation is further complicated by the fact that Chelyabenergo pays both its suppliers and the railway company which transports the coal in U.S. dollars. Given the latest appreciation of the dollar in relation to the ruble, the costs of coal and its transportation has increased by 15 percent. This situation seriously threatens several power producing stations, as they will soon run out of reserve fuel.

At the same time, Chelyabenergo is negotiating with Tyumenenergo and Orenburgenergo to possibly purchase electric energy from them. However, this deal is dubious, given Chelyabenergo's current inability to pay for half of its energy purchases. Chelyabenergo's solvency problems have also affected its relationship with Mezhrefiongaz, a distributor of natural gas on behalf of Gazprom. As debts mount, the prospects of switching to gas as the principle source of energy are growing bleaker. The oblast has been trying to restructure one of its large stations toward gas consumption in order to provide the Mayak nuclear waste storage plant with reliable sources of heat and steam. The July-August 1998 miner strikes almost caused an emergency situation at Mayak, which could have been avoided had the oblast not been so dependent on coal (see *IEWS Russian Regional Report*, 6 August). Meanwhile, some power stations in the region are managing to store winter supplies of coal from current shipments. - Igor Stepanov in Chelyabinsk

CHELYABINSK BANKERS DEMAND ACTION FROM GOVERNMENT, CENTRAL BANK. Speaking at the 27 August session of the Chelyabinsk Oblast Legislative Assembly, Chairman of Chelindbank Mikhail Bratishkin and Chairman of Chelyabinvestbank Vyacheslav Nazartsev, asked legislators to back their request that the Russian Government and the Central Bank take emergency measures to protect regional banks from the financial crisis. Nazartsev described the situation in the country as beyond the government's control and called for immediate measures to insure the solvency of the banking system since the worst of the crisis is yet to come. Among the necessary measures, he mentioned honoring federal treasury bills (GKOs), granting permission to regional banks to keep GKOs in reserve, and Central Bank approval for regional banks to use their mandatory reserves for operations in order to insure the solvency of the banking system.

According to Bratishkin, the situation in the Chelyabinsk banking system today can be described as stable. At the same time, beginning 27 August, depositors have been besieging local banks for their money. Due to the high demand for hard currency, Chelindbank temporarily suspended the sale of U.S. dollars to the public. Cash and dollar disbursements

from hard currency accounts are being tightly regulated by the bank. The panic was caused by the rapid dollar appreciation on the Moscow Inter-bank Currency Exchange (MICEX) and disturbing news from Moscow. Additionally, Chelindbank temporarily stopped transferring money to Moscow, as it is not clear whether Moscow will in turn make its transfers. Moscow banks have completely ceased making payments in the oblast, Bratishkin said. He believes that the Central Bank is only concerned with the well-being of several large Moscow banks, and does not attend to the needs of the regional banks in crisis. Central Bank Chairman Sergei Dubinin must be personally blamed for the financial crisis, Bratishkin said.

The bankers' presentation was followed by a retort from the head of the Central Bank's regional office in Chelyabinsk, Vera Chirkova. She noted that it is difficult to have a meaningful discussion about the short-term future of the Russian banking system. Some of the hardships faced by Russian banks today stem from objective problems with the economy as a whole. At the same time, the thirteen regional banks registered in Chelyabinsk Oblast have not been affected by the financial crisis as much as the Moscow banks. Nevertheless, with help from Sberbank (Savings Bank of Russia) the cash flow situation has actually improved, Chirkova said. There is definitely frantic demand for cash and U.S. dollars. Local branches of Moscow banks have resumed commercial transfers and regional banks have remained solvent.

However, the situation is particularly grave with the Chelyabinsk branch of SBS-Agro, which had issued over 300,000 credit cards in the oblast and now has to wait for aid from its Moscow headquarters. It might also be helped by a credit from the European Bank for Reconstruction and Development. SBS-Agro is a leading bank in the oblast in terms of attracting individual depositors, with up to 20 percent of local accounts. Over 50 percent of all savings accounts in the oblast are with Sberbank, and 30 percent are in local banks. Chirkova said that the Central Bank has recommended that SBS-Agro form an agreement with Sberbank to transfer the accounts of its depositors there. However, SBS-AGRO has decided to rely on its own resources. Additionally, SBS-Agro commands a large portfolio of assets and credits, which could be used toward paying off depositors, since the bank has refused to pay them in cash. Chirkova recommended that public sector organizations refrain from transferring money to their employees' personal accounts at SBS-Agro. At the same time, Chirkova noted, the majority of banks disburse cash to depositors from their accounts. Budgetary transfers are being made on time as well.

On the same day the Legislative Assembly adopted a resolution addressed to Acting Prime-Minister Victor Chernomyrdin, Speaker of the State Duma Gennadii Seleznev, and Chairman of the Federation Council Yegor StroeV. The message condemned the decisions by the Cabinet and the Central Bank to widen the ruble's exchange rate corridor and to freeze the market for treasury bills and bonds. The Assembly is troubled by the lack of concrete steps toward improving the performance of the Russian economy and the government's apparent desire to support only a small group of Moscow banks. The interests of regional banks are being ignored, despite the fact that they hold some 20 percent of federal treasury bills in circulation, bought with the money of investors and depositors. If left neglected, the situation

will rapidly deteriorate into a systemic crisis and subsequent bankruptcy of many banks, including some that constitute the core of financial operations for regional governments, the statement said.

The legislature set forth the following proposals for federal policies: (1) Offer acceptable stabilizing credits to key provincial banks that crucial to the infrastructure of their respective regions. (2) Find ways to compensate investors for money invested in GKO's through special mandatory reserve funds and a reformed tax policy. (3) Drop the rigid requirement that by 1 January 1999 regional banks must have at least ECU 1 million in assets or face liquidation. (These banks, along with the larger ones, are also key to the infrastructure of many municipalities.) (4) Ensure state control over the Central Bank's activities in the regional banking system, while ensuring the involvement of regional authorities. - Igor Stepanov in Chelyabinsk

BREAKING NEWS

POLITICS

REGIONAL LEADERS REJECT GOVERNMENT OFFERS. Even before the State Duma rejected the nomination of Chernomyrdin for prime minister on 31 August in the first of three likely votes, Krasnoyarsk Governor Aleksandr Lebed and Samara Governor Konstantin Titov turned down offers from Chernomyrdin to be deputy prime ministers *Kommersant Daily* reported on 29 August. Lebed said that he will no longer accept nominated positions and would only run for elective office. Positions in the government are insecure since the president could dismiss an office-holder at any time. The president cannot fire governors, however. Lebed backs the confirmation of Chernomyrdin to preserve order in the country. Moscow Mayor Yurii Luzhkov and Federation Council Speaker Yegor StroeV have also thrown their support behind Chernomyrdin after meeting with the president 28 August. The Communists have mentioned both Luzhkov and StroeV as possible replacements for Chernomyrdin, but neither is likely to accept the offer since it would require giving up the security of their current offices.

Yeltsin's unexpected decisions made it difficult for his supporters in the Federation Council to keep up with him. On 22 August StroeV publicly backed Kirienko, one day before he was sacked. By 26 August, StroeV had changed his line to saying that he supported a "compromise approach" to solving the country's problems (*Izvestiya*, 27 August). The Federation Council chairman said that no one had checked with him before Kirienko was fired.

KEMEROVO PROSECUTES STRIKE ORGANIZER. The Kemerovo Oblast procurator has decided to file charges against Yurgin Machine Building Factory Trade Union Chairman Gennadii Karmonov for organizing strikes that shut down the Trans Siberian Railroad in May. The procurator may soon file charges against other strike organizers as well. (*Izvestiya*, 28 August)

KEMEROVO INVESTIGATION TRACKS DOWN MINERS' MONEY. An investigative team from the Ministry of Internal Affairs has reported that much of the money intended to help reform the coal mining sector of Kemerovo Oblast was stolen by middleman companies and bureaucrats and that the miners have sold much of the equipment from their work sites in order to make some money. The research showed that at least 120 of the 400 middleman firms had not paid for the coal they received from the mines. The firms are generally controlled by criminal groups that have close links with the directors of the mines. Two thirds of the firms are registered outside the oblast, though many are not located where they claim to be in official documents. The authorities have filed 17 criminal cases against the firms, but much of the missing money has probably been transferred abroad. Since the miners have sold off much of their equipment, there is not much point in their returning from their strikes. They will have nothing to work with, according to one of the investigators. (*Kommersant Daily*, 28 August)

ECONOMICS

SAKHA STOPS SELLING GOLD TO MOSCOW. Sakha (Yakutiya) President Mikhail Nikolaev has signed a decree blocking the sale of the republic's gold to the Russian government, *Kommersant Daily* reported 28 August. According to the decree signed on 27 August, all firms mining gold in the republic must supply their gold to the republican government. The decree threw the Sakha firms into a panic because it effectively orders them to break their contracts to sell gold to commercial banks. Many of the gold mining directors fear that their failure to meet their contracts would literally put their lives at risk. The federal government has pointed out, however, that federal law asserts the priority of making deliveries to the federal treasury. The newspaper suggests that the move could have unhappy consequences for Nikolaev because he is interfering directly in the affairs of local businessmen and their relations with Moscow. According to *Russkii Telegraf* (29 August), the result of the decree is that the gold miners have stopped selling metal to anyone.

On 13 August Sakha's government officially declared that it could not pay off a 110 million ruble debt, but would do so by 1 September. However, the republic has no plans to pay the debt on that date either. The republican budget has a 35 percent deficit, so republican leaders are clearly trying to use the gold to make up the shortfall.

Sakha's refusal to sell gold will surely hurt Russia's crisis-stricken commercial banks. Also, as *Russkii Telegraf* points out, at a time when Russia's own gold holdings are under strain, Sakha's attempt to build up its own supply may be an attempt to increase its leverage over Moscow. Last spring then First Deputy Prime Minister Anatolii Chubais significantly weakened Sakha's position vis-a-vis the center (see *IEWS Russian Regional Report*, 22 May 1997 and 21 August 1997). Sakha's move could be one of the first signs of regions trying to take advantage of the crisis to increase their power over the federal authorities (for similar stories, see *IEWS Russian Regional Report*, 27 August).

AVTOVAZ REDUCES USE OF FOREIGN PART. Samara Oblast's AvtoVAZ automobile producer is seeking to reduce its use of foreign components in order to keep prices down and insure sales. Up to 25 percent of the components in the plant's cars are imported, including a kind of steel not manufactured in Russia. The drop in the ruble-dollar exchange rate means that prices for the cars will jump significantly. If the prices shoot up, the cars will not be competitive, but plant managers had no proposals for reducing the amount of foreign components.

The plant is Russia's largest, but in recent weeks has suffered from overproduction after demand for its products dropped off considerably. Marketing Director Vladimir Kuchai said that the plant today holds less than 60 percent of the automobile market, a considerable drop from recent times when market share was over 70 percent. Another major problem for the plant is that it lacks funds to invest in new models (*Kommersant Daily*, 29 August).

However, there are some rumors that the plant's sales have been booming since the beginning of the crisis as many consumers try to trade their rubles for products with a relatively well-established value.

VOLOGDA DECLARES CRISIS IN AGRICULTURE. Vologda Governor Vyacheslav Pozgalev has imposed extraordinary measures in his region's agricultural sector through 15 November. Only 54 percent of the necessary fodder and 5 percent of the grain has been collected. In the previous 10 days, the region received three times the average monthly rainfall, creating flood conditions. Since the tractors are bogged down in muck, the region must mobilize its students, public sector employees, and the unemployed to bring in the crops. During the crisis period, the government has blocked any attempts to repossess agricultural equipment for debts and made it illegal to switch off gas and electricity to farms for unpaid bills (*Izvestiya*, 28 August). Volgograd Oblast Governor Nikolai Maksyuta has asked Yeltsin to declare his region a disaster area because of the devastating drought in the region (*Izvestiya*, 26 August).

BUSINESS BRIEFS

-- Italy's **MERLONI ELECTRODOMESTICI** is planning to go ahead with its plans to build a \$100 million washing machine plant in **MOSCOW OBLAST** despite the economic crisis. Plans of the Danish firm **TYGGEGUMMI FABRIK A/S (DANDY)** to build a \$147 million chewing gum factory in Novgorod are on "stand by," however. For most firms that have built or are currently building production facilities in Russia, it is still too early to determine whether they will change their plans as a result of the current crisis. (*Kommersant Daily*, 28 August)

PATTERNS OF REGIONAL DEVELOPMENT

VORONEZH: BACK TO THE PLANNED ECONOMY. Voronezh Mayor Aleksandr Tsapin, a gubernatorial candidate in December 1996 representing the party of power with

Moscow's support, has adopted a measure that will limit free market activities in the city. He recently decreed the creation of a special Pharmacies Chamber (*Aptechnaya Palata*) within the city administration, *Voronezhskiy Kurier* reported on 13 August. The main aim of this new institution is to deprive all the municipal pharmacies of the partial independence that they presently enjoy and presumably increase revenue for the city. However, City State Property Committee Chairman Anatolii Voskov declared that the creation of such an institution would not bring additional funds to the city administration.

Pharmacies that do not have good locations, suffer from low profits, and have weak management readily agreed to follow the new rules. They hope that the centralization will give them the opportunity to work as they did in the Soviet era - the Pharmacies Chamber will decide everything for them. However, some pharmacies that are considered to be well-managed and lucrative businesses are set to be restructured. The bureaucrats who will work in the future Pharmacies Chamber will have extensive control over these businesses and will probably decide what they buy, from whom, and at what prices. Such power will likely provide a great source of wealth for those in charge of the Pharmacies Chamber.

The imposition of the plan would be a significant blow for the profitable pharmacies. The officials from the Pharmacies Chamber are unlikely to be competent enough to succeed in this sophisticated business. Many pharmaceutical providers are now considering whether to continue working with municipal pharmacies under the Pharmacies Chamber. It is well-known that the city and oblast administrations already owe a lot of money to municipal pharmacies and, as a result, the pharmacies owe a lot of money to the providers. Although the pharmacies eventually pay the providers, the situation may change when the Pharmacies Chamber takes over. As a result, the municipal pharmacies might eventually face shortages of medical supplies.

Tsapin and his administration are clearly trying to gain back as much control over former state-owned enterprises as possible. The mayor's initiative signals a potential return to the planned economy. This decree has been signed, but it has not yet been implemented. Nevertheless, the so-called "Liquidation Committee" has already been organized. - Andrei Muchnik in Voronezh

TATARSTAN INTENSIFIES PROTECTIONIST POLICIES

by Midkhat Faroukshine, Kazan State University

KAZAN--Following its July 1998 decision to limit the import of vodka from the rest of Russia into Tatarstan, the republican Cabinet of Ministers adopted a decision to limit imports of flour from outside the region as well. Every ton of flour imported into Tatarstan will be taxed at 10 percent, making it uncompetitive against local producers. The media has reported that the government is also considering limiting imports of gasoline from other Russian regions. In an effort to justify their policies, the authorities appeal to the "public interest," arguing that it must be protected from inferior goods (bootleg vodka, low quality flour, etc.) and also that local

producers must be protected and nurtured to strengthen them. Newly appointed Prime Minister R. Minnekhanov has vowed to teach all Tatarstani residents to buy locally made goods.

Not only do these policies go against free market philosophy, but they also contradict the Russian Constitution, which proclaims a single market on the entire territory of the Russian Federation. Additionally, the protectionism of Tatarstan's government defies the republican Constitution, which prohibits monopolistic activities aimed at limiting or eliminating competition. Most importantly, however, these policies violate the right of consumers to freely choose their goods and retailers. Even the officials who crafted anti-competitive decrees would agree that such vodka brands as "Rodnik" from Samara or "Kristal" from Moscow, are infinitely superior to any brand produced in Kazan.

Today Tatarstan is suffering a severe shortage of cash. Salary arrears amount to 2.4 billion rubles and, increasingly, pensions are not being paid on time. President Mintimer Shaimiev admitted recently that in some rural areas pensioners have not been paid for a month. Tatarstan owes 3.5 billion rubles to Gazprom, and as a result gas supply to the republic has been almost halved. In these conditions, the government is trying to increase its tax base by limiting imports from outside the republic and forcing the population to buy locally-produced goods, even if of inferior quality.

However, the public does not understand the calculations behind official protectionism and is critical of some government expenditures. Given the widespread poverty, where did the money come from to build opulent palaces and houses all around Kazan? Given the mounting salary arrears to public sector employees, why is the government using public funds to build several expensive administrative buildings at the same time: the Presidential Palace, the Procurator-General's Office, the Interior Ministry (police) headquarters, and the Ministry of Finance building? Given the growing budget deficit, why did Prime Minister Minnekhanov use treasury money to finance a car race, in which he himself participated along with the sons of President Shaimiev, and Shaimiev's former bodyguard, recently appointed the interior minister of Tatarstan? As long as these questions remain unanswered, the situation can only be described as a state feast during the time of plagues.

LEBED FIGHTS CORRUPTION, SEEKS TO END IMPASSE WITH NORILSK NICKEL. Early last week, a large group of Krasnoyarsk Krai's senior law enforcement officers began investigating allegations of mass-scale embezzlement of ferrous and precious metals from the Norilsk Mineral Enrichment plant. Embezzlement has not only hurt the company's profitability, but has affected krai budget revenues, 47 percent of which come from the plant's taxes. Upon returning to Krasnoyarsk on 28 August, the task force's leader Gen. Petrunin spoke to the press. He said that his group found numerous and serious violations in the ranks of Norilsk's law enforcement agencies and recommended that Governor Aleksandr Lebed dismiss their top leadership. Petrunin also said that Lebed plans to sign a special agreement with the giant Norilsk Nickel plant that would normalize the relationship between the conglomerate and the krai administration. Former Governor Valerii Zubov had tried to use the

threat of force to make Norilsk Nickel pay taxes, but never achieved anything beyond antagonizing the other side and provoking several threats against his life. The current administration is trying to negotiate with Norilsk Nickel peacefully. "We could use our law enforcement agencies to significantly cut down the crime rate in the city, which would benefit both the krai and Norilsk," Petrunin said. - Pavel Avramov in Krasnoyarsk

SOCIAL ISSUES

CHALLENGES TO DAGESTAN'S GOVERNMENT OVER CORRUPTION

by Nabi Abdullaev, *Novoe delo*

MAKHACHKALA--The capital of Dagestan is again in a state of emergency. Following reports that some armed people were traveling in a column of vehicles from Khasavyurt to Makhachkala, police on 26 August reinforced outposts at the entrance to the city and blocked key city avenues. The day before, a group of largely ethnic Avars rallied on the main square of Khasavyurt, demanding the resignation of the government in Makhachkala, which they accused of not being able to handle the situation in Dagestan. They demanded better representation of ethnic groups in government, free elections of the republic's top leadership and prosecution of the men who assassinated Mufti Saiid-Mukhamad Abubakarov, killed by a car bomb on 20 August (see *IEWS Russian Regional Report*, 27 August). The protesters decided to move onto Makhachkala and force the government to resign, if necessary by force.

Overnight, the capital city's entire 11,000 strong police force was put on alert. Republican police units, municipal police, and the mayor's guards were joined on the main city square by civilian volunteer reinforcements from Kumyk districts of Dagestan (home to its Prime-Minister Khizri Shikhsaidov). Machine guns and rifles were distributed to all willing volunteers. At about noon on 26 August a high level government delegation met the armed column of some fifty vehicles and over a hundred men 40 kilometers outside the city. After prolonged negotiations, the marchers agreed not to continue onto Makhachkala, but instead staged a rally where they had stopped, blocking a federal highway. Joined by some villagers from the area, the rally organized a committee to negotiate on its behalf.

The republican leadership said that is more than willing to listen to popular demands, but only within a constitutional and lawful framework. The next day the stand-off continued and Dagestan's leadership asked Deputy Prime Minister Gadzhi Makhachaeov to appeal to his fellow Avars. After all, many of the fighters from the Avar National Movement, which he leads, were among the armed men in the column. He was quickly able to persuade the marchers to back off and returned to Makhachkala triumphant. Many in the republic believe that he had orchestrated the entire event.

The city was not calm for long. On 29 August the Congress of Dagestani Muslims opened, bringing together about 5,000 people, mostly Avars, who largely dominate the

republic's clerical establishment. The Congress installed a new mufti, Akhmed Abdulaev, but did not stop there and, after heated discussions, passed a resolution calling on the government to resign. In response, authorities blocked all traffic and barricaded the central square and streets even from pedestrians. The entire police force was put on emergency alert. Chairman of the State Council Magomedali Magomedov received a delegation from the Congress, but did not concede to the members' demands and they left empty-handed.

It is absolutely clear that Magomedov's hold on power is safe with the current political establishment, which he tightly controls. However, such direct criticisms of the government should alarm Magomedov and cannot simply be ignored. People are not demanding economic reforms anymore; they are protesting the wave of lawlessness that has engulfed Dagestan. The public can clearly see the connection between criminal elements and the authorities, as illustrated by numerous high profile investigations that have been shut down by decree from above as "politically undesirable." So now the traditional Muslims have joined the Wahhabis, who have consistently rejected the legitimacy of the republican government, in their protest against the regime in Makhachkala. To stay afloat, the powers that be must soon produce some evidence that they are really fighting against crime and corruption.

OUT-MIGRATION SHRINKS CHUKOTKA'S POPULATION. Not long ago the population of Chukotka Autonomous Okrug exceeded 160,000 people. Today, it is almost half of that number. Judging by the growing rates of out-migration, life in the Russian Far North is not getting any better. Population statistics for the last several years are quite telling:

1995 - 99,950 people;

1996 - 90,758 people;

1997 - 87,533 people;

1998 - 80,935 people.

Whole settlements are being shut down as people move out. Many lose jobs and must leave behind their homes and property as they seek work elsewhere. Only very few can benefit from the administration's relocation aid packages designed to help migrants buy new homes or ship their belongings to their new destinations, usually in Central Russia. The rest will have to start their new lives from scratch. - Varvara Litovka in Anadyr

REGIONAL PROFILE: LENINGRAD OBLAST

Governor: Vadim Gustov

Vadim Gustov, 49, was elected governor in September 1996. He defeated the incumbent Aleksandr Belyakov by more than 20 points, receiving 53.37 percent of the vote. Gustov had little money for the campaign but was well known since he had been chairman of the oblast legislature. Additionally, a wide range of political organizations supported him, including the

Communist Party, Agrarian Party, Yabloko, Green Party, and groups within the local branches of Our Home Is Russia (NDR) and Russia's Democratic Choice.

Though he once served as a high ranking oblast official in the Communist Party of the Soviet Union, he parted with the Communist Party right after the August 1991 coup and has not defined a stable political platform. In 1992-93, Gustov was close to the Civic Union and former Soviet parliament leader Ruslan Khasbulatov. Later, he joined the Agrarian Party list for the December 1993 parliamentary election but dropped out to run for the Federation Council, the upper house of the new parliament. He won a seat in the upper chamber from Leningrad Oblast. In April 1998, Gustov was elected to the NDR's Political Council, but soon denied his affiliation with the movement.

Gustov has never been a close ally of Russian President Boris Yeltsin, throwing his support behind federal legislative institutions and their leaders instead.

Other Local Leaders

Chairman of the Legislative Assembly -- Vitali Klimov, former deputy governor, elected in January 1998. He is a close ally of Governor Gustov, though is less radical and independent than the latter.

Presidential Representative -- Fedor Shkrudnev, appointed in May 1993.

Brief Overview

Leningrad Oblast is located on the Russia's north-west. It borders the Republic of Kareliya, Vologda, Novgorod, and Pskov oblasts, as well as Estonia and Finland. The region is famous for its numerous lakes, which number about 2,000 and take up about 15 percent of the oblast's total territory. The oblast also has many rivers, with a total length of 50,000 km, most of which are suitable for navigation.

The oblast is rich in raw materials, including peat, granite, limestone, clays, and sands. Regional industry focuses on fuel (40 percent of total industrial output), hydroenergy (13 percent), and timber and cellulose processing (11 percent). The oblast also has a significant agricultural sector which produces about a third of regional GDP and is mostly composed of large cattle-breeding farms. The oblast is capable of supplying itself with nearly all food products except grain. It is also an important food supplier for St. Petersburg.

Leningrad Oblast has close commercial ties with over 20 foreign countries, including Finland, Germany, Belgium, Switzerland, and the US. Intense foreign trade is made possible by two sea and two river harbors whose total capacity exceeds 7.5 million tons annually.

Despite a generally good legal environment, according to a 1997 survey by *Ekspert* magazine, regional investment risks have increased recently by 19 points, the 8th largest increase in the country.

Basic Facts

Population (as of Jan. 1, 1997): 1,678,600 (1.14% of Russian total)
Pensioner population (1996): 27.23% (Russia overall: 25.78%)
Average monthly personal income in 1996: 547,000 rubles (Russian average: 764,000 rubles)
Average monthly personal expenses in 1996: 483,000 rubles (Russian average: 753,000 rubles)
Average monthly subsistence requirement in 1996: 318,100 rubles (Russian average: 369,400 rubles)
Consumer price index (as of Dec. 1996): 99.84 (Russia overall = 100)
Industrial production as percentage of all Russian production (1996): 0.93%
Proportion of unprofitable enterprises (1996): 53% (Russia overall: 56%)
Number of enterprises which have wage arrears (1996): 440 (2.01% of total number of regional enterprises)
Agricultural production as percentage of all Russian production (1996): 1.56%
Number of private farms (as of Jan. 1, 1997): 6,350 (2.28% of Russian total)
Capital investment (1996): 3,659,800 rubles (Russia overall: 370 trillion rubles)
Sources of investment (1996): federal budget: 4.2% (Russian average: 9.2%); regional budget: 5.6% (9.6%); enterprises: 77.8% (66.3%)
Number of joint ventures (as of Jan. 1, 1997): 136 (0.85% of Russian total)
Fixed capital investments in joint ventures and foreign companies (1995): 92,231 million rubles
Number of small businesses (as of Jan. 1, 1997): 10,894 (0.74% of Russian total)
Number of enterprises privatized in 1996: 36 (0.72% of Russian total), including those which used to be municipal property: 83.3% (Russian average: 67.1%); regional property: 2.8% (14.3%); federal property: 13.9% (18.6%)
Number of telephones per 100 families (1996): in cities: 55.9 (Russian average: 48.7); in villages: 25.9 (19.7)

According to a 1997 survey by *Ekspert* magazine, the oblast is ranked 22nd among Russia's 89 regions in terms of investment potential and 50th in terms of investment risks. A 1998 survey by Bank Austria ranked the oblast 18th in terms of investment climate.

Electoral History

1996 Gubernatorial Election

Gustov: 53.37%

Belyakov: 31.66%
Zolototrubov: 2.27%
Terentev: 2.25%
Stepanov: 1.29%
Modestov: 1.16%
Istomin: 1.07%
Marychev: 0.46%
Turnout: 34.43%

1996 Presidential Election

Yeltsin: 37.46%/61.35% (first round/second round)
Zyuganov: 23.17%/32.30%
Lebed: 18.12%
Yavlinskii: 11.60%
Zhirinovskiy: 4.29%
Turnout: 69.99%/69.20% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Communist Party of the Russian Federation: 18.88%
Our Home Is Russia: 10.81%
Liberal Democratic Party of Russia: 8.01%
Yabloko: 8.16%
Communists -- Workers' Russia: 6.18%
Women of Russia: 6.17%
Congress of Russian Communities: 5.91%
Party of Workers' Self-Government: 4.85%
Russia's Democratic Choice: 4.18%
In single-member districts: 1 Communist Party of the Russian Federation, 1 Communists --
Workers' Russia, 1 independent
Turnout: 61.79% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 66.41 "No" -- 33.59%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 30.04%
Russia's Choice: 16.10%
Yabloko: 13.38%
Women of Russia: 9.39%
Communist Party of the Russian Federation: 8.55%
Party of Russian Unity and Concord: 5.29%
Democratic Party of Russia: 4.46%
Agrarian Party of Russia: 3.97%

In single-mandate districts: 1 Russian Movement for Democratic Reform, 1 independent
From electoral associations: 1 Democratic Choice
Turnout: 50.42% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 49.64%

Ryzhkov: 15.77%

Zhirinovskiy: 8.96%

Tuleev: 8.66%

Makashov: 7.31%

Bakatin: 4.00%

Turnout: 73.35% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; T. Matiyasevich, N. Mogel, S.A. Nagaev, M. Rossmann, L.I. Smirnych, and A. Woergoetter, *Russia: Regional Risk Rating*, Vienna: Bank Austria, 1998; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regiony Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.

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RUSSIA'S POLITICAL AND ECONOMIC CRISIS

CRISIS ERODES FEDERAL POWER, THREATENS FEDERAL STRUCTURE

by Yurii Rodygin

NIZHNI NOVGOROD (9 September) -- The current Russian crisis is not purely economic in nature; it is largely a political crisis of power, the gravest consequence of which could be the total collapse of Russia by the new year. By mid-1998, the Nizhnii Novgorod Oblast economy was doing no worse than the previous year. Overall production was at the same level and foreign investment was slowly flowing in. The political situation was becoming less stable, however, as the governor and the legislature adopted anti-constitutional measures to limit the trade of some consumer goods. When the convicted criminal Andrei Klimentiev won the mayoral race, Moscow interfered in a clumsy manner, alienating the local population (see *IEWS Russian Regional Report*, 2 April). People on the street are condemning the federal authorities, from the president to the state Duma to Acting Prime Minister Viktor Chernomyrdin. The public has not been so united against a particular politician or party since 1992, when the Communist Party was banned. A new mayoral campaign is under way and one of the leading candidates, Dmitrii Bednyakov, is running on an openly anti-Moscow platform. His main slogan is "Break the Chains of Moscow - Vote for Bednyakov! (*Razobem Moskvy okovy - golosui za Bednyakova!*).

The regional economy is being slowly separated from the larger Russian market. The governor has proposed that oblast banks introduce a fixed ruble-dollar exchange rate for internal transfers. Leading bankers feel this measure would only expose the local market to competition from other regions, however, hurting Nizhnii in the long run. Other regions are taking more drastic measures. Buryatiya has prohibited local branches of banks from other regions from transferring money to their parent banks. Samara has prohibited the export of rubles from the oblast and has instituted airport inspections to control the flow of money. Across the country, local authorities are placing controls on the prices of consumer goods. Kaliningrad Oblast has declared a state of emergency, usurping the presidential prerogative to make such declarations, and is refusing to pay federal taxes (for more on Kaliningrad, see below). President Yeltsin has ignored that act, as he is largely powerless to do anything about it. The loyalties of the federal armed forces stationed in the regions are torn: commanders have had to lobby local officials to feed the troops or to supply power and heat to the barracks.

Simultaneously, regional governments are taking over an increasingly larger number of regional enterprises. For example, the Nizhnii Novgorod Oblast administration has used Eurobond money to purchase a controlling stake in many local enterprises. Local authorities have also successfully lobbied the federal government to transfer state-owned company shares to them. Because the federal ministries have no money to maintain many parcels of real estate, they are forced to transfer them to

regional governments. State property, therefore, is being redistributed from central to provincial authorities.

As the ruble's plunge drives up the price of paper, many newspapers and magazines have ceased publication. Local editions of Moscow newspapers have been the first to fall. For instance, *Izvestiya* does not appear in Nizhnii Novgorod anymore. The governor has struck a deal with the local paper factory to keep the price of newsprint low for certain local newspapers. Regional authorities are thus once again asserting greater control over the mass media.

If such trends continue, it could be only a matter of weeks until the Russian Federation ceases to exist in its current form.

KALININGRAD: CRISIS LASHES REGION DEPENDENT ON IMPORTS

by Stephen Heintz, IEWS Executive Vice President

KALININGRAD (9 September) - Kaliningrad leaders are concerned that their oblast is suffering disproportionately from Russia's economic and political crisis because of its heavy reliance on imports. The region imports 85 percent of its food and Lithuania supplies 100 percent of its electricity. The collapse of the ruble has made such imports unaffordable because they are priced in dollars and a shortage economy is setting in. The "black market" exchange rate was 30 rubles to the dollar on 7 September, according to Radio Mayak.

Kaliningrad authorities say that the military has only one month of food supplies and that the region as a whole has food reserves of no more than two to three months. Local media reported that Governor Leonid Gorbenko, fearing a humanitarian crisis, had apparently declared a state of emergency. But, after Acting Government Chief of Staff Igor Shabdurasulov rebuked the governor, noting that only the president could make such a declaration, Gorbenko denied that he had made such a statement. He claimed that he had called for "urgent measures in the economic and social spheres," adding that a state of emergency in the political area was "out of the question." Nevertheless, a general strike has been planned for 12 September on Victory Square, where thousands are expected to protest. Gorbenko has appealed to the population and to the media to remain calm.

On the streets of Kaliningrad there is no sense of imminent panic or collapse. There are, however, barter markets, where people sell or trade various goods for food and other dwindling supplies.

KHABAROVSK: TWO HOUR WAIT FOR BREAD

by Wayne Harvey, IEWS Chief Financial Officer

KHABAROVSK (10 September)-- The economic crisis is starting to sting residents in this far eastern city. Several basic food items are becoming extremely scarce: lines at bread stores require waits of up to 2 hours, and it is hard to find butter, salt, and sugar even though the price of those goods has quadrupled over the last week. Most public service-sector employees have not been paid since April, and many residents work two

full-time jobs (one unpaid and one paid, albeit with low or delayed wages) in order to survive. Teachers are planning a strike or work slowdown for this week, just as schools open for the fall term.

The Far East Art Museum has just announced admission will be free for at least the next few weeks because no one can afford the usual 5 ruble tickets. Museums are canceling future exhibits, however, due to lack of funds. The local circus has been closed all week due to the economic situation. Restaurants have stopped operating because of food shortages and a lack of customers. And some airline tickets that were purchased at the lower exchange rate are not being honored. The official ruble exchange rate was 20 rubles to the dollar on 9 September but dropped to 12 to 15 rubles a day later. The black market rate is 30 to 40 rubles per dollar.

Adding to residents' difficulties is the 36-hour shut down of the city water supply, necessary to allow workers to repair damage caused by the recent floods. The Amur River is now receding, but raging waters have already destroyed extensive tracts of farmland.

Most people believe the situation will calm down and return to "normal," and they continue to plow through their daily chores and lead their lives as though there were no problems.

VORONEZH: GOVERNOR IMPOSES PRICE CONTROLS, BANK COLLAPSE STINGS

by Andrei Muchnik, Voronezh State University

VORONEZH (9 September) -- On 1 September Voronezh Governor Ivan Shabanov issued a decree capping prices for 25 "socially significant goods," mainly food items. Under the decree, veal will cost no more than 14 to 17 rubles per kilogram, chicken will be around 13 to 16 rubles, sour cream 12 to 14 rubles, sugar 4.50 rubles, and flour 2.30 rubles. Sugar and flour have already disappeared from the stores. Before the decree was issued, a kilo of sugar cost around 9 rubles, two times the current official price. After the decree, local sugar producers decided they would be better off not selling anything.

Going shopping is like traveling back through time to the early 1990s. Lines are everywhere. People are stockpiling salt, sunflower oil, tea, coffee, pasta - everything that can be easily stored at home. According to the local newspaper, *Bereg* (4 September), prices for all imported goods have jumped 50 percent to 60 percent, while prices for home appliances are about three times as high as they were before the crisis started. Many stores accept only hard currency, even though such transactions are illegal. Some price increases defy logic. Prices for imported cigarettes, such as Marlboro Lights, have risen from 6.50 rubles a pack to 25 rubles, a hike that is much greater than the drop in the value of the ruble.

Residents' deposits constitute 69 percent of the capital in Voronezh banks, making the Voronezh banking system very different from that of the capital, according to the head of the Voronezh Oblast branch of the Russian Central Bank, Mr. Sokolov. For that reason, the banking system collapse will have a much greater impact on Voronezh residents than on Moscovites. Sokolov said that Voronezh-Bank, the largest local commercial bank, is in dire straits and will merge with a more viable bank. If Voronezh-

Bank collapses, it will render a serious blow to the city's industries and businesses. Voronezh-Bank Executive Director Shestakova, hoping to prevent panic, said the bank will resume its normal activities in four or five days. She noted that most of the bank's money is invested in the city's enterprises rather than in GKO's.

VOLGODONSK: RESIDENTS BLAME MOSCOW

by Milana Slinko

VOLGODONSK (10 September) -- On 5 September, residents of Volgodonsk (Rostov Oblast) began buying large quantities of manufactured goods and food. Three days later, practically all grain and salt had disappeared from the shelves. The price of sugar has multiplied seven-fold, and the prices of remaining food products have grown four to six times. The cost of gas has increased from 2 to 4 rubles, and lines of cars form at gas stations. Prices for all goods are rising daily, with prices in the regions bordering Ukraine going up especially quickly.

According to one resident, the whole "infection" is coming from Moscow, particularly rumors about rising prices, which cause residents to rush for the stores and merchants to push up prices. The local authorities are taking no action against vendors who raise the prices of domestic goods acquired before the crisis.

The banking situation is equally severe. Information about the condition of banks is held in strict confidence. How banks view their own positions is difficult to say. Transactions between banks are currently carried out only within the North Caucasus region, and no bank operations are coming through from Moscow. Agroprombank, which handles the region's agricultural affairs, is in considerable trouble and its collapse could cause serious problems for the region.

The social situation is also tense. On 7 September protesters picketed the Volgodonsk administration building, demanding the payment of children's benefits. Teachers have been picketing the local White House since 2 September. The head of the city's teachers' union announced that if teachers do not receive their back wages from March by 14 September, they will stage an act of civil disobedience by halting school lessons for several hours.

Rostov Governor Vladimir Chub continues to support President Yeltsin, but denounced the long process required for confirming the prime minister. Chub noted that Rostov has always supported and will continue to support goods producers to ensure that the people's basic needs will be met.

TVER: LEADERS AVOID PRICE CONTROLS. Tver Oblast Governor Vladimir Platov called on Russian goods producers to refrain from raising prices in order to restrain inflation. He issued the announcement in the 2 September issue of *Tverskaya Zhizn*. In the announcement, the governor attributes oscillations in local prices to the region's close proximity to Moscow. He stated that market economics makes price controls impossible, but warned that the regional authorities were noticing which enterprises displayed a lack of "patriotism" by unjustly raising prices. - Boris Goubman in Tver

PERM: BETTER OFF THAN OTHER REGIONS

by Andrei Suslov

PERM (8 September) – In Perm, the panic engulfing much of the population elsewhere in the country has not reached the levels in the Far East and Moscow. Food counters are full of goods, with the exception of some imports and candy. Prices for domestically produced meat and sausage have changed little, and the cost of dairy products has remained stable. Imported goods have become more expensive by 50 percent to 300 percent, and stores selling them are jammed with shoppers. Consumers are wiping out the stocks of household appliances, shoes and other goods still for sale at the old prices. Prices differ from store to store. The relatively modest sale of goods reflects the fact that most people have not been paid in three months.

Commercial banks have frozen individual deposits. Small quantities of dollars are being sold for 21 to 23 rubles to the dollar, making it very difficult to purchase currency. Only the black market offers currency exchange, but at a wide range of prices.

The crisis has touched the most diverse aspects of life throughout the oblast. In Perm, the T-7 radio and television stations and Russian Television have laid off staff members. Pharmaceutical suppliers are refusing to accept credit and are demanding that pharmacies pay them in cash. Pharmacies that have debts for medical supplies are being forced to return goods to the warehouses. The city administration is attempting to remedy the situation by engaging in negotiations to force the rebellious suppliers to make their goods available.

Mayor Vladislav Petenko signed a decree on 7 September recommending that municipal enterprises not raise their prices until 17 September. The economic committee is examining price estimates issued by producers of food, goods and services. The deputy mayor announced that increases in housing and transportation will not occur before the end of the year.

Doctors in Perm are preparing for the All-Russian strike set for 7 October. Currently, 89 percent of the oblast's doctors intend to participate in the nation-wide protest. They have decided to support the demands of the Federation of Independent Trade Unions, including the resignation of the president, early elections and a change in the course of reforms. Much of their anger will be directed toward the oblast authorities. As of 30 August, wage arrears for public health workers amounted to more than 80 million rubles. Before the crisis, the average wage delay was two to five months.

In an interview with the newspaper *Zvezda* (8 September), Perm Governor Gennadii Igumnov supported Chernomyrdin's program, which had been approved by the Federation Council but fell victim to the political games of the Duma majority.

CHELYABINSK: GOVERNOR TACKLES CRISIS FROM ALL ANGLES

by Igor Stepanov

CHELYABINSK--In order to tackle the financial crisis, the government of Chelyabinsk Oblast has formed a special rapid-response task force under the leadership of Deputy Governor Vladimir Utkin, Governor Petr Sumin announced in a 7 September press

conference. Similar groups will be created all over the region. Their main task will be to insure normal operations of enterprises and banks on the oblast's territory.

The first case to be considered by the task force is the South-Urals Rail Road, which in August demanded that its large industrial customers pay 70 percent of their transportation costs in cash, up from 50 percent before. The governor feels that this is an unreasonable demand, which has paralyzed the transport of production for local metallurgical giants. It is simply not realistic to increase the share of cash in transactions among enterprises, given the general shortage of cash in the country and the region.

To support the region's banking system, Sumin has asked former Acting Prime Minister Viktor Chernomyrdin to pressure the Central Bank to bail out regional banks. The largest bank in the oblast, Chelindbank, will be designated as the clearing house for transaction payments. Sumin also recommended that organizations transfer their accounts from the local branches of out-of-town banks to the local banks, which have proven much more stable and resilient to the crisis. At the same time, Sumin sternly emphasized that the oblast government is in no position to finance the bailout of regional banks.

The oblast government is not planning to impose artificial price limits, fearing the resulting shortages of consumer goods. At the same time, the tax authorities were ordered to identify and fine retailers which have hiked up their prices unreasonably. Another policy priority of Sumin's administration is paying pension arrears and back salaries to public sector employees, especially in the defense industry sector. Only with the help of the federal center, however, can the oblast surmount this challenge. During his meeting with Chernomyrdin in Moscow last week, Sumin managed to obtain 900 million rubles for payment of pensions in Chelyabinsk Oblast. The oblast will also be forgiven 236 million rubles worth of loans it received toward agricultural production.

Commenting on the state of agriculture, Sumin noted that despite the poor harvest this season, there are enough reserves to feed the population for another year. He also ordered local cattle and dairy farms to sell as much of their products as possible inside the oblast. Finally, the governor promised that his cabinet will draft an extremely austere budget for 1999, based on the most pessimistic revenue projections and strictest discipline in expenditures.

KRASNOYARSK: CRISIS STRIKES AT BANKING SYSTEM

by Pavel Avramov

KRASNOYARSK -- Early this week many major Krasnoyarsk banks finally began feeling the stress of the financial crisis. Bank Enisei froze all institutional accounts and Sberbank witnessed long lines of depositors wishing to withdraw their money. Many Sberbank transactions have been frozen, but other banks have not yet taken that drastic measure. The financial crisis has been slow to engulf Krasnoyarsk Krai, partially because local banks had invested comparatively little money in the recently restructured federal treasury bills (GKOs). Instead, they have concentrated mostly on financing exports of natural resources and products of regional industrial giants like the Krasnoyarsk Aluminum Plant, Norilsk Nickel and others.

Importers of consumer electronics and computers were forced to quadruple their

prices, and subsequently lost all of their clientele, a sharp contrast to a month ago when their trade was vibrant and business grew daily. The main areas of concern for krai consumers are pharmaceuticals and children's food. Automobiles and spare parts will soon be scarce, too. Food imports have declined drastically.

The krai administration, trying to pacify residents, noted that unlike Moscow and St. Petersburg, which depend on imports for 80 percent of their foodstuffs, only 30 percent of Krasnoyarsk foodstuffs are imported. Prices for locally produced foodstuffs, such as meat and milk, have in fact remained unchanged.

The decisive policies of Governor Aleksandr Lebed certainly influenced the situation: he decreed a price freeze on locally produced goods. Curiously, as a result of his action, a Transaero ticket from Krasnoyarsk to Sochi costs \$370, while a Krasnoyarsk Airlines ticket for the same route can only cost \$65 by law. While Lebed expects many producers to challenge his decree in court, he does not see any other way to deal with the crisis.

IRKUTSK BANKS MUST MERGE TO HANDLE CRISIS

by Yekaterina Vorobieva, Teleinform

IRKUTSK (9 September) -- Even though Irkutsk regional banks are in a better position than their Moscow counterparts, which have invested heavily in federal treasury bills (GKO's), they are still experiencing the effects of panic among depositors, said Tatyana Ivanova, the Central Bank's representative in Irkutsk. The situation is aggravated by the federal government's 90-day ban on any kind of external transfers. Foreign banks have retaliated and stopped processing any transactions for domestic Russian companies. This hinders the work of enterprises, interrupts their payment schedule and prevents them from paying taxes on time.

The oblast administration fears that the financial crisis will wipe out all regional banks, according to Deputy Governor Valentin Mezhevich. He recommended that the banks merge in order to survive and continue serving their large clients like the Irkutskenergo power utility and the East Siberian Rail Road. However, the prospects of Irkutsk banks consolidating are small, even in the face of the crisis. There was talk of merging the three largest banks in the region earlier in the year, but nothing ever came of it. It is quite possible, though, that the banks will survive the financial storms, but their operations will be significantly downsized, limited to rudimentary commercial operations with individuals' savings.

CHUKOTKA: RESIDENTS' SAVINGS WIPED OUT BY DEVALUATION

by Varvara Litovka

ANADYR -- In response to the recent power shortages which affected the north-western part of Chukotka, Chukotka Autonomous Okrug Governor Aleksandr Nazarov declared an emergency situation in that part of the region. In reality, the whole of Chukotka has been in a *de-facto* emergency situation for a long time due to the incompetent economic policy of the Russian government. The latest ruble devaluation crisis only added more

grief to the plight of the population, which has not seen real money for a long time. Instead, people are forced to buy goods at official stores for exorbitantly high prices for credit against their future salaries.

Those people who have been working hard and saving every penny by refusing to buy any kinds of luxury items, have been hit the hardest by the currency devaluation. After the initial shock of having one's real saving wiped out by devaluation, people began rapidly spending whatever cash they had left to buy essential foodstuffs and goods. The current situation in Chukotka has not only stifled the spirits of the people, but also left no hope for the future. As of 8 September all the stores are closed down, posting signs that they needed to count their inventory. The poorest segments of the population do not have any food to live on, but they had never had it to begin with, so the situation for them is not really that different. It surely does not matter much to them who will assume the prime minister's job in Moscow.

NIZHNII NOVGOROD: ANTI-CRISIS PROGRAM TO BENEFIT LOCAL BANKS

by Yurii Rodygin

NIZHNII NOVGOROD (3 September) -- The head of the regional branch of the Central Bank, Stanislav Spitsyn, noted that Nizhnii Novgorod Governor Ivan Sklyarov and a group of bankers are developing a regional anti-crisis program with the endorsement of the Central Bank. The main aim of the programs is to compensate the banks for the losses incurred by the meltdown of the market for federal treasury bills (GKOs). Two ideas are now being considered. One is for the Central Bank to grant low-interest loans to local banks. The other is to issue new securities to be used in place of money within the oblast only. According to Central Bank data, 500 million rubles have been invested in GKOs and federal bonds (OFZs) in the oblast, of which 250 million came from commercial banks, 150 million came from individuals and the rest from institutional investors.

The banks quickly took advantage of the crisis and hiked the price of U.S. dollars in rubles. According to the tax authorities' inspection of 33 commercial banks, most of them have violated the Central Bank's order not to sell dollars to the population with mark ups 15 percent higher than their buy rate. The tax police have been cracking down on firms that owe taxes. Between 1 January and 15 August, tax authorities found that the federal budget was owed close to 90 million rubles worth of tax arrears. The lack of cash on companies' accounts contributes to the non-payment of taxes. The other reason, found in over one-third of all inspected banks, is the lack of funds in the banks' own coffers. In some instances, both the banks and their clients had enough cash but still failed to make tax payments. Nine commercial banks had to stop making payments to the budget, due to their complete insolvency.

BREAKING NEWS

POLITICS

CRISIS COULD TURN RUSSIA INTO A CONFEDERATION... Russia's current crisis could turn the country into a confederation, according to Graeme Herd, the deputy director of the Scottish Center for International Security at the University of Aberdeen. Herd, writing in the *Moscow Times* on 8 September, argued that the center will become weaker as the handful of donor regions becomes increasingly reluctant to transfer money to the federal government and the recipient regions desperately seek to maintain their current level of funding. Much of the military is now regionalized because it has been forced to rely on local leaders for necessities. According to one scenario, the president would maintain control over foreign affairs and security policy, while the regions would control everything else. They would even introduce their own currencies, an idea that has been discussed previously and is under consideration again. This scenario assumes that the regional elite and population accept the confederation. Otherwise, the country could face violence.

...OR LEAD TO TOTAL DISINTEGRATION. *Kommersant Daily* on 3 September considered possible scenarios for the disintegration of the country. Even before the crisis began, regions had begun withdrawing from the Russian market as a whole. Regions such as St. Petersburg had recommended that banks put their money not in GKO's, or federal treasury bonds, but in regional bonds. Many did that, and as a result are not suffering so heavily in the current crisis. Other regions have erected economic barriers to goods from beyond their borders. Additionally, as many as 10 regions have already defaulted on their debts. Several regions have created their own monopoly on liquor production. Sakha and Kemerovo are setting up their own gold reserves, a move that could let them set up their own central banks. Many regions are no longer paying federal taxes, taking control of federal shares in local factories, and setting up their own financial systems. Of course, these measures violate federal law. If such processes continue, the paper argues that it would become difficult to describe Russia as a confederation.

TOMSK STOPS TAX PAYMENTS TO THE FEDERAL GOVERNMENT. Tomsk Governor Viktor Kress said his region stopped paying taxes to the federal budget on 9 September and is diverting the funds to pay the wages of those employed in the region's state-financed institutes of higher education. Kress said the measure was a temporary move until the power vacuum in the country was filled. He complained that Moscow was not providing any help and that "it is simply revolting to behold everything that is happening there when the country is no longer on the brink, but is already falling into the abyss." (Russian Television as monitored by the BBC, 9 September)

In contrast, Primorskii Krai Governor Yevgenii Nazdratenko has denounced as separatism regional tax strikes and announcements of states of emergency. He said, "such extremism may bring about irreversible consequences and may lead to the collapse of the state." He called on the regions to honor their commitments and to preserve the unity of Russia, the BBC reported.

GOVERNORS INTRODUCE PRICE CONTROLS. Regions such as Omsk, Krasnoyarsk, Chuvashiya, North Osetiya, Arkhangelsk and the Jewish Autonomous Oblast have introduced price controls to stem the rising cost of living for local residents (*Russkii Telegraf*, 9 September). Sakha (Yakutiya), for example, has banned price

increases for essential goods (bread, flour, sugar, salt, etc.) imported into the republic before 1 September. The republic has also held down the price of transportation, a crucial necessity for the remote region. Yaroslavl Governor Anatolii Lisitsyn has gone even farther, limiting the profit rate for firms making groats, bread, pasta, and dairy products to 15 percent. Lisitsyn admitted that the measures were illegal, but that they were "justified and logical given the power vacuum" in Moscow (*Russkii Telegraf*, 8 September).

The situation is also difficult in the Far East. There are shortages of fuel in the south Kurils (Sakhalin Oblast), leaving residents without electricity 22 hours a day. In Primorskii Krai, wholesalers have begun selling their products on the street without using cash registers. As a result, regional tax authorities will have considerable difficulty collecting taxes from the sales.

Meanwhile, Kemerovo Governor Aman Tuleev has given up on help from Moscow. He slashed the profit tax by 40 percent for local processing enterprises and cut electricity rates without consulting Moscow. He has also set up a task force to revoke the licenses of establishments that raise prices artificially, and 53 firms have already lost their licenses.

Moscow Mayor Yurii Luzhkov announced on 10 September that he would limit price increases to 20 percent for a wide range of goods.

GOVERNORS REPLACING OLIGARCHES. One of the consequences of "Black Monday" 17 August, when the government announced a debt moratorium and the effective devaluation of the ruble is that the governors are replacing the oligarches as key players in Russian politics, Igor Sinyakevich argued in *Novie izvestiya* on 3 September. Sinyakevich said that while the banker and energy barons fought for influence, the regional leaders were quietly gathering strength. The regional share of Russia's consolidated budget has now surpassed 50 percent. The regional leaders, regardless of their political philosophy, are also carrying out a policy of "deprivatization" in which they are taking over private property and transferring it to regional control. In economic policy, the national and regional leaders have different interests. The national leaders have been trying to institute a tight monetarist policy, while regional leaders must work on the microlevel, seeking to protect specific factories.

Examples of such behavior are now easy to find. St. Petersburg Governor Vladimir Yakovlev, for instance, called for transferring shares in factories currently controlled by the federal government to the regions, arguing that the federal government could not control every factory and that this right should be passed to the regions (*Interfaks - AIF*, 7-13 September).

ROSSEL EFFECTIVELY IMPOSES EMERGENCY SITUATION IN SVERDLOVSK. Sverdlovsk Governor Eduard Rossel has effectively imposed emergency rule in Sverdlovsk Oblast by setting up an emergency committee with extensive powers to address the crisis facing the region's banks, industrial enterprises and social infrastructure. He has outlawed price increases on essential goods. The state will strictly regulate the activities of weak financial institutions. The task force must sign off on all hiring and firing of enterprise directors. Additionally, the oblast will only support working enterprises if they hand over a controlling packet of stock to the oblast leadership. (*Izvestiya*, 9 September)

GOVERNORS BACK PRIMAKOV NOMINATION AS PRIME MINISTER. On 10 September President Yeltsin nominated Acting Foreign Minister Yevgenii Primakov to the post of prime minister, removing Viktor Chernomyrdin as a candidate for the position. The state Duma will vote to confirm Primakov's nomination on 11 September, and his approval seems imminent. The immediate response from regional executives to Primakov's nomination has been favorable. Two of Russia's most influential regional executives, Moscow Mayor Yurii Luzhkov and Krasnoyarsk Krai Governor Aleksandr Lebed, have both expressed support for the candidate. Lebed feels that Primakov's nomination will have a positive impact on Russia's situation: "It's a victory and the result of a compromise between differently biased political forces. ... The absence of authority, bordering on chaos, is dangerous in Russia." Both Lebed and Luzhkov conveyed confidence that Primakov will encounter no problems in having his candidacy confirmed by the Duma. Primorskii Krai Governor Yevgenii Nazdratenko also expressed his approval of Primakov. On the television show *Vremya*, Nazdratenko stated that he hoped Primakov would "assemble a government not of unthinking free-marketeters, but of people who have a certain degree of experience in state work and state construction." He further stated that he hoped Russia will start to realize that it needs to build its own economy and stop "looking at the West as if we were frozen." Nazdratenko also advocated strict state regulation of prices. (Reports from Russian news agencies as monitored by the BBC)

RUSSIAN NATIONAL UNITY MEETS IN STAVROPOL. About 500 member of the neo-Nazi organization Russian National Unity held a meeting on 5 September in the Promyshlennii Raion administration offices in the city of Stavropol, *Nezavisimaya gazeta* reported 8 September. The party members came from across southern Russia. The chairman of the RNE's Stavropol branch, Andrei Dudinov, said that the federal government had no policy toward the North Caucasus and that it was up to his organization to promote the unification of ethnic Russians in the region. Russian television networks such as NTV broadcast the party meeting showing the prominently displayed swastikas. Stavropol Governor Aleksandr Chernogorov said that he had nothing to do with allowing the meeting to be held in the public building and would find out who was responsible. The RNE paid well for the facilities, *Nezavisimaya gazeta* reported.

ECONOMICS

ROSTOV, LENINGRAD DROP EUROBOND HOPES. Rostov Oblast will not seek a credit rating this month given the overall collapse of the Russian economy. The rating was necessary for the region's planned \$100 million Eurobond issue. The region had signed an agreement with Salomon Brothers to prepare for the bond issue on 25 May. The money would have gone for supplying natural gas to the region, completing a car assembly plant in Taganrog, launching local alcohol production and paying off old debts, according to Russian media reports monitored by the BBC. Leningrad Oblast has also dropped plans to issue \$100 million worth of Eurobonds at the end of August, *Segodnya* reported on 1 September. The region nearly defaulted on its debts as Sakha has done, but

was able to pay off 80 million rubles on 27 August (see *IEWS Russian Regional Report*, 1 September).

CRISIS HURTS AUTOMOBILE ASSEMBLY PLANS. The financial crisis in Russia has forced Nizhegorod Motors, the joint venture between Fiat and the Gorkii Automobile Plant, to postpone the late August signing of an investment agreement with the Russian Economics Ministry until the end of September. If the documents are signed then, the Nizhnii Novgorod plant plans to produce 2,000 cars by the end of the year, with output eventually reaching 150,000 a year. The crisis has also postponed plans to sign a joint venture between AvtoVAZ and General Motors, meaning production of Opels in Sa mara Oblast will not start until the second half of 1999. (*Finansovie izvestiya*, 8 September)

MOSCOW ALLOWS DOLLAR PRICING. Moscow Mayor Yurii Luzhkov signed a decree effectively allowing stores and restaurants to list their prices in dollars until October 1. Technically, the prices are listed in "convenient units - *u. e.*" which are tied to the dollar. Some restaurants had already made the transition by 5 September, before the decree was signed. All goods and services must be paid for in rubles. The mayor hopes that the change will help stabilize the pricing situation. When prices are listed in rubles, sellers often cannot raise the price quickly enough to keep up with the plummeting dollar-ruble exchange rate (*Russkii Telegraf*, 9 September).

STANDOFF CONTINUES AT NIMONOR PLANT. Vyborg Cellulose and Paper Combine Trade Union leader Osip Kikibush continues to refuse to allow representatives of Nimonor Investments Ltd. on the factory grounds. The British company bought an 87 percent stake in the Leningrad Oblast plant for \$30 million last November. The British investors had won a court order that was supposed to have been implemented by 16 August, allowing them access to the plant (see *IEWS Russian Regional Report*, 28 May). Five-hundred workers support Kikibush's organization, but more than 300 have signed contracts with Nimonor. (*Russkii Telegraf*, 9 September)

HARVEST WORSE THAN EXPECTED. The wheat, buckwheat, rye, and rice harvested so far this year is only half of that harvested in 1997, the *Moscow Times* reported on 5 September. Luckily, last year's harvest was so good that 20 million tons of grain remain in storage. This year's harvest will be much lower than usual because of an extensive drought in June and July. Officials are so far unwilling to discuss whether the country will need to import grain. If Russia has to import, the grain would be increasingly expensive as the ruble continues to lose its value.

AVTOVAZ PROBLEMS MOUNT. AvtoVAZ, Russia's largest automobile producer, has had to curtail its production because the paralysis among Russia's banks makes it impossible for it to pay its parts suppliers. Initially, the crisis was good for the producer because it increased demand. However, now dealers are running out of cars to sell, *Russkii Telegraf* reported 5 September.

URALAZ DECLARED BANKRUPT. Its creditors declared UralAZ bankrupt, *Kommersant Daily* reported on 4 September. At the end of the 1980s, the factory

produced about 30,000 vehicles a year, but recent annual production has been about 5,000. The plant's main customer, Russian law and order agencies, simply cannot pay for the trucks now.

BUSINESS BRIEFS

-- Swedish truck maker **SCANIA** is now concluding the first phase of negotiations with Leningrad Oblast. It is planning to build a factory that will assemble trucks and buses. Scania will soon make clear where it will build. (*Delovoi Peterburg*)

-- Italy's **MERLONI** has backed out of its \$100 million investment project with Fryazino Experimental Factory in Moscow Oblast. The Italians officially cited "legislative" problems, but in more candid conversations with a *Russkii Telegraf* correspondent, they noted that the rent for factory space was too high. The investors said that the current crisis had nothing to do with the decision. The firm will likely seek new investment opportunities since it sold \$350 million worth of products in Russia last year. Merloni may build a green field plant in Fryazino or it may chose to locate in a different region such as Lipetsk. Local production will allow it to keep its prices more competitive. (*Russkii Telegraf*, 8 September)

-- **MOSCOW'S KRASNII OKTYABR** confectionery factory bought a 99.8 percent stake in the **ST. PETERSBURG PETROKONF** factory from **KRAFT JACOBS SUCHARD** (the European branch of the American Kraft Foods Inc.) for an undisclosed sum. The plant is the eighth in Krasnii Oktyabr's regional network and its first in St. Petersburg. Besides plants in Russia's two main cities, Krasnii Oktyabr has facilities in **TULA, RYAZAN, TAMBOV, MARI-EL, MOSCOW OBLAST, and PENZA.** **CHASE MANHATTAN BANK** is among its shareholders. (*Russkii Telegraf*, 4 September)

-- **MCDONALD'S** has just opened a new restaurant in **MOSCOW**, bringing to 40 the number of fast food outlets the company operates in Russia. The Big Mac was selling for 13 to 15.5 rubles on 2 September and the firm will continue to operate in the country despite the on-going crisis. (Russian Television, 1 September)

-- **HYUNDAI** has assembled its first cars in Novorossiisk (**KRASNODAR KRAI**). Initially the plant will use imported parts, but ultimately it hopes to buy 40 percent of the components it uses from Russian factories. (Radio Mayak, 1 September)

-- **TATARSTAN** signed an agreement with the Japanese firm **mitsui** and its subsidiary **TOJO ENGINEERING**, defining the strategic directions of the Japanese operation in the republic. Efforts will focus on oil recovery and processing. (*Segodnya*, 1 September)

PATTERNS OF REGIONAL DEVELOPMENT

NIZHNII LEGISLATORS UNCOVER IMPROPER USE OF FUNDS BY GOVERNOR. Nizhnii Novgorod Oblast has lost \$6 million of its \$100 million

Eurobond credit obtained last fall, due to incompetent fund management, regional legislator Aleksandr Sharonov concluded upon reading the report from the oblast Audit Chamber. Members of the Legislative Assembly's budget committee have officially asked Governor Ivan Sklyarov to look into the chamber's disturbing findings of inappropriate use of funds.

According to the Audit Chamber, last fall the oblast received the entire sum of Eurobond money, which was to be fairly distributed among local enterprises in the form of credits. However, the governor-appointed commission never held a fair tender and arbitrarily chose three banks (Most Bank, NizhegorodPromstrojBank and Inkombank) to manage the funds. Additionally, \$800,000 worth of rubles were deposited in the Land Bank, in violation of the loan's official conditions. Later on, and also arbitrarily, \$19 million were invested in Rossiiskii Kredit Bank and \$10 million in Inkombank. By governor's decree, \$3.5 million were disbursed as a collateral-free credit to the Okskaya Sudoverf cargo loading company.

The oblast administration also bought \$4 million worth of stock in the local GAZ car manufacturer, again in violation of the loan's agreement. The agreement allows the administration to invest in sovereign debt, and \$24 million worth of treasury bills (GKO) have been purchased, but investment in corporate securities is not permitted. The market value of GAZ stocks has plummeted, resulting in a massive loss for the oblast. The administration has also loaned \$20 million to its department of finance toward paying off salary arrears to public sector employees. Yet so far, the employees have not seen even a kopeck of their salaries. Out of \$37 million set aside for the city of Nizhnii Novgorod's social programs, \$30 million are still sitting in the bank, earning a hefty interest for the city administration. Meanwhile, the much-publicized social programs are not being implemented.

All these violations discovered by the Audit Chamber will not come as a surprise to oblast administration officials. By the year 2002, however, when the loan is due for repayment, they will have to come up with \$100 million, which will be much more difficult to do than it was to raise the money in the first place. - Yurii Rodygin in Nizhnii Novgorod

DAGESTAN TO VOTE ON POPULARLY ELECTED EXECUTIVE

by Nabi Abdullaev, *Novoe Delo*

MAKHACHKALA -- On 7 September, Chairman of the Dagestan State Council Magomedali Magomedov presented an initiative to hold a republic-wide referendum on creating a directly-elected presidency for the Republic of Dagestan. The president is now elected indirectly by the Constitutional Assembly. Although the president backs this initiative, as well as the demands to dismiss the State Council and Dagestani government, the idea was originally proposed by the opposition, which has become much more active in recent weeks.

The referendum's organizational and technical details will be worked out during the 16 September session of the State Council, a 14-member collective executive that gives representation to the republic's major ethnic groups. The referendum would be held in March 1999 simultaneously with elections for the republic's People's Assembly. The

people of Dagestan have participated in similar referendums twice: in June 1991 and in December 1993. Both times they voted against adopting the post of republican president. However, as the opposition leaders have pointed out, the situation has changed. The collective presidency formed by the State Council makes it possible to evade responsibility for adopting decisions. The division of supreme power means that its responsibilities are also divided.

Now, Magomedali Magomedov favors not only the referendum but also presidential rule in the republic. He claims he always advocated the presidency. Such claims raise doubts, and not only among the opposition. Over the past five years, incumbents like Magomedov have been highly satisfied with the status-quo of state institutions. Most are members of the former Communist nomenklatura and will not allow others to chip away at their hierarchical power.

CENTER-PERIPHERY RELATIONS

AYATSKOV BACKS LUZHKOVS. CHERNOMYRDIN IN CLAN CLASH. On 7 September, the State Duma again failed to approve Viktor Chernomyrdin as Russia's prime minister, despite rumors of bribes of up to \$5 million offered to faction leaders like Vladimir Zhirinovskiy for his party's votes. Having rejected Chernomyrdin's candidacy from the outset, Saratov Oblast Governor Dmitrii Ayatskov has remained recalcitrant. On his trip to Moscow to see U.S. President Bill Clinton, Ayatskov met with Moscow Mayor Yurii Luzhkov. The two politicians apparently found much common ground after many years of mutual mistrust, and ever since the meeting both have intensified their criticisms of Chernomyrdin.

At the Federation Council's 4 September debates on the acting prime minister's nomination, however, Ayatskov and Luzhkov were largely silent, leaving other governors to take the floor in opposing Chernomyrdin. Prominent regional leaders such as Samara Oblast Governor Konstantin Titov, St. Petersburg Governor Vladimir Yakovlev, and Novgorod Oblast Governor Mikhail Prusak joined forces against Chernomyrdin. Surprisingly, even leaders of regions that depend on federal subsidies, and therefore on the prime minister's favor, such as Penza Oblast Governor Aleksandr Ryabov and Ryazan Oblast Governor Vladimir Fedotkin, echoed their comments.

Together with Titov and Yakovlev, Ayatskov raised the question of nominating Luzhkov as an alternative to Chernomyrdin at the roundtable meeting in the Kremlin on 7 September. Speaking at the subsequent press conference, Ayatskov again suggested that Luzhkov is the only politician capable of uniting the country's fractured political spectrum and feuding branches of government. (Many opinion surveys show that the public echoes his sentiment.) Apparently, the Kremlin did not like Ayatskov's opinions and tried unsuccessfully to have the Federation Council remove the Saratov governor from the list of upper chamber members who entered the newly formed compromise commission. - Lev Voritsin in Saratov

ETHNIC CONFLICT AND REGIONAL SEPARATISM

ETHNIC LEADER'S ARREST IN DAGESTAN CAUSES POPULAR DISTURBANCE

by Nabi Abdullaev, *Novoe Delo*

MAKHACHKALA-- A special team of law-enforcement officers arrested Magomed Khachilaev, the leader of the Lak national movement and a member of the Dagestani Popular Assembly, in Makhachkala on Wednesday, 9 September. The Russian Prosecutor-General's Office issued an order for his arrest for instigating public riots in Makhachkala on 21 May and taking over the republic's administrative buildings. He will also have to answer for the possession of two AK-47 machine guns, ammo, five hand-grenades and a pistol with a silencer found in his car during the arrest.

Khachilaev's arrest has created a stir among the people and in the government. Over 400 of his supporters assembled on the central city square, even as police barricaded the area. The State Council, Dagestan's collective executive, under the leadership of its chairman Magomedali Magomedov, called an emergency meeting where its members had to answer the questions of angry Lak representatives. Magomedov directed all their queries to the Russian Deputy Minister of the Interior, Vladimir Kolesnikov, who was present at the meeting. Kolesnikov had been sent to Dagestan from Moscow to lead joint investigations by Russian and Dagestani law-enforcement officials into several cases of mass disturbances, the murder of five police officers on 20-21 May, the assassination attempts against the mayor of Makhachkala, and the murder of Mufti Saïid-Mukhamad Abubakarov (See *IEWS Russian Regional Report*, 27 August). In the most recent attack on the mayor on 4 September, a powerful bomb, 100 tons of TNT, killed 18 people, wounded 68, and caused extensive property damage.

Kolesnikov stated that his agency has launched a ruthless campaign against criminals, regardless of their official status and rank. Many members of the Popular Assembly present at the meeting and known for having armed gangs under their command demanded that Kolesnikov replace Moscow investigators with local officers. Kolesnikov sharply rejected these demands and promised to arrest more high-ranking members of the Dagestani political establishment in the near future. Many deputies immediately left the meeting room and went straight to their home districts. Kolesnikov assured everybody that Khachilaev will have access to an attorney and that his investigation will abide by all legal procedures.

Rumors were spreading around the city, meanwhile, that law-enforcement officers were now after Khachilaev's brother, Nadir, a State Duma deputy and a leader of the Union of Russian Muslims (for more on Nadir Khachilaev, see *IEWS Russian Regional Report*, 11 June). There were also rumors about the possible detention of Esenbolat Magomedov, director of the republican department of the Western Caspian Committee on the Fishing Industry and leader of the Charodinsk armed gang. Sharaputdin Musaev, director of the Dagestani branch of the Russian Pension Fund, was also rumored to be in danger of arrest. Later that evening Kolesnikov denied to the press that there is an order to arrest Nadir Khachilaev, since he is protected by parliamentary immunity.

SOCIAL ISSUES

SPIRIDONOV CALLS FOR NEGOTIATIONS WITH MINERS. For nearly three months, representatives of coal mining regions throughout Russia have picketed the

federal government building in Moscow (the White House), demanding President Yeltsin's resignation. This long-standing demonstration shows that the tension in the coal regions has not subsided. Komi President Yurii Spiridonov has sent an appeal to Federation Council Chairman Yegor Stroev asking that the Federation Council help initiate negotiations between the miners and the government. After reminding Stroev that representatives from coal regions have been picketing the federal building since 11 June, Spiridonov stated, "The social resistance cannot continue indefinitely and demands a timely solution." A government declaration of salary debts to workers in the coal industry and discussions of future development programs could be among the topics addressed in negotiations. Komi leaders believe the Moscow Duma could serve as a forum for negotiations between the miner delegation and the federal government. - Yurii Shabaev in Komi

IRKUTSK OIL PROCESSING WORKERS STRIKE AGAINST ARREARS. On 9 September employees of the Angara Petro-Chemical Company rallied in front of the Irkutsk Oblast administration building, demanding protection of their rights and reinstatement of ownership of the company by the regional government. They also called on Deputy Governor Valentin Mezhevich, who serves on the company's Board of Directors, to call an emergency meeting of the board to address salary arrears and the demands put forth at the rally. Employees were asking the Board to prevent the company's bankruptcy and give them a chance to prove that they can work productively and provide for themselves and for the city.

In the last seven months, the Angara Petro-Chemical Company has been operating at only 32 percent of its total capacity. Of all its usual suppliers, only Sidanko oil company has continued delivery of raw oil for processing. Suppliers have *de-facto* bailed out of their agreement with the company and have not paid for the services provided. Since the beginning of the year, the company has not received 464,000 tons of oil it was due from suppliers. Accordingly, salary arrears amount to nearly 85 million rubles. Most of the demands set forth by the strikers were addressed to either the mayor of Angarsk or the governor of the oblast. However, neither were available to meet with the rally participants and in their place lower ranking administration officials tried to pacify the strikers. - Yekaterina Vorobieva (Teleinform) in Irkutsk

ECONOMIC ISSUES

CHELYABINSK GOVERNOR DROPS PLANS TO ISSUE EUROBONDS. Due to the overall crisis of the financial system and the rapid devaluation of the ruble, the Chelyabinsk Oblast government decided not to borrow \$300 million on the international financial markets through Eurobonds. This decision was announced by Governor Petr Sumin at a 7 September press conference. The oblast simply could not responsibly guarantee repayment of the loan or even servicing interest payments on it, Sumin said. Revenues going into the oblast budget have not met expectations so far this year. For instance, in the first seven months of 1998 the oblast has been able to collect only 1.2 billion rubles, or 33.5 percent of its projected revenues.

Only less than a month ago the oblast government seemed more confident in its ability to handle issuing the Eurobonds. However, even back then the governor qualified

his position by saying that the oblast would never agree to interest rates of 25-30 percent, but a rate of 7-10 percent would be much more manageable. Morgan Stanley, the lead-manager for the projected Eurobond issue, sent its representatives to the oblast last April. Several other leading U.S. and British investment companies discussed the issue with the oblast government at that time. But even then there were doubts among administration officials whether or not the issue would take place.

Despite the decision to drop the Eurobonds, Sumin said the oblast administration still plans to continue borrowing through short-term regional bonds (OKOs). It will also honor all of its obligations on the 50 million rubles worth of OKOs currently in circulation. - Igor Stepanov in Chelyabinsk

FOREIGN TIES

REGIONAL LEADERS WANT TO SEE MORE FOREIGN INVESTMENT. Most regional leaders in Russia, irrespective of their political party, recognize the importance of foreign investment and have taken concrete steps to bring such investment to their region. This was one of the findings of a survey of regional leaders conducted by Debra Javeline, a research analyst at the US Information Agency, which was reported to the American Political Science Association convention in Boston on 5 September.

The unprecedented fall 1997 survey involved asking direct questions to 58 of Russia's 89 top regional executives (governors and presidents) and the heads of 71 of the 89 regional legislatures. Of the 129 respondents, 43 percent were centrists or without clear party affiliation. Twenty-four percent were close to the "party of power" -or reformers, 16 percent sympathized with the Communists and 11 percent with one of the nationalist parties. They were generally very wary of showing any partisan affiliations: only one in four said they were members of a political party.

Nearly all the leaders said that in principle they welcomed foreign investment in their region. Even among the Communist respondents, 90 percent said that foreign investment was important, and 75 percent thought it should be encouraged. Virtually all the leaders reported taking action to that end, such as traveling abroad and meeting with foreign businesspeople. Four out of five said their region had offered tax incentives to investors, and three out of five said that steps had been taken to facilitate registration procedures. On the down side, two-thirds of respondents said they had set restrictions on foreign investors, such as guaranteeing job levels (36 percent); reserving a majority of shares for Russian partners (42 percent); and making social investments (13 percent).

Of course, the actual behavior of regional leaders may diverge from the attitudes they espouse in response to an opinion survey. Nevertheless, the survey is encouraging in suggesting that regional leaders are pragmatists who do not necessarily conform to the partisan anti-foreign rhetoric coming from national leaders of the Communist and nationalist parties.

The regional leaders were less enthusiastic about foreign trade liberalization than they about investment. More than 85 percent favored restricting the import of various types of food products; 64 percent wanted limits on aircraft imports; 51 percent on clothing imports; and 34 percent on auto imports. Only one-third of the leaders reported taking concrete actions to reduce restrictions on imports.

Turning from trade to aid, most of the leaders surveyed said they thought Russia

needed foreign assistance including 65 percent of communists, 75 percent of centrists and 90 percent of reformers. Those were surprisingly high percentages, testifying to the depth of the economic crisis in the regions (even a year ago), and implying that few regional leaders think it would be feasible for Russia to adopt a "go-it-alone" strategy. But few respondents said they saw any positive results of the international aid programs to date less than 25 percent for the EBRD and German government programs, and only 13 percent for the World Bank and US government programs.

Another discouraging finding was that across the political spectrum, regional leaders had a rather jaundiced view of the motives behind Western aid and trade. Even among the reformist/government sympathizers, only 48 percent said they saw foreign aid as intended to help Russia, while 42 percent thought its purpose was to make Russia dependent. The cynical position was espoused by 64 percent of nationalists and 90 percent of communists. Despite that skepticism, most of the leaders had requested aid through loans or grants, even including 55 percent of the communists. (If previous aid had been ineffective, and if the motives of the aid givers are perceived as hostile, it seems illogical to call for more aid. But politicians are not expected to be consistent.)

The Javeline report implies that despite skepticism about the motives of Western partners, and disappointment with the results of aid to date, Russia's regional leaders have a pragmatic outlook and still see a need for greater integration with the international economy, especially through foreign investment. Regional elites may have a decisive influence over the economic policy of the new government that will eventually emerge from Russia's current political turmoil. This survey suggests that the policy may be more investor-friendly than many outsiders are assuming. - Peter Rutland in Boston

SARATOV GOVERNOR TRIES TO BOOST HIS INTERNATIONAL STATURE.

During his visit to Baku on 15 August, Saratov Oblast Governor Dmitrii Ayatskov signed an agreement with Azerbaijan Prime Minister Artur Tair-zade on economic, scientific and cultural cooperation. According to Boris Shinchuk, who oversees the oblast's foreign economic relations, the Russian government and its Ministry of Foreign Affairs have given high praise to the substance of the agreement and the way preparatory negotiations had been carried out. The governor was accompanied on his trip by a large delegation of high ranking oblast officials, the mayor of Saratov, the presidential representative in the region, and by the Russian ambassador to Azerbaijan.

Fundamentally, the agreement contributes to the overarching process of rebuilding formerly close ties between the oblast and the republic, lost after the dissolution of the Soviet Union. Saratov plans to resume supplying Azerbaijan with cement, sheet glass, construction materials, trolley buses, refrigerators, electric equipment, and agricultural produce. In turn, Azerbaijan will reciprocate with shipments of raw and processed petroleum, high-grade turbine and engine oils, air conditioners, and dry fruits. Most of the transactions will be conducted through barter, and LUKoil, which has offices in both Saratov and Azerbaijan, will facilitate trade as intermediary. (Under this scheme, Azerbaijani petroleum will go to LUKoil, which will disburse cash to the appropriate barter partner in Saratov through its branch office there.) The next step is for the Azerbaijani delegation to visit Saratov and sign concrete contracts to augment the general agreements of 15 August.

This recent trip by Ayatskov to Azerbaijan is undoubtedly one of his latest

attempts to beef up his image as a statesman. Having failed to gain a reputation as an influential federal level politician and a successful economic manager, the governor has launched an aggressive foreign relations campaign. He routinely hosts diplomatic delegations, foreign businessmen, bankers and politicians in the oblast administration building, even though in the end none of these contacts result in concrete proposals. At the same time, however, there are now five offices representing the European Union and the Council of Europe in Saratov, the region has staged an impressive presentation at the session of the European Business Club, and some leading Saratov producers participated in the EU industrial roundtable in Brussels. Saratov has opened representation offices in many countries and Ayatskov himself has visited Japan, Great Britain and the United States. The governor's latest initiative, born out of the G-8 meeting of seven largest industrialized countries and Russia, which Ayatskov attended with Yeltsin in May this year, is to organize a G-8--Regions meeting in Saratov. The meeting would bring together regional leaders of the G-8 countries in May 1999 to discuss concrete methods of regional level integration of the world's leading countries. - Lev Voritsin in Saratov

REGIONAL PROFILE: ROSTOV OBLAST

Governor: Vladimir Chub

Vladimir Chub was elected governor on 29 September 1996, receiving twice as many votes as his main competitor, Communist Leonid Ivanchenko. The Communist Party claimed the election results had been falsified and Ivanchenko spent almost a year fruitlessly challenging the results in court. Chub, who has always been a supporter of President Boris Yeltsin, is a rarity among the leaders of other regions in the area – Krasnodar, Stavropol and Volgograd all have Communist governors.

Even before leaving the Communist Party after the August 1991 coup attempt, Chub, who then was a member of the oblast executive committee, opposed the decrees of the coup leaders and actively supported Yeltsin, who later appointed him governor. Despite his loyalty to the president, Chub has not always supported the economic policies of Yeltsin's governments. For instance, he criticized the cabinet of Prime Minister Yegor Gaidar, blaming it for the drop in the country's industrial output and the impoverishment of the population. He demanded more balanced economic policies and found the approach of Viktor Chernomyrdin more appropriate. Chub joined Chernomyrdin's movement Our Home Is Russia and is now on its Political Council's Presidium. At the same time, Chub has said that he would support Moscow Mayor Yurii Luzhkov in a presidential bid.

Other Local Leaders

Chairman of the Legislative Assembly – Aleksandr Popov, elected in April for a second term.

Presidential Representative – Viktor Usachev, former deputy governor, appointed in January 1995.

Brief Overview

Rostov Oblast lies on the southern part of the East European Plain, surrounded by the Caucasus Mountains to the south and the Azov Sea to the west. It borders Voronezh and Volgograd oblasts, the Republic of Kalmykiya, Stavropol and Krasnodar kraia, and Ukraine. The oblast capital, Rostov-na-Donu, is located 1,226 km southeast of Moscow on the Lower Don River. The Tatars held the region from 1237 until 1480. The territory came under Russian rule during the mid-16th century, except for the southern part, which remained Turkish as part of the Khanate of Crimea until the end of the 18th century. The Don Cossacks have long inhabited the territory of the oblast, and until 1937 the region bore the official name of the Don Cossack Armed Forces Oblast.

The region is rich in coal, including the best quality anthracite; gas; oil; and construction materials. It also has excellent soil for agriculture nearly two-thirds of its territory is made up of black soil that is up to 1.5 meters thick.

Industry and agriculture are almost equally developed, each contributing about 32 percent to 35 percent to the regional GDP. The remainder of domestic production comes from the construction sector (10 percent), transport and communications (5 percent to 6 percent), and trade (5 percent). Machine building and metal processing is the most important industry. It boasts some of Russia's leading enterprises among agricultural machines, helicopters and biological defense equipment for atomic plants. The regional chemical industry is also of national significance. The oblast is the country's second largest supplier of agricultural products, mostly grain, sunflowers, fruit and vegetables.

The oblast has close economic ties with over 70 foreign countries, including China, Italy, the Netherlands, Belgium, Bulgaria, Turkey, the US, Cyprus, and Spain. It exports coal, fuel, equipment for the energy sector, other machines and equipment and imports mostly food products, including grain such as wheat, corn and rice.

The *Ekspert* magazine survey listed the oblast among the top 20 regions according to its own budget revenues, its share in the country's GDP, and number of joint ventures and foreign corporate partners. It was also named one of the safest regions in the country, with 14.41 homicides per 100,000 people. According to the survey, the oblast is "underinvested" by both foreign and domestic businesses.

Basic Facts

Population (as of Jan. 1, 1997): 4,420,000 (3.00% of Russian total)

Urban population (1989 census): 68.0% (Russia overall: 73.0%)

Student population (1996): 207 per 10,000 (Russia overall: 190/10,000)

Pensioner population (1996): 27.98% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 10.6% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 30.0% (Russian average: 29.9%); Agriculture: 17.0% (12.8%); Trade: 9.9% (9.1%); Culture: 11.2% (13.6%); Management: 1.8% (2.3%)

Average monthly personal income in 1996: 503,000 rubles (Russian average: 764,000 rubles)

Average monthly personal expenses in 1996: 414,000 rubles (Russian average: 753,000 rubles)

rubles)

Average monthly subsistence requirement in 1996: 269,900 rubles (Russian average: 369,400 rubles)

Consumer price index (as of Dec. 1996): 97.95 (Russia overall = 100)

Industrial production as percentage of all Russian production (1996): 1.58%

Proportion of loss-making enterprises (1996): 54% (Russia overall: 56%)

Number of enterprises which have wage arrears (1996): 1,785 (2.46% of total number of regional enterprises)

Agricultural production as percentage of all Russian production (1996): 2.78%

Number of private farms (as of Jan. 1, 1997): 16,102 (5.78% of Russian total)

Capital investment (1996): 5,000,500 rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): federal budget: 16.9% (Russian average: 9.2%); regional budget: 4.9% (9.6%); enterprises: 60.1% (66.3%)

Number of joint ventures (as of Jan. 1, 1997): 222 (1.38% of Russian total)

Fixed capital investments in joint ventures and foreign companies (1995): 158,370 million rubles

Number of small businesses (as of Jan. 1, 1997): 20,367 (2.42% of Russian total)

Number of enterprises privatized in 1996: 166 (3.32% of Russian total), including those which used to be municipal property: 78.3% (Russian average: 67.1%); regional property: 5.4% (14.3%); federal property: 16.3% (18.6%)

Number of telephones per 100 families (1996): in cities: 36.6 (Russian average: 48.7); in villages: 18.3 (19.7)

According to a 1997 survey by *Ekspert* magazine, the oblast is ranked 5th among Russia's 89 regions in terms of investment potential and 42nd in terms of investment risks. A 1998 survey by Bank Austria ranked the oblast 24th in terms of investment climate.

Electoral History

1996 Gubernatorial Election

Chub: 62.15%

Ivanchenko (KPRF): 31.60%

Pyatikov: 1.61%

Turnout: 44.44%

1996 Presidential Election

Yeltsin: 29.08%/50.67% (first round/second round)

Zyuganov: 34.99%/44.17%

Lebed: 20.04%

Yavlinskii: 7.70%

Zhirinovskiy: 4.61%

Turnout: 75.62%/73.03% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Communist Party of the Russian Federation: 26.99%

Yabloko: 14.11%

Liberal Democratic Party of Russia: 10.25%
Congress of Russian Communities: 6.25%
Our Home Is Russia: 5.33%
Communists -- Workers' Russia: 5.32%
Women of Russia: 4.16%
Party of Workers' Self-Government: 3.42%
Derzhava: 3.18%
In single-member districts: 2 Communist Party of the Russian Federation, 1 Agrarian Party of Russia, 1 Party of Russian Unity and Concord, 1 Yabloko, 2 independent
Turnout: 67.48% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 51.50% "No" -- 48.50%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 22.28%
Communist Party of the Russian Federation: 17.31%
Russia's Choice: 12.30%
Party of Russian Unity and Concord: 12.11%
Women of Russia: 8.26%
Agrarian Party of Russia: 7.52%
Yabloko: 7.44%
Democratic Party of Russia: 6.24%
In single-mandate districts: 2 Communist Party of the Russian Federation, 1 Socialist Party, 3 independent
From electoral associations: 1 Democratic Choice, 1 Party of Russian Unity and Concord
Turnout: 56.47% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 53.48%
Ryzhkov: 17.81%
Zhirinovskiy: 11.63%
Tuleev: 6.47%
Makashov: 4.89%
Bakatin: 3.09%
Turnout: 77.34% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; T. Matiyasevich, N. Mogel, S.A. Nagaev, M. Rossmann, L.I. Smirnych, and A. Woergoetter, *Russia: Regional Risk Rating*, Vienna: Bank Austria, 1998; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regioni Rossii*, Moscow, 1997; Central

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Russian Atlases-98

Dear Readers,

This week we are launching a new feature in the Executive Edition: an Executive Summary that identifies the major trends discussed in greater detail in the rest of the report. We hope that this new feature will help make sense of the many events reported from across Russia and give subscribers a quick overview of what is happening.

The RRR Editors

EXECUTIVE SUMMARY: MAJOR TRENDS THIS WEEK

CRISIS LETS UP A LITTLE, BUT PROBLEMS REMAIN

The ruble's temporary recovery allowed a little breathing room in some of the Russian regions and many essential goods reappeared on store shelves. However, the country's problems remain severe. Many banks are still not functioning and major factories, such as Uralmash in Sverdlovsk Oblast, have had to close because they could not pay their suppliers. Traffic on the Trans-Siberian Railroad has fallen by half. The paralysis in the banking sector is threatening to freeze productive industries across the country.

Although as many as 100,000 teachers are on strike, our correspondents report no visible signs of social unrest. The north Caucasus remains the exception, as the situation in Dagestan, North Osetiya, and Ingushetiya are close to war as one regional leader put it. Although Russian officials have rejected offers of humanitarian aid from Lithuania to Kaliningrad Oblast, servicemen in the Baltic Fleet are ready to accept food since they are receiving no money from Moscow.

The state of center-periphery relations remains unsettled. Newly appointed Prime Minister Yevgenii Primakov has stressed that he wants to impose strong central control to preserve Russia's unity. Initially many of the governors have welcomed him. Saratov Governor Dmitrii Ayatskov and Sverdlovsk Governor Eduard Rossel have both had dealings with Primakov in the past and appreciated his help in setting up ties between their regions and foreign countries.

How this relationship will evolve remains unclear. Primakov has said that he will remove governors who violate the constitution. When President Boris Yeltsin tried to remove Primorskii Krai Governor Yevgenii Nazdratenko last year, the governors rallied around him to maintain their ability to protect themselves against encroachments from the center. There are already signs that the regions are trying to work together in the Volga and Ural regions (see next week's report for more details.) Primakov may provoke the governors' ire by pushing his centralization campaign too far. Additionally, governors such as Rossel are hoping that Primakov will follow through on promises by acting Prime Minister Viktor Chernomyrdin to provide financial aid to their regions. If Primakov cannot provide federal funds, he will have few levers to influence the governors.

Many regions are continuing to withhold taxes from the federal government. However, so far the main contributors to the federal budget are still paying up, so there should not be immediate consequences for the federal budget. Some regional leaders are also backing off the price controls they imposed earlier because they were not effective.

Some industries are doing well in the crisis, particularly paper exporters in Nizhnii Novgorod Oblast and makers of consumer durables who experienced increased demand as people tried to dump their rubles in the initial panic. Now consumers are

wondering what they are going to do with an extra sofa in a small apartment cramped with stocks of flour, salt, and sugar. Many feel that with a rising ruble, the government has duped them again.

The economic crisis is already limiting the flow of information in Russia. In places like Yekaterinburg, the high cost of newsprint is limiting the production of central and regional newspapers. This trend mirrors problems in the central media, such as the imminent merger of *Izvestiya* and *Russkii Telegraf*.

Despite the obvious problems in the production sector caused by the collapse of the banks, several western firms announced plans for new direct investments or have committed themselves to staying in the Russian market. Coca Cola will invest an additional \$250 million in marketing, ABB is planning new ventures with Gazprom, Daewoo has just opened a new assembly plant in Rostov Oblast, Steyer will build engines in Nizhnii Novgorod, and Volvo is planning to assemble trucks in Moscow. The British are also going ahead with a trade expo in the Urals.

RUSSIA'S POLITICAL AND ECONOMIC CRISIS

CRISIS CUTS NUMBER OF NEWSPAPERS IN SVERDLOVSK

by Olga Gorchakova, Ural State University

YEKATERINBURG (16 September) -- Like the rest of Russia, Yekaterinburg has been hit hard by the Russian economic crisis. Prices for food and consumer goods have skyrocketed, people line up to withdraw money from cash machines and store shelves are empty. Moreover, it has become impossible to buy major newspapers such as *Izvestiya*, *Rossiiskaya Gazeta* and *Oblastnaya Gazeta* (a local newspaper in Sverdlovsk Oblast). A sudden jump in the cost of printing, causing a decline in the number of newspapers printed, is behind the shortages. Given the general lack of objective information in the newspapers that are still available, the shrinking supply of news sources only pushes society deeper into crisis.

Over the last two weeks, print shops have begun to charge 50 percent to 60 percent more, even though the cost of paper has remained the same. The imported film used in print production, however, is 2.5 times more expensive than before the crisis. Instead of raising per-unit prices, which could hurt their reputation with readers, publishers have chosen to deal with the crisis by decreasing their print runs. The former daily *Uralskiy rabochiy* publishes only one issue a week and some other local papers have laid off many staff members.

Yet the pro-Communist newspapers have been doing much better on the market. For instance, *Iskra Uralskaya* can be found in numerous locations, including street corners, free of charge. The paper openly calls for anti-government rallies and advertises dates for picket actions.

VOLGOGRAD: OFFICIALS, CONSUMERS DEAL WITH CONSEQUENCES OF PANIC

by Ivan Kurilla, Volgograd State University

VOLGOGRAD (15 September) -- Volgograd residents are now coming to grips with last week's panic. Then, as the ruble rapidly lost value, many shoppers stood in long lines to buy consumer goods and food at extremely high prices, fearing that they would go even higher. Many people's apartments are now filled with canned goods, cereals, sugar and salt that will take months to consume. Moreover, some people purchased extra furniture or even a second vacuum cleaner in order to spend all their rubles. Now that the ruble has begun to regain its value, those people feel the authorities have once again played a trick on them.

The Communists are ready to support that point of view. Volgograd Governor Nikolai Maksyuta blamed the mass media for inspiring panic by showing long lines in exchange offices and empty shelves in stores. (*Volgogradskaya Pravda*, 15 September) In the first days of the panic, Volgograd authorities prohibited the transport of food across regional borders. The governor believes those measures stabilized the situation in the oblast. He claimed that the militia stopped 257 tons of produce, 200 sheep and other goods from leaving the region. Some Volgograd enterprises have begun replacing imported raw materials with local products, fulfilling a goal long-held by the regional authorities.

Maksyuta supported the appointment of Yevgenii Primakov as prime minister, calling him a candidate who could unite various political parties. He welcomed Primakov's readiness to build ties with the regions by inviting some governors to join a newly created government presidium and supporting Russian industry.

Volgograd Mayor Yurii Chekhov stressed that the city has survived the storm with minimal losses. The city administration-backed Bank KOR has successfully handled its problems, in contrast to many national banks, and is listed as one of the most stable medium-sized banks in the country, Chekhov boasted.

Volgograd businessmen have been affected differently. Boris Izgarshev, the head of AO Tsaritsa, which owns the Volgograd beer brewery, is optimistic. His enterprise dramatically increased sales during the last year, grabbing back significant market share from the Volzhskii beer brewing factory AO Povolzhie, which is part of the Sun Brewing Co. empire. The crisis did not have a significant impact on the factory, he told *Gorodskie Vesti*.

Mikhail Denisov, the chief engineer of AO Povolzhie, agreed that sales have dropped in recent weeks. His firm has not increased prices even though it is losing money on imported raw materials and equipment.

Irina Voitova, the head of the planning department of AOOT Volgogradmyasomoltorg, which trades meat and dairy products, said the panic buying depleted supplies that would normally last a month. The firm is now buying products at prices that are 10 percent to 40 percent higher than usual. The price increase for specific items depends on the amount of imported raw materials used to create products such as sausage or mayonnaise.

Anatolii Arefiev, who works in the marketing department of ZAO Volgogradmebel (furniture producers), noted that sales skyrocketed during the crisis. Prices jumped as much as 20 percent and the increased demand drove up profit margins.

VORONEZH: SITUATION STABILIZING, PRICES DROPPING

by Andrei Muchnik, Voronezh State University

VORONEZH -- (16 September) Almost two weeks have passed since Voronezh Governor Ivan Shabanov capped prices for 25 "socially significant goods," mainly food items. The decree was not intended to rigidly set prices, the governor said. He suggested that it was meant only to "influence" them. Food wholesalers and retailers initially ignored the decree. When the administration sent inspectors to the stores and farmers' markets, however, some producers decided not to sell their goods at all and wait until the situation calms down. Since the currency began to recover last week, flour, sugar, sunflower oil and other goods have reappeared at the farmers' markets. Now, of course, most of the "socially significant goods" are sold at the prices suggested by the administration. The country's rapidly changing financial situation naturally caused the decree to lose much of its import.

As the prices for imported goods went down, stores posted signs announcing 20 percent off sales and then, often later the same day, 30 percent off sales. They did that instead of changing price tags several times a day, according to the dollar's exchange rate. Some stores still do not want to sell home appliances and similar goods because the ruble could collapse again at any minute.

Some banks have started recovering. Voronezh-Bank, for instance, began making non-cash payments. All available cash is still going to individual depositors who want to withdraw their money. Voronezh-Bank is waiting for an alleged \$50 million loan from the Central Bank to bring extra cash.

Bank Menatep's local branch, on the other hand, is still in trouble. Menatep managers suggest two options for their depositors. According to one plan, clients could transfer their accounts to the state-guaranteed Sberbank. Or they could leave the money at Menatep and set up a dollar account there. The rubles on deposit will be converted to dollars at the prevailing exchange rate when a new contract is signed with the bank. However, depositors can't withdraw money for at least a year. After one year, they can withdraw one-third of their funds with the remainder of their money available over the following two years. Such an option is risky because no one knows what Menatep's fate will be over the next year.

The oblast administration's financial situation is also precarious. Voronezh Oblast, along with a number of other regions, defaulted on 36,602,000 rubles worth of agro bonds on 17 July. Investors are suing for full repayment, court expenses, and fines for the delays. The court could declare Voronezh Oblast bankrupt and set up a new administration, brought in from outside (*Bereg*, 11 September)

INDUSTRIAL LEADERS DISCUSS CRISIS IN NIZHNIJ. The All-Russian Industrial Economic Forum took place in Nizhnii Novgorod recently. The main topic of discussion was originally slated as life in provincial Russian cities. However, the crisis provoked organizers to shift the topic toward how to rebuild Russia, deal with the crisis and "get the government off our back." The crisis has vividly demonstrated that regions can survive without Moscow. The presidential administration, according to its representative in Nizhnii Novgorod, Aleksandr Kosarikov, was surprised to see such high-level attendees at the conference and at their broad understanding of Russia's

problems. Leaders of regions and republics know that they can only force the federal government to listen to their demands if they offer a united front. That idea was also stressed at roundtables of industrial managers. It has long been known that the economy's real productive sector is not working and that imported goods compensate for the scarcity of domestic products. The forum adopted a document calling for lowering the tax burden and shifting it from industrial enterprises to small- and medium-size businesses and individuals. -- Yuri Rodygin in Nizhnii Novgorod

TATARSTAN LAUNCHES HAPHAZARD ANTI-CRISIS MEASURES

by Midkhat Faroukshine, Kazan State University

KAZAN -- (13 September) Russia's deepening financial crisis and the federal authorities' seeming impotence to deal with it have forced regional governments to adopt their own anti-crisis measures. The government of Tatarstan is a case in point.

The sudden shakeup on the Russian political Olympus took the republic's leadership by complete surprise. They hosted Prime Minister Sergei Kirienko in Kazan on 14-15 August, but by the following weekend he had been forced from office. Despite the public's demands to know what the republican government planned to do about the crisis, the authorities fell silent for over two weeks. Finally, at an extended meeting of the republic's top officials on 10 September, President Mintimer Shaimiev let Prime Minister R. Minnekhanov unveil his proposals.

The government of Tatarstan will impose price controls on bread, milk and dairy products (except for butter), but only for the month of September - nobody knows what the situation will be like in October and November. The republic produces enough sugar to provide for 70 percent of its needs, and exports of sugar and sugar beets from the republic will be prohibited. Earlier, the republic imposed limits on the import of alcohol from elsewhere in Russia. The price for a kilogram of flour will also be set artificially low at 1.90 rubles for wholesale trade and 2.50 rubles for retail.

Salary arrears in the republic have climbed to 3.5 billion rubles, and pensioners must wait up to two months for their pensions. The government will pay 30 percent of an individual's pension payments in food products instead of cash. The republican government has also won federal approval to free many food processing and light industrial enterprises from paying tax arrears to the federal budget. In exchange, they must supply 24 local enterprises, to which federal agencies, most notably the armed forces, owe money for goods and services. The 24 enterprises will in turn use the food and consumer goods to pay their employees. That scheme unilaterally introduces a republican-level system of mutual debt cancellation: the federal debt to local enterprises can be paid off with the products of other enterprises that owe money to the federal government.

Two of the republican government's financial stabilization measures deserve special mention. Following the example of the federal government, the government in Kazan has also reneged on its short-term bond (RKO) obligations. This move was justified on the grounds that financing the social sphere takes priority over servicing the debt. As the newspaper *Vechernyaya Kazan* wrote on 11 September, many other regions have not defaulted on their short-term debt, since they used the funds to finance

profitable projects in the real economy. At the same time, the republican budget has a special line for financing the debt, completely separate from the funds allocated for the social sphere. Had it not been for the crisis situation, the republican government would have had to invent another reason to default on the debt. It is uncertain how the republican government plans to compensate investors who have put their savings into RKO's. The international credit-rating agency Moody's, meanwhile, has lowered Tatarstan's credit rating in response to the government's *de facto* default on its debt. This will negatively affect the planned issue of Eurobonds and generally undermine Tatarstan's reputation as a reliable economic partner.

Another financial measure under consideration is to force all companies in which the republican government has a 25 percent stake to transfer their accounts to Ak Bars Bank. That bank is favored by the republican leadership, which has strong ties to its management. The current finance minister of Tatarstan is the bank's former director. The companies in question are raw materials exporters earning hard currency. The transfer of their business to Ak Bars would decimate the commercial banks that now handle their accounts.

Overall, such measures are administrative, as opposed to purely economic, and also anti-market and unconstitutional. Moscow has so far reacted meekly to these and similar measures taken by Tatarstan and other regions. It has called on the regions not to divide country's unified market. Some governors have been more alarmist, warning that import and export limitations among regions will surely lead to the collapse of the Russian Federation.

The Kazan government is hoping that Primakov's appointment as prime minister will bring special treatment for Tatarstan from the federal center. When Chernomyrdin was deposed in favor of Kirienko, President Shaimiev hailed the development as positive: we need younger leaders in the government, he said at the time. When Kirienko was forced to step down in favor of his predecessor, President Shaimiev again had a positive reaction: Chernomyrdin is a well-known political figure with broad support in the Duma. So, when Primakov's star ascended, Shaimiev was exuberant: the former foreign minister has always held high-level government posts and has a cordial personal relationship with the president of Tatarstan. It remains to be seen whether the republic can translate Primakov's cordiality into special favors from the federal government.

TVER: OUTLYING AREAS WORSE OFF

by Boris Goubman, Tver State University

TVER (11 September) -- On 9 September, the republican authorities here convened an emergency meeting of mayors, oblast legislators, enterprise managers, bankers and heads of federal agencies and power structures in the region. Vice Governor Yurii Krasnov, who heads the special anti-crisis task force, thinks the shortage of essential goods helps escalate the crisis and asked mayors to impose controls on galloping prices. (*Tverskie gubernskie vedomosti*, 9-15 September) Since the crisis began, the oblast budget has lost about 25 percent of its revenue and expenditures have more than doubled. (*Veche Tveri*, 10 September) The oblast government told mayors to tighten their belts and give up hopes of favorable treatment from the oblast, at least until more pressing problems, such as shortages of food and medicine, are resolved. The oblast administration will focus on

meeting the needs of residents of retirement homes and orphanages before it attends to the needs of others.

According to the mayors who spoke at the meeting, the oblast's periphery is much harder hit by the crisis than Tver itself. Almost all foodstuffs, except for vodka, bread and vinegar, have disappeared from the store shelves in the rural areas. Some mayors have introduced price controls and are expecting challenges from the procurators any day. In unveiling his anti-crisis program at the meeting, Governor Vladimir Platov said that while he is not going to introduce border controls to limit imports and exports *vis-a-vis* other regions, local producers might consider selling their products to Tver consumers at lower prices than those charged to buyers from other regions. Locally produced goods, said Platov, should cost only 15 percent more than what they cost on 17 August. Retail stores must not exceed a 10 percent markup, he asserted. Prices can thus be kept under control until the end of the year, and heads of raions were instructed to use administrative measures to crack down on price inflation. Needless to say, entrepreneurs resent the introduction of price controls. Bakers, for example, simply cannot survive by selling their bread at 17 August prices when they have to pay today's rates for flour. - Boris Goubman in Tver

BREAKING NEWS

POLITICS

GOVERNOR DESCRIBES VOLOGDA MODEL OF SUCCESS... Before the economic crisis began, Vologda had opened the only new chemical enterprise in Russia, its agricultural sector was working well, and the forestry industry was recovering, according to *Izvestiya* (15 September). Those successes, Governor Vyacheslav Pozgalev argued in the interview, were achieved through state control of specific industries. He also pointed to the success of Severstal, the regional steel factory that recently paid off all of its debts to the federal and regional budgets. The plant director is 30 years old and the average age among the plant leadership is 29. The plant is owned by its workers and has no strategic investor. To preserve its independence, the enterprise also created its own bank. Pozgalev warned, however, that the current crisis was creating considerable difficulties for the plant and that its suppliers were refusing to provide materials. If the situation does not change, the plant will have to stop production in a week, when its stockpiles are depleted.

It would be a disaster to change Russia's overall economic course now, Pozgalev argued, because enterprise directors have started to think in new ways. Pozgalev said, however, that he supported the controlled printing of new money by the Central Bank, but that the new funds should be given directly to the regions.

...WHILE ST. PETERSBURG PROPOSES ITS OWN MODEL. St. Petersburg Governor Vladimir Yakovlev has sent a variety of proposals to Prime Minister Yevgenii Primakov based on the city's success. Russia's northern capital has balanced its city budget, collected 101 percent of planned tax revenues, and enacted a stable tax policy designed to stimulate business. The city also has avoided a large debt burden. Public sector employees are paid on time and teachers and other employees have even received

raises. The city is meeting its financial obligations and is considered the most creditworthy in the country. Based on his experience, Yakovlev recommended that the federal government adopt a realistic budget for three to four years instead of the one-year time frame currently used. The budget should be transparent, Yakovlev suggested, and copies should be made easily available to the public, perhaps sold at newspaper kiosks. Tax policy should be predictable, he said, and an announcement should be made that no taxes will be raised for three to four years, while the profit tax will be cut 2 percent a year. He also recommended re-establishing a state monopoly on the production, sale and import of alcohol. (*Izvestiya*, 16 September)

LUZHKOV HELPS ILYUMZHINOV. Kalmykiya President Kirsan Ilyumzhinov did not have enough money to finish the Chess City he was building in his republic to house the 33rd International Chess Olympics, which opens in the capital, Elista, on 25 September. In particular, Ilyumzhinov had difficulty raising funds after the murder of opposition journalist Larisa Yudina (see *Russian Regional Report*, 18 June). Moscow Mayor Yurii Luzhkov came to his aid by sending his wife's brother, INTEKO Construction Firm Vice President Viktor Baturin, to complete the project. In return, Luzhkov will gain shares in two of Kalmykiya's key projects: oil recovery efforts in the Caspian Sea and a transportation corridor linking Saudi Arabia and northern Europe. (*Kommersant Daily*, 16 September)

NORTH OSETIYA, INGUSHETIYA ON VERGE OF WAR. The north Caucasus republics of North Osetiya and Ingushetiya were "five minutes from war," according to Ingushetiya President Ruslan Aushev. On 12 September, Ingush killed five Osetiyan policemen on the border between the two republics. In response, the Osetiyans began to burn Ingush houses in the Prigorodnyi raion. (*Kommersant Daily*, 15 September)

GORBENKO REITERATES STATE OF EMERGENCY. On 10 September Kaliningrad Governor Leonid Gorbenko signed a decree announcing a state of emergency in the oblast, *Kommersant Daily* reported on 12 September. The governor had made a similar announcement three days earlier, on 7 September, but retracted that statement the following day after consulting with Moscow (see *IEWS Russian Regional Report*, 10 September 1998). The authors of the document anticipated criticism that they had violated the constitution, which gives the president the exclusive right to declare a state of emergency. Thus, they indicated that the state of emergency would be conducted in accordance with the federal laws regarding conditions for states of emergency of a "natural or technological character." In accordance with the decree, the oblast should create a reserve of financial and material resources. Salary payments will most likely come from unpaid transfers to the federal budget and there are plans to establish a system of state enterprises for trading foodstuffs. However, no concrete measures have yet been adopted. In fact, the oblast's chief tax collector, Viktor Vasiliev, announced that the federal government would collect the full sum of taxes that it is owed and that the decision to postpone debts can only be made by Moscow. Furthermore, the tax bureau has also promised to take stricter control over salaries, street vendors, stores and banks.

The situation in the oblast has improved slightly. The strengthening of the ruble has led to a drop in the price of gas, and LUKoil has promised to provide free fuel to

ambulances and police cars. Kaliningrad is relying heavily on its relations with Belarus to help in the current crisis. In his decree, Gorbenko emphasized the necessity of developing a program of economic cooperation between the oblast and Belarus. He hopes that the federal government will consider the possibility of settling debts between Belarus and Russia by canceling debts from the center to Kaliningrad. (*Kommersant Daily*, 12 September)

The Russian ambassador in Lithuania has rejected offers of humanitarian aid as unnecessary. The Baltic Fleet, however, is ready to accept such support. The fleet has received more than \$1 million in foodstuffs over the last six months from Lithuanian suppliers. Since the troops have not received money from Moscow to pay for the goods, they are willing to accept aid through cancelled debts.

ECONOMICS

TAX STRIKE WIDENS. Other regional leaders are joining Khakassiya Governor Aleksei Lebed in withholding tax revenue from the federal government (see *IEWS Russian Regional Report*, 27 August). Omsk Oblast has announced that it will not send money to Moscow as long as the capital does not meet its obligations to the region. Traditionally, regional leaders had to lobby powerfully to gain the attention of local representatives of the federal treasury, which is a super-centralized organ, according to *Ekspert* (14 September). But many are now gaining influence with local representatives because the federal government can not provide its regional bureaucrats with the bare necessities for daily life, and the officials have come to depend on the regions. The Primakov government will have to bring these regions into line if it hopes to assert its authority across the country. Luckily for the federal government, the regions that make up the lion's share of the federal budget (Moscow, Khanty-Mansii, Yamal-Nenets, Samara, Sverdlovsk and Krasnoyarsk) are still paying their taxes.

One example of a rebellious region is Altai Krai. It is supposed to transfer 40 million rubles a month to the federal government, while it should receive 180 million in return, according to *Finansovye izvestiya* (15 September). Its refusal to transfer money to the federal government, presumably because it harbors no hope of receiving a larger subsidy in return, shows the region's desperation.

CENTRAL BANK CLOSES ITS BRANCH IN KALMYKIYA. The Central Bank on 10 September, at that point under the control of Sergei Aleksashenko following the departure of Sergei Dubinin, closed its Kalmykiya branch. The regional affiliate had obeyed a decision made illegally by the legislature of Kalmykiya to transfer 235 million rubles, intended to pay federal taxes, to Kalmykiya's Ministry of Finance in order to finance republican programs. The Russian Finance Ministry also cut off all subsidies to the Kalmykiyan government and all local activities and organizations funded by the federal budget. A branch of the Volgograd bank will now handle operations in Kalmykiya, *Finansovye izvestiya* reported (15 September). Even though the amount in question was relatively small, the federal officials hope their moves will stem the tide of regional "budget separatism," according to *Ekspert* (14 September).

REGIONAL LEADERS CHANGING TACTICS TO WEATHER CRISIS. Many

regional leaders are finding that price controls do not necessarily ensure that consumers have access to affordable goods. To stimulate competition and lower prices, many local governments are allowing farmers to sell their goods on city streets, thereby avoiding the control of market middlemen, according to *Finansovye izvestiya* (15 September). Regional administrations are also lifting a variety of taxes for firms that are not raising their prices. And they are also providing better access to transportation.

Local governments are supplying necessary goods to people who have not been paid their salaries. They are also preparing to introduce rationing systems.

LEBEDINSKII ELECTS NEW DIRECTOR. Belgorod Oblast's Lebedinskii Ore Mining and Concentration Combine has elected a representative of the Swiss company Nakosta, Igor Sokruta, as its general director. He was a high-level manager at Tatarstan's KamAZ. (*Delovoi Ekspres*, 15 September) The Swiss firm gained control of the plant on 5 August (see *IEWS Russian Regional Report*, 13 August).

URALMASH SHUTS PRODUCTION. Sverdlovsk Oblast's giant Uralmash factory shut down on 14 September because its bank accounts are frozen and it cannot pay for raw materials and spare parts. All 15,000 employees have been laid off until 5 October. They will receive two-thirds of their pay during that period. The goods already produced by the factory are not being transported. (*Izvestiya*, 12 September)

TRANS-SIBERIAN TRAFFIC CUT BY HALF. Freight traffic on the Trans-Siberian Railroad going from Nakhodka, in the far east, to western Russia and Europe has dropped by about 50 percent since the beginning of the economic crisis one month ago. Importers and trans-shippers claim that the fluctuating prices make it too expensive to use the rail line and are seeking alternative routes. Russia expects to lose considerable income and tax revenue from this source. (*Izvestiya*, 11 September)

BUSINESS BRIEFS

-- **GAZPROM** and the Swedish-Swiss **ABB** have signed an agreement to jointly develop natural gas deposits, produce equipment for the oil and gas sector and supply energy in Russia and other countries. The two firms are also planning to build several electricity stations that work on gas. ABB has 18 enterprises in Russia that employ more than 1,500 workers. (*Delovoi Ekspres*, 15 September)

-- The British firm **BEDDOWS** will prepare a business plan for the **SEVERSKII TRUBNYI ZAVOD (SVERDLOVSK OBLAST)** by October as part of a British government-aid program to promising Russian enterprises. The plan will help attract financing for the plant. (*Delovoi Ekspres*, 15 September)

-- **DAEWOO** and **DONINVEST** have opened an automobile assembly plant at the Taganrog Combine Factory in **ROSTOV OBLAST** to produce its Daewoo Orion, Assol and Kondor models. Doninvest is also assembling Daewoo cars in the Krasnyi Aksai factory in Rostov-na-Donu. Doninvest's Taganrog plant produced its first car 21 months after the project began. Ultimately, the firm plans a \$267.5 million investment to create a

plant with the capacity to produce 120 million to 150 million cars a year, employing 6,500 workers. It will take at least five years to realize those plans. (*Finansovye izvestiya*, 15 September)

-- **NIZHNI NOVGOROD'S GORKII AUTOMOBILE PLANT** is planning a joint venture with Austria's **STEYER** to build a \$260 million factory that can produce 250,000 3-, 4-, 5-, and 6-cylinder diesel engines a year. The engines will meet the Euro-1 and Euro-2 standards, which in theory would permit the export up to 30 percent of the production. (*Finansovye izvestiya*, 15 September)

-- **COCA COLA** announced plans to invest \$250 million in Russia over the next several years, bringing its total investment up to \$1 billion. The company currently operates 12 beverage production plants across Russia, either directly or through franchisers. Most of the additional investment will go into marketing and expanding the sales network. Coca Cola expects its market share will increase dramatically as many of its competitors reduce their output. Wimm-Bill-Dann (which produces J-7 and Rio Grande juices), Continental Beverages Central (Schweppes, Crush, Dr. Pepper) and Pepsi have all decreased output. Since Coca-Cola's products are made in Russia they are less affected by the dollar exchange rate than are imports. (*Kommersant Daily*, 16 September)

-- Sweden's **VOLVO** and Moscow's **ZIL** automobile factory signed a cooperation agreement to assemble **VOLVO** trucks in the Moscow factory. The agreement was concluded on 12 September after negotiations between Moscow Mayor Yurii Luzhkov and Volvo executive director Lennart Jansson. The initial Swedish investment in the new enterprise will be \$100 million. Swedish staff will carry out the first stage of production at ZIL, and if sales of the trucks are sufficient, ZIL will organize its own production teams. ZIL was one of the last Russian auto factories to operate independently of foreign investment projects. Unofficial sources claim that Moscow agreed to grant tax breaks to the joint venture. Volvo is already producing busses in **OMSK OBLAST**. The factory in Omsk opened on 28 August and expects to have 20 busses completed by the end of this year. The factory ultimately expects to produce 500 busses annually, but the current economic and political crisis has forced it to scale down its initial plans.

-- Italy's **MERLONI** has confirmed that it plans to build a green field plant in Fryazino (**MOSCOW OBLAST**). Initially, the firm had planned to work on the grounds of the Fryazino Experimental Factory. It later withdrew from that deal, saying the conditions were not right after a change in management at the Russian plant in May. The new plant will be near the Fryazino factory. Construction on the plant, which will have the capacity to produce 50,000 gas and electric stoves a year, should begin next fall. Investment is expected to be about \$100 million (*Russkii Telegraf*, 10 September)

-- The **KARELIYAN** Arbitration Court has imposed external management on the **SEGEZHABUMPROM** paper plant. The court said the plant will restructure 400-million-rubles worth of debt. However, the court has refused to honor **ASSIDOMAN'S** claim for \$32 million. The Swedish firm owns a 57 percent stake in the plant, but has given up management. (*Russkii Telegraf*, 11 September) The Swedes have complained

that the legal situation makes it impossible to make a profit from the plant and they are trying to sell their stake.

-- **MOSCOW'S** Budapest hotel will undergo renovation to transform it into the four-star Peter the Great hotel by 2001. The city of Moscow and Inkombank will each own 30 percent stakes in hotel, and Cypress' MS & Co Hotel Management will own 40 percent. (*Russkii Telegraf*, 15 September)

CENTER-PERIPHERY RELATIONS

ROSSEL HAILS PRIMAKOV'S APPOINTMENT. According to the oblast administration's press service, Sverdlovsk Oblast Governor Eduard Rossel backed President Boris Yeltsin's decision to appoint Yevgenii Primakov as Russia's prime minister. During his tenure in the Foreign Ministry, Primakov did a lot to help Sverdlovsk Oblast make contacts abroad. He promoted the region's trade with the CIS states and endorsed the opening of a local representative office of the Ministry of Foreign Affairs in the region. He also backed the opening of a British consulate and a German visa office. Rossel believes Primakov is not the kind of leader to throw away his predecessor's accomplishments. In particular, he hopes Primakov will honor Viktor Chernomyrdin's decision as acting prime minister to transfer 238 million rubles to Sverdlovsk Oblast toward paying teachers' salaries. - Olga Gorchakova in Yekaterinburg

SARATOV GOVERNOR BACKS CHERNOMYRDIN'S DOWNFALL

by Lev Voritsin

SARATOV – (12 September) One of the few regional leaders who opposed Viktor Chernomyrdin's re-appointment as prime minister from the very beginning, Saratov Oblast Governor Dmitrii Ayatskov has long viewed Chernomyrdin as his political nemesis. Chernomyrdin has always detested Ayatskov's vocal ambitions to repeat the spectacular success of tsarist-era Saratov Governor Petr Stolypin, who served as Russia's prime minister under Nicholas II. As a result, Chernomyrdin ignored the oblast's numerous requests for federal economic aid. He also publicly scolded Ayatskov several times and as a show of displeasure refused to visit Saratov, instead visiting neighboring Volgograd Oblast.

The turbulent days between 23 August and 11 September were filled with drama of Shakespearean proportions. On several occasions, Ayatskov feared that he would lose his political battle with the acting prime minister. That seemed especially possible when speeches by the governor's two allies in the Federation Council, governors Konstantin Titov of Samara and Vladimir Yakovlev of St. Petersburg, failed to win many regional leaders to the anti-Chernomyrdin camp on 4 September. Ayatskov himself did not speak while the Federation Council was considering the appointment of Chernomyrdin that day, probably because he never received confirmation from Moscow Mayor Yurii Luzhkov, his key ally, that Luzhkov would consider taking the post of prime minister. Their caution is well-grounded, based on recent Russian political experience: some leaders who had openly announced their ambitions too soon ended up outside the playing field. That

is why Ayatskov eagerly assured Boris Yeltsin, a weakened, but still constitutionally empowered president, of his unconditional loyalty. That behavior is consistent with Ayatskov's main political belief in the "dictatorship of law."

Newly appointed Prime Minister Yevgenii Primakov and Dmitrii Ayatskov have had rare but substantial working contacts. At Primakov's suggestion, the Saratov governor visited Azerbaijan last August, rather than Armenia, as the president's administration had advised (see *IEWS Russian Regional Report*, 10 September). The Ministry of Foreign Affairs was duly impressed by Ayatskov's interaction with Azerbaijani President Geidar Aliev. That foreign policy success improved the governor's image in Moscow. When Ayatskov attended Moscow's anniversary celebration on 5 September this year, he and Primakov were cordial toward each other and shortly after that he began including Primakov on his short list of likely candidates for the post of prime minister.

Yet all along, Ayatskov's main bet was on Luzhkov. Even though the Moscow mayor did not become the government leader this time around, Chernomyrdin's defeat has boosted Ayatskov's political standing dramatically by undercutting a formidable foe. Additionally, Primakov's international image as an influential political player will not fare well against Boris Yeltsin's strong personality. Yeltsin has proven time and again that he cannot share the political spotlight with another powerful figure. Moreover, Primakov is nearly 70 years old and faces the extraordinary task of pulling Russia out of a deep crisis. As soon as Ayatskov learned about Yeltsin's nomination of Primakov as prime minister, he immediately sent the warmest message to register his loyalty to the new leader. It seems that Ayatskov views Primakov as another transitory figure before he himself assumes the helm. So, for now, he plans to let Primakov serve out his term. But come 1999, the presidential race will be on and Yurii Luzhkov will openly seek the country's top job. Ayatskov plans to help him along the way, hoping that he will follow in Stolypin's footsteps.

SOCIAL ISSUES

COURTS' FISCAL RULINGS HURT LOCAL GOVERNMENTS. The judicial system in Ulyanovsk Oblast has been actively shaping fiscal relationship between regions and local governments. Recently, the courts have heard many claims regarding state child-support programs. In some instances they have ruled that the oblast government must take responsibility for paying, while in other instances they charged local governments with the burden. The 1995 federal law on state support for families with children stipulates that regional governments must administer the program, financed with the money from restricted federal subsidies. As a matter of practice, the regions would then authorize local governments to administer the payments, but only after transferring the necessary funds to them. In effect, the local governments would act as cash carriers between the state and the citizens. However, the courts have been ordering local governments to honor some plaintiffs' claims, even if local governments never received corresponding transfers from the regional government.

Mayors and heads of raion administrations have been trying to fight that practice in the courts. They claim that the Russian Constitution does not designate local governments as organs of state power, and thus they cannot be held liable for state-

sponsored programs. Additionally, they claim that federal and regional authorities can delegate the responsibility for disbursing funds to the local government, but only if they provide sufficient funds to back up the program. The courts have disregarded these arguments and do not take into account whether or not the federal or regional authorities granted the localities enough money to cover the child support claims. The courts thus hold local governments accountable for something over which they have little control. The courts justify their decisions by the fact that local governments have established a special budget line for child support expenditures. The oblast has failed to provide the corresponding revenues, however, so the expenditure line in question is in fact irrelevant.

In other regions, courts have found this practice illegal. Local governments could theoretically appeal to the Supreme Court, but that body is likely to dismiss most concrete claims because such small amounts of money are in question. Another route is to challenge the oblast budget in the oblast arbitration court. When one of the mayors tried to do that, however, the oblast administration promised to settle the issue out of court, but as soon as the mayor withdrew his appeal, the administration promptly forgot its promise. By law he cannot take the case to court again, so he plans to ask the city assembly to sue the oblast instead. - Sergei Gogin in Ulyanovsk

ETHNIC CONFLICT AND REGIONAL SEPARATISM

DAGESTANI REGIME USES FEDS TO UNDERMINE OPPOSITION, FACES PROTESTS

by Nabi Abdullaev, *Novoe Delo*

MAKHACHKALA (16 September) -- Protestors are now blocking car traffic in the center of Makhachkala following the arrest of Magomed Khachilaev, a leader of the Lak ethnic movement (see *IEWS Russian Regional Report*, 10 September). Immediately after the arrest, Khachilaev's younger brother Nadir, who heads the Union of Russian Muslims and represents Dagestan in the State Duma, began organizing public protests. Feeling that pressure and anxious to avoid outbursts of violence, law enforcement officials transferred Magomed Khachilaev from a Makhachkala prison to a facility in Pyatigorsk, Stavropol Krai. In addition, the Moscow members of the investigative team were isolated from the local police investigators assigned to the case. The Moscow guests must sleep in their offices and immediately ship all the evidence they collect to Moscow.

Meanwhile, Nadir Khachilaev used his connections to the mayor of Kaspiisk, a Makhachkala suburb, to organize a protest rally of 2,000 supporters there. The rally mostly protested the alleged violation of Magomed Khachilaev's parliamentary immunity: he is a member of Dagestan's Popular Assembly. Only the assembly can strip one of its members of parliamentary immunity from prosecution. In response, Dagestan's Prosecutor Imam Yaraliev spoke on local television and explained that the Russian Constitutional Court had ruled that parliamentary immunity only covers members of the State Duma and the Federation Council, not members of regional legislatures. With that statement, the republican establishment once again distanced itself from the events and shifted the blame to the Russian police and Procurator General's Office.

On 12 September, four police officers guarding the fortified border with

Chechnya were kidnapped by Chechens, who later proposed exchanging the four for Magomed Khachilaev. Nadir Khachilaev asked the kidnappers to free the four hostages and declared the action as a provocation designed to discredit him and his family. When one of Chechnya's fiercest field commanders, Salman Raduev, threatened to attack Russian troops stationed in Dagestan and the government of the republic itself if Magomed Khachilaev was not freed, Nadir asked Raduev not to escalate the tension surrounding the situation. Raduev agreed not to act on his threat. There was even an attempt to give the confrontation a religious color. Nadir Khachilaev's supporters tried to convene a meeting of Dagestan's top clerics and incite them to declare a holy war on the infidels. However, the spiritual leaders of Dagestan refused to confront the republican government.

The leadership of Dagestan has not yet declared its stance on Khachilaev's arrest. The official line is that the authorities do not want to interfere with the investigation. Meanwhile, investigators have been collecting plenty of evidence by searching Magomed Khachilaev's house. There they found 13 sub-machine guns, 28 grenade launchers with 90 grenades and seven heavy machine guns, including one stolen from the government building during the riots on 21 May (see *IEWS Russian Regional Report*, 21 May). Investigators also searched the house of Esenbolat Magomedov, director of the republican department of the Western Caspian Committee on the Fishing Industry and leader of the Charodinsk ethnic group, who is currently on the run from prosecution. In his home they found stacks of bills totaling 486 million rubles.

The vice prime minister of Dagestan, Gadzhi Makhachev, is also evading authorities. He heads the Dagneft oil company and the Avar ethnic movement. He is rumored to be living in the U.S., in his Florida villa. A government spokesman insisted that Makhachev is on a business trip and is not evading prosecution. The mayor of Kaspiisk, Ruslan Gadzhibekov, was arrested on 14 September on charges of masterminding the murder of Arsen Baymarov, the owner of the largest private construction company in Kaspiisk. The mayor is also accused of embezzling large amounts of money from the city treasury.

On Tuesday, 15 September Nadir Khachilaev and his supporters organized civil disobedience actions in two districts of Dagestan, the Lak and the Novolak raions. Factory workers and civil servants went on strike, demanding that authorities free Magomed Khachilaev. On 16 September, the Russian general procurator applied to the State Duma to cancel Nadir Khachilaev's immunity as a member of the State Duma and to give permission to arrest him. Most observers do not believe that the arrests mark the beginning of a serious anti-corruption campaign, as touted by federal law enforcement officials and the central media. Rather, it seems as though Dagestan's leadership is trying to use the feds to rid themselves of political opposition. Not a single person on the list of those who are sought for arrest supports State Council Chairman Magomedali Magomedov, and virtually all have actively opposed the current regime.

ECONOMIC ISSUES

NIZHNII PAPER PRODUCER THRIVES AMIDST CRISIS. Only a little more than a year ago the Volga cellulose-paper processing company in the city of Balakhna (Nizhnii Novgorod Oblast) was on the brink of bankruptcy. The managing company, Hit,

gave up on Volga altogether, and the oblast administration refused the company's pleas for an infusion of \$28 million, demanded urgently by the foreign shareholders who owned 93 percent of the company's stock. At the time, nobody wanted to invest even a kopeck into Volga. Now, a year after the new Managing Director Aleksandr Buyevich took over, the company has patched up its financial troubles, is producing 500,000 tons of paper annually and pays an average monthly salary of 1,500 rubles. The company saved money to invest in its productive capacity by employing cost-cutting measures and using energy more efficiently. Volga still owes money to Vladimir Potanin's MFK investment company, which has invested \$70 million. MFK is willing to wait for the paper producer to stand firmly on its feet and balance its books, as it looks for new investors and ways to restructure its debt.

Volga's customers include companies in Bulgaria, Germany, Slovakia, China, India, Turkey and the United States. Media tycoon Rupert Murdoch recently purchased 20,000 tons of paper for his press empire. Next year *USA Today* and the *Denver Post* will buy Volga's paper as well. The company is expanding into other foreign markets and plans to compete for managing rights over a plant on the island of Sardinia, whose proximity to Africa will allow Volga to explore such untapped markets as the northern and central parts of that continent. It will also tap into Italian sources of wastepaper. Should Volga win the tender over its two main competitors from Japan and Canada, the company will not only expand its productive capacity by 200,000 tons of paper, but will also strengthen its position on the world markets.

Buyevich fears that Western competitors, who command much more capital than Volga, can push his company out of the market by selling their paper at artificially low prices. The only way to stand up to hostile competition is for several large domestic paper producers, such as those in Kondopoga, Solikamsk and Balakhna, to unite their forces. Buyevich is not too worried about the country's financial crisis, since his factory sells 90 percent of its products abroad. In fact, a cheaper ruble is good for exports, because the prices and costs of producing exports are lower when measured in foreign currencies. However, Volga would be badly hurt by a collapse of the banking and financial system as a result of the crisis. It is possible that the company would not be able to access the money it receives from its clients through the bank. The only way to instill order in the economy, says Buyevich, is through stronger executive authority in Moscow. Meanwhile, domestic consumers of Volga's paper must pay the current ruble equivalent of \$438 per ton. Russian newspapers are thus becoming visibly thinner with each day. -- Yuri Rodygin in Nizhnii Novgorod

FOREIGN TIES

SVERDLOVSK OBLAST FEELS CRISIS PANGS, BRITISH INVESTORS OPTIMISTIC

by Dmitry Strovsky, Ural State University

YEKATERINBURG (10 September) -- Long before the current financial crisis took root, foreign investment in Sverdlovsk Oblast had been deteriorating. Over the last year, capital flows into the Middle Urals from abroad have decreased, explaining the relatively

poor performance of the region compared to neighboring Chelyabinsk and Perm oblasts. Things are even worse now. Due to the ruble's collapse, foreign investors have *de facto* frozen their credit lines to domestic enterprises. Western partners are uncertain about defining the conditions in which to make new loans to Russian companies and there are fears that the World Bank will stop financing the construction of world-class hotels in Yekaterinburg. Some local companies found their bank accounts in foreign banks frozen. Meanwhile, the talks between Uralmash machine building company and Japan's Mitsui on reconstructing some of the plant facilities have been halted. (Uralmash itself has shut down. For more details, see below.) The situation may improve next year, but only if the political situation in the country becomes more stable and Russia and Sverdlovsk Oblast regain their former credit ratings. That would enable the oblast to go ahead with its planned Eurobond tranche.

But not everything about the general state of the oblast economy is bleak. Foreign investors are making individual decisions on whether to stay in the Russian market. A telling example is the plan to go ahead with the Great Britain in Russia 1998 exposition, sponsored by the British consulate. British investors' interest in the Middle Urals remains high: potential investors have already reserved more than 50 booths for the expo. Many more participants are expected, from Great Britain as well as from the Russian regions. The main goal of the fair is to promote British products, investments, services and technologies. According to Consul General Stephen Harrison, British businessmen still believe in the region's productive potential and the promise of its vibrant market. Last year Sverdlovsk Oblast's trade with Great Britain was valued at \$222 million. The first half of 1998, however, proved disappointing, with only \$50 million in trade. - Dmitrii Strovsky in Yekaterinburg

REGIONAL PROFILE: KALININGRAD OBLAST

Governor: Leonid Gorbenko

Leonid Gorbenko was elected governor on 20 October 1996, defeating incumbent Yuriy Matochkin by 10 percent in the runoff. Gorbenko's victory became possible after Communist candidate Yuriy Semenov threw his support behind him. During the campaign, Gorbenko had the backing of former Federation Council Speaker Sergei Shakhrai (who was elected to the upper house from Kaliningrad in 1993) and, reportedly, Aleksandr Lebed and Moscow Mayor Yuriy Luzhkov.

Gorbenko, 59, was born in Ukraine's Cherkassk Oblast to a family of Ukrainian peasants. At 17, he moved to Kaliningrad, where he graduated from a naval training school. From 1986 until his election as governor, Gorbenko headed the Kaliningrad port. During the campaign, his rivals repeatedly charged him with embezzlement and corruption.

As governor, Gorbenko has earned a reputation as an enemy of reform and has prickly relations with neighboring Poland and Lithuania. He gained wide publicity when he declared an emergency situation in his region this month, following the rapid plunge in the value of the ruble and Russia's announcement that it was delaying the repayment of its debts.

Other Local Leaders

Chairman of the Oblast Duma – Valerii Ustyugov, former local administration head, re-elected in October 1996 for a second term.

Presidential Representative – Aleksandr Orlov, former member of the Kaliningrad City Council and a candidate for mayor, appointed August 1997.

Brief Overview

Kaliningrad Oblast is the westernmost part of the Russian Federation, an exclave situated 600 km from the rest of the country. It is sandwiched between Poland and Lithuania on the southern coast of the Baltic Sea. The region is 1,100 km from the closest Russian port, St. Petersburg, while only 500 km to 800 km from the ports of western Europe. The oblast is the smallest administrative unit of Russia but has the highest population density in the area and one of the highest in the Russian Federation. The City of Kaliningrad was founded in 1255 as Königsberg when the Germans expanded eastward. After World War II, it was assigned to the USSR and received its current name. Most of the German population was deported from the oblast in the years immediately following the war.

The region is rich in various raw materials, including oil, peat, charcoal and salt. It also claims 95 percent of world amber supplies. The main industries are machine building, metal processing, fisheries and cellulose. Over half of the region's fish and cellulose is exported abroad, while the machine building and metal processing plants produce for the domestic market. Kaliningrad's seaports are of crucial importance for the economy of the region and the country at large - they can process up to 8 million tons of cargo annually, which is about 40 percent of Russia's total capacity in the Baltic region.

The oblast, which includes the Amber Free Economic Zone, was ranked 2nd by *Ekspert* magazine in terms of legislative conditions for investment, both for foreign and domestic companies. Nevertheless, it is said to be underinvested by both. Unfortunately, it suffered the fifth-largest decrease in investment potential between 1996 and 1997, falling 15 places to 34th among Russia's 89 regions.

Basic Facts

Population (as of 1 Jan. 1997): 935,600 (0.63% of Russian total)

Urban population (1989 census): 78.1% (Russia overall: 73.0%)

Student population (1996): 144 per 10,000 (Russia overall: 190/10,000)

Pensioner population (1996): 22.61% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 12.4% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 29.0% (Russian average: 29.9%); Agriculture: 12.5% (12.8%); Trade: 9.3% (9.1%); Culture: 12.5% (13.6%); Management: 3.9% (2.3%)

Average monthly personal income in 1996: 502,000 rubles (Russian average: 764,000 rubles)

Average monthly personal expenses in 1996: 573,000 rubles (Russian average: 753,000 rubles)

rubles)

Average monthly subsistence requirement in 1996: 302,200 rubles (Russian average: 369,400 rubles)

Consumer price index (as of Dec. 1996): 89.98 (Russia overall = 100)

Industrial production as percentage of all Russian production (1996): 0.26%

Proportion of unprofitable enterprises (1996): 58% (Russia overall: 56%)

Number of enterprises with wage arrears (1996): 289 (1.37% of total number of regional enterprises)

Agricultural production as percentage of all Russian production (1996): 0.40%

Number of private farms (as of 1 Jan. 1997): 4,044 (1.45% of Russian total)

Capital investment (1996): 948,700,000 rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): Federal budget: 22.7% (Russian average: 9.2%); regional budget: 4.5% (9.6%); enterprises: 55.4% (66.3%)

Number of joint ventures (as of 1 Jan. 1997): 343 (2.13% of Russian total)

Number of small businesses (as of 1 Jan. 1997): 6,130 (0.73% of Russian total)

Number of enterprises privatized in 1996: 55 (1.10% of Russian total), including former municipal property: 85.5% (Russian average: 67.1%); regional property: 10.9% (14.3%); federal property: 3.6% (18.6%)

Number of telephones per 100 families (1996): in cities: 32.1 (Russian average: 48.7); in villages: 15.0 (19.7)

According to a 1997 survey by *Ekspert* magazine, the oblast is ranked 34th among Russia's 89 regions in terms of investment potential and 7th in terms of investment risks. A 1998 survey by Bank Austria ranked the oblast 39th in terms of investment climate.

Electoral History

1996 Gubernatorial Election

Gorbenko: 22.29%/49.56% (first round/second round)

Matochkin: 31.33%/40.44%

Semenov (KPRF): 21.65%

Turnout: 43.63% (second round)

1996 Presidential Election

Yeltsin: 33.46%/57.69% (first round/second round)

Zyuganov: 23.08%/35.34%

Lebed: 19.31%

Zhirinovskiy: 7.2%

Yavlinskii: 12.85%

Turnout: 71.71%/69.18% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Elections

Communist Party of the Russian Federation: 19.30%

Liberal Democratic Party of Russia: 11.44%

Congress of Russian Communities: 9.18%

Our Home Is Russia: 8.55%

Yabloko: 8.16%
Party of Workers' Self-Government: 4.78%
Women of Russia: 4.68%
Communists -- Workers' Russia: 3.37%
Russia's Democratic Choice: 3.26%
In a single-member district: 1 independent
Turnout: 63.77% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 64.38% "No" -- 32.68%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 29.96%
Russia's Choice: 19.96%
Communist Party of the Russian Federation: 10.40%
Women of Russia: 7.98%
Yabloko: 7.94%
Democratic Party of Russia: 7.58%
Party of Russian Unity and Concord: 5.21%
Agrarian Party of Russia: 3.03%
From electoral associations: 1 Liberal Democratic Party of Russia
In a single-member district: 1 New Regional Policy
Turnout: 59.81% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 39.09%
Ryzhkov: 23.76%
Zhirinovskiy: 12.93%
Tuleev: 7.54%
Makashov: 4.56%
Bakatin: 4.09%
Turnout: 74.12% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; T. Matiyasevich, N. Mogel, S.A. Nagaev, M. Rossmann, L.I. Smirnych, and A. Woergoetter, *Russia: Regional Risk Rating*, Vienna: Bank Austria, 1998; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regiony Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.

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EXECUTIVE SUMMARY: MAJOR TRENDS THIS WEEK

FEDERAL GOVERNMENT RECOGNIZES GOVERNORS' POWER

President Boris Yeltsin recognized the increasing importance of the country's regional executives by including the leaders of the eight interregional associations in the presidium, or inner circle, of the government. They will participate in policy formation and have the same status as ministers. Leningrad Oblast Governor Vadim Gustov also joined the cabinet as first deputy prime minister in charge of regional issues. Other governors have spurned offers to join the federal executive in order to preserve their power base in the regions.

The governors have expressed cautious support for the new cabinet which is still being formed by Prime Minister Yevgenii Primakov. The support is extremely conditional since the governors are worried that its heterogeneous makeup will prevent the body from working effectively. Some leaders, such as Komi Republic Chief Executive Yurii Spiridonov, had close ties to Chernomyrdin and are still angry that he did not win Duma confirmation.

The presidential race is in full swing as Moscow Mayor Yurii Luzhkov and Krasnoyarsk Krai Governor Aleksandr Lebed stake out their positions. Luzhkov is building alliances with the Communists and regional leaders in such places as Saratov and Voronezh. He is focusing on stabilizing the economic situation and stimulating production. He will likely cooperate with the federal authorities until the elections, since Moscow is the first to benefit from an economic turn around. Lebed, in contrast, remains critical of the government and has said that he will participate in the nation-wide strike planned for 7 October. The protest is clearly gathering strength in places like Yekaterinburg.

One of the lasting consequences of the economic crisis is that the regional leaders have imposed limits on the export of goods outside their territory, a move *Izvestiya* describes as the most serious form of separatism. Such measures could make the economy as a whole even more unmanageable. Regional leaders also continue to grab more property, as Bashkortostan's leaders essentially formed a state monopoly of the republic's revenue-generating energy sector.

A special report by St. Petersburg Sociology Professor Daniel Tsygankov in this week's issue describes the numerous political factions competing in the city's legislative elections set for December. The fractured political spectrum demonstrates that there is no consensus on how to address the country's enormous problems, either at the national or regional levels. If the crisis persists, Tsygankov warns, an "army of impoverished depositors could emerge as new basis for political mobilization." -- Robert Orttung

RUSSIA'S POLITICAL AND ECONOMIC CRISIS

ST. PETERSBURG: CALM; GLOOMY; DISCUSSIONS OF UNREST

by John Varoli

ST. PETERSBURG (23 September)-- After several weeks of bank failures and runs on financial institutions, as well as wild shopping sprees to hoard cheap and rapidly disappearing goods, life in St. Petersburg has once again become calm and regained a semblance of normalcy.

Still, the quality of life has deteriorated noticeably, and the mood is quite gloomy. Stores have fewer goods and what remains is more expensive, while salaries remain at their old levels. People naturally buy less and are tightening their belts. Also, the city's previously booming cafe and restaurant business is reporting profits down by as much as 80 percent in the past month since people are staying away. Once again, going out to a restaurant is something reserved primarily for foreigners, just as it was in the early 1990s.

Nevertheless, despite the depressed mood, even those who have hit rock bottom, are quite resigned to their fate and are remaining calm. You can often hear people say, "well, we'll just have to live more modestly now."

Still, the potential for violence and mass disorder is discussed by the intelligentsia here, even though few believe there will be such incidents in the near future.

"There will certainly be no return to communism or violent revolution," said Viktor Voronkov, a sociologist and director of the Center for Independent Sociological Research in St. Petersburg. "The most angry elements in society are those that are the weakest and the most marginal, such as the elderly. Most Russians are already used to such deprivations, and they know how to survive under harsh conditions and can adapt."

Even opposition leaders have no plans to lead the masses to the barricades. Speaking Monday at a demonstration on St. Isaac's Square, Yuri Terentiyev, head of the radical Russian Communist Worker's Party and a deputy in the city Legislative Assembly, said, "we will only work toward our goals [removing the Yeltsin regime and changing the constitution] within the framework of the [Russian] Constitution, and we will not use violent methods."

Still, history has an interesting way of befuddling any well-educated prognosis, and the possibility of violence can never be ruled out.

"If a political force does appear which can unite and spur the discontented segments of the population to action, then the possibility of violence will increase greatly," said Vladimir Rymisky, head of the sociology department at the INDEM foundation in Moscow.

"Russian history shows that each great rebellion occurred not when the people's lives were at their worst but at the time when there appeared a leader who promised them a better life."

Rymsky added that, "I do not think we will see any violence on 7 October [the National Day of Protest]. Most likely there will only be a rally with radical slogans and then everyone will go home."

Still, the fact of the matter about life in St. Petersburg is that many companies are laying people off or cutting back salaries, and consumption is down dramatically since people have much less money.

The supply and variety of goods, however, has increased slightly in some stores since the end of August. This is because some owners have agreed to provide the dollars up front for deliveries of imports. This is the only way that distributors will work until the ruble stabilizes.

Such difficulties with imports, however, are giving Russian goods an advantage. They are enjoying greater sales and a more prominent place on store shelves whereas before they were lost among the better western packaging and marketing.

For example, Petmol, the city's leading dairy factory, cannot keep up with demand, especially since it has raised its prices only by about 20 percent in the past month, while the competition has seen prices double or triple. Also, one can now see Russian-made corn flakes from Vologoda Oblast on sale, whereas before only Kellogg's brands, which have now disappeared, were on store shelves.

To insure an increase in cheaper foods for the population, the government of St. Petersburg has concluded a number of agreements with the Leningrad oblast and several agricultural regions in the Russian south to increase the supply of oil, butter, eggs, meat, dairy products, etc. The city also plans to create a network of price-controlled food stores for the poor. But it has yet to provide the details how this will be run and who will qualify.

Despite the worsening economic situation in St. Petersburg and Russia as a whole, foreign companies doing business in the city and the Leningrad region say they are committed to the Russian market and plan to weather out the storm.

"While people are no longer as euphoric over Russia as they used to be, a lot of companies are taking a wait-and-see attitude, especially looking to see what the new government's economic policy will be," said James McCarthy, chief commercial officer at the U.S. Consulate in St. Petersburg. "No one is leaving. Companies have already put in too many resources here and you cannot just decide to leave overnight."

"The mood is pretty somber, but many businesses are taking a wait-and-see attitude," said Anna Kassner, executive director of St. Petersburg International Business Association (SPIBA). "But I have not seen an extreme loss of faith in Russia, and in fact confidence has been boosted now that there is a government."

"Still, there are fears that Russia might go back to central controls, and if they start doing that then people would lose more faith and start exiting."

She added that small foreign-owned businesses are being hit the hardest, and that St. Petersburg has a lot of them.

SVERDLOVSK UNIONS PREPARE TO STRIKE ON 7 OCTOBER. The latest statement from the union leaders of the leading industrial enterprises of Sverdlovsk Oblast have caused the media to speculate that the regional unions are planning to participate in the 7 October nationwide protest action. The economic situation in the oblast is grave. Salary arrears today stand at 3.5 billion rubles and tens of thousands of workers have been laid off in the last several weeks. Many employees in large, as well as small and medium-sized enterprises, have been forced to take an indefinite leave of absence. The population's purchasing power is so low that retail stores are incurring heavy losses. The newspapers are mulling over rumors about imminent price hikes, contributing to the general social tension.

On the day of the protest, strikers plan to begin their march from the gates of several large enterprises and proceed to the central square carrying slogans against the current reform course. Some unions promise to turnout thousands of people to protest the miserly salary payments they have had to endure this year.

Law enforcement officers might join striking workers, according to a statement from one of their union leaders. However by law they are prohibited from striking and can only form pickets in their free time. However, like employees in other sectors, virtually all city police officers have not been paid since May. The oblast's anti-crisis committee will probably discuss the strike very soon. Somebody has already proposed to have the committee's representatives at the 50 largest industrial enterprises act as the administration's economic managers. - Dmitrii Strovsky in Yekaterinburg

PERM SHUTTLE TRADERS RESIST MOSCOW'S ATTEMPTS AT CONTROL. The crisis continues to affect life in Perm Oblast. Prices for food and consumer goods are steadily rising and most currency exchange places are closed, while Sberbank disburses hard currency only in very small amounts. On 22 September one could buy a U.S. dollar for 14 rubles and sell it for 16 rubles. The oblast continues to limit wholesale exports of food products from its territory. Governor Gennadii Igumnov has said that this measure had to be taken to prevent speculators from buying essential products for low Perm prices and selling them in neighboring regions at higher rates, thus depleting the oblast's supplies.

Chernomyrdin's 3 September decree mandating that all retailers install cash registers for better tax accounting purposes met much hostility from the local shuttle traders. They even went on a two-hour strike to protest the tax police's attempts to enforce the decree and some food products have disappeared from the markets as a result. Retailers claim they will have to stop trading if the authorities enforce the decree. Moscow officials, once again, have not thought

through their decision. Most retailers on street markets work all day, and no cash register would function for a long time in cold outdoor temperatures. If retailers make good on their promise to quit, the population will only gain higher prices and longer lines. The Perm Civil Rights Center has filed official protests against the decree with various government officials.

Governor Igumnov has said that he will petition Moscow about the decree. "We cannot comply with this decree," he said in a newspaper interview. "Retailers need time to implement it. We cannot let administrative command methods take us back to the days of shortages and lines. Soviet authorities could never provide for the population in the whole 70-year history of the USSR, while shuttle traders managed to do it in half a year. Many millions of people now work in the shuttle trade business, and even though some citizens might not like the traders, the fact is that they have supplied us with everything we need," Igumnov concluded (*Zvezda*, 22 September). - Andrei Suslov in Perm

STAVROPOL IMPOSES PRICE, EXPORT CONTROLS DESPITE LEGAL PROTEST. Joining a long list of other Russian regions, Stavropol Krai has adopted a price and export control law in order to protect consumers from the chaotic fluctuations associated with the economic crisis. According to the law, passed by the krai Duma and signed by Governor Aleksandr Chernogorov, no food products can be exported from the region without the krai administration's approval. Producers of "socially essential food products" must sell them in the krai at rates approved by the authorities. The law also limits the amount of markup for wholesale and retail prices. The administration's agriculture ministry has been charged with providing the food and food processing industry with supplies and making sure that they produce enough output for the coming winter season.

However, entrepreneurs have shown a mixed reaction to this law. Moreover, the krai's prosecutor-general has filed a protest with the Stavropol Krai government and has asked the governor to rescind his unconstitutional decrees. According to the procurator's deputy, krai laws on limiting price increases and exports of food products contradict federal legislation on the free market. - Irina Morozova in Pyatigorsk

TVER LEGISLATORS CAUTIOUS OF GOVERNOR'S ANTI-CRISIS MEASURES. (18 September) Just as on the national level, the executive branch of the regional government must assume responsibility for addressing the latest economic crisis, as the legislators distance themselves from the administration's unpopular measures and use them to enhance their political standing. The latest session of the Tver Oblast Legislative Assembly on 15 September is a case in point. The only item on the agenda was the crisis's effect on the oblast. The general consensus was that the Russian regions have been left on their own to confront the crisis (*Tverskaya zhizn*, 17 September). Vice-Governor Yurii Krasnov presented a summary of the administration's anti-crisis measures. He echoed the negative assessment of the situation by the legislators and told the assembly that the oblast is paying special attention to the social sphere and is enforcing price controls over essential food products, public transportation and utilities.

Krasnov also said that the oblast treasury is nearly empty and whatever money remains will be spent on medical needs and preparations for the winter.

During their discussion following the vice-governor's presentation, legislators criticized the administration's authoritarian price control policies for failing to take into account the interests of entrepreneurs. They also stressed the importance of reviving the banking system and restoring people's confidence in its solvency. The assembly passed a resolution critical of the oblast administration. Additionally, the body failed to approve the governor's proposal instructing heads of local government to limit exports of essential products from Tver Oblast (*Veche Tveri*, 16 September). When the proposal was reintroduced on the floor, businessmen members of the assembly had it tabled until the following week, with very slim prospects for approval. Tver entrepreneurs are too closely tied to Moscow by a web of profitable contacts to allow administrative control of the economy. Assembly members also refused to approve Viktor Opekunov as the governor's first deputy, citing the failure by the governor to consult them first on his candidacy.

Meanwhile, Governor Vladimir Platov continues to search for ways to resolve his oblast's problems on the federal level. On 14 September he met with presidential Chief of Staff Valentin Yumashev and the new members of the government (*Veche Tveri*, 15 September). It is possible that the meeting signifies not only the cabinet's desire to work with the regions, but also a potential ministerial post in the new government for the Tver governor. - Boris Goubman in Tver

BREAKING NEWS

POLITICS

YELTSIN DECREE BRINGS GOVERNORS INTO GOVERNMENT PRESIDIUM.

President Yeltsin agreed with a proposal by Federation Council Chairman Yegor Stroeve and Prime Minister Yevgenii Primakov to include the governors who lead Russia's eight interregional associations in government discussions and decision-making on a level equal to federal ministers and signed a decree making the idea a reality on 22 September

(http://www.maindir.gov.ru/Administration/Press_Release/Sep/svwi3306.html). The governors will be part of the government presidium for the first time. Tomsk Governor Viktor Kress, the leader of the Siberian Accord association, backed the idea. He believes that the presidium will be one of the most important channels for the regions to influence the policies of the federal government. Kress wants to radically change center-periphery relations, particularly making financial relationships more transparent (Novosti NSN, www.nns.ru, 17 September). (For Saratov Governor Dmitrii Ayatskov's views on the presidium, see below.)

GUSTOV JOINS GOVERNMENT... On 18 September Yeltsin appointed Leningrad Oblast Governor Vadim Gustov as first deputy prime minister in charge of relations with the regions, the CIS, and youth. He will also handle construction issues (NTV, 18 September).

Gustov told NTV that his first task will be to pay pensions. However, in another interview, he said that the country's first priority should be to define the course it will take to overcome the current crisis.

Primorskii Krai Governor Yevgenii Nazdratenko had been considered for the post as well, but he apparently refused the position (*Vladivostok*, 18 September and Radio Ekho Moskv, 17 September).

As Leningrad governor, Gustov focused on constructing ports to redirect Russian trade from the Baltic countries through Russian terminals. He was also successful in winning large investment projects for his region, such as from Caterpillar, Philip Morris, and Ford (although the Ford project now seems in doubt because of the country's crisis). After being elected in September 1996, Gustov stopped much of his region's industrial decline and initiated growth in some sectors. Although he defeated a Yeltsin appointee with Communist support, as governor he had good relations with both the Communists and the young reformers (*Izvestiya*, 19 September). New elections will be held in Leningrad Oblast within six months.

... OTHER GOVERNORS DON'T. It was widely anticipated the Belgorod Governor Yevgenii Savchenko would be named to the recreated position of deputy prime minister for agricultural issues. He turned down the position saying that he wanted to finish projects that he had already started in his region (Russian Television, 18 September).

YELTSIN REORGANIZES REGIONAL MINISTRY. Yeltsin disbanded the Ministry for Regional and National Policy and created two new ministries in its place in a decree signed 22 September. The Ministry of Regional Policy will take over part of the functions of the old ministry as well as the functions of the disbanded State Committee for the Development of the North. The decree states that the ministry's main priority should be strengthening federalism and harmonizing interregional relations, particularly addressing the problems of the north. The Ministry of National Policy will take over part of the functions of the old ministry.

Ramazan Abdulatipov will likely be appointed minister of nationality policy (*Kommersant Daily*, 17 September). Abdulatipov was not a member of the Kirienko government since the presidential administration and Security Council handled nationality issues during that period. Kirienko's Minister for Regional and Nationalities Policy, Yevgenii Sapiro, previously the speaker of the Perm legislature, was ineffective in the position because he had little authority with regional leaders. Abdulatipov would likely focus on the problems of the North Caucasus.

PRIMAKOV CONSIDERS LUZHKOV'S IDEA OF REDUCING NUMBER OF REGIONS. Moscow Mayor Yurii Luzhkov reiterated an earlier proposal to reduce Russia's 89 regions to 10-12 economic units in a 16 September meeting with Prime Minister Yevgenii Primakov (*Kommersant Daily*, 17 September). In answering questions on Russian Television (as monitored by the BBC, 19 September), Primakov said "I do not want to name any particular number right now, but the idea of larger regions is worth considering. It seems to me

that it is a sound idea, because 89 constituent parts of a federation is too many. But I do not want the new government to begin its work with any kind of measures that could alter the existing and durable structure or hinder economic or social reform, which we need so much."

Reducing the number of regions would make it easier for the remaining regional leaders to coordinate their efforts against the center. Luzhkov in particular would benefit because he would presumably take over as the leader of the central region. However, many governors would object because they would lose their current powers.

First Deputy Prime Minister Vadim Gustov, who just resigned as governor of Leningrad Oblast, has also spoken out in favor of the idea saying that now would be a good time to follow through on the long-discussed idea of merging St. Petersburg and Leningrad Oblast (Russian Television, 21 September).

The idea of combining regions is not new. Luzhkov proposed the idea as early as the beginning of 1997, and a conference in Novosibirsk supported a similar proposal then as well (see *IEWS Russian Regional Report*, 17 April 1997).

SYSUEV NAMED PRESIDENTIAL ADMINISTRATION POINTMAN. President Yeltsin appointed former Deputy Prime Minister Oleg Sysuev first deputy chief of staff of the presidential administration in charge of relations with the regions (http://www.maindir.gov.ru/administration/Press_Release/Sep/svwi3287.html). However, given the weakened status of the presidency and the relatively strengthened hand of the government, the position is considered to be of little importance (*Russkii Telegraf*, 17 September). Sysuev lost his government position when Prime Minister Sergei Kirienko was sacked. A former mayor of Samara, Sysuev had worked closely with former First Deputy Prime Minister Boris Nemtsov, but has probably been tarred by his association with the now discredited government. He handled such social issues as the payment of wage arrears and housing reform.

CONGRESSMAN LANTOS STRESSES RUSSIAN REGIONS COULD GRAB NUKES, HURT US INTERESTS. California Congressman Tom Lantos spoke about Russia's problems on the floor of the US House of Representatives on 14 and 15 September. He stressed that "The regions of Russia are beginning to feel their new found power. There is a distinct possibility that Russia will break up into its constituent regions." He stressed that these developments are important to the US because "Russia still has thousands of nuclear weapons, and, as the authority of the central government erodes, as the various provinces are striking out on their own, the likelihood of these nuclear weapons falling into hands unfriendly to the United States increases geometrically." He also warned that Russia's collapsing economy could lead the country to fascism and global conflict as happened in Weimar Germany. He warned that as the central government's ability to collect taxes erodes, "the tendency of the regions to break away will accelerate. Of the 89 provinces of Russia, some 75 have been receiving subsidies from Moscow. These subsidies are declining, in many cases disappearing, and the danger of Russia

becoming a chaotic society has enormous ramifications for our own safety and security."
(Congressional Record, 14 and 15 September)

MARKOV: ROLE OF GOVERNORS OVERRATED. The press had dramatically overrated the influence of the regional elite, according to Sergei Markov, the director of the Institute for Political Research. He argued that the regions become stronger when the federal government is weak, but as the political crisis in Moscow recedes, the regional leaders will be less important, returning to their normal role of asking for money from the federal government one by one. He pointed out that even at the height of the crisis, the regional leaders had little influence. When a majority of the Federation Council voted to support Chernomyrdin on 4 September, the Duma still overwhelmingly rejected him on 7 September. In these conditions, Markov argues, Luzhkov will work as a good mayor, cooperate with the federal government, and wait for his chance to run for the presidency. He has the most interest in stable economic development since Moscow will be the first to reap the benefits. Lebed now will also try to be a good governor and wait his chance to win presidential elections, though he will criticize the government. Lebed will have difficulty building up a broad coalition for the presidential campaign since he does not have the support of the liberals or Communists and he is now closely associated with Berezovskii. (*Ekspert*, 21 September)

LUZHKOV OFFERS ADVICE ON COUNTRIES PROBLEMS. Clearly staking out his position in the run-up to the presidential campaign, Moscow Mayor Yurii Luzhkov issued a number of program suggestions on 16 September. Luzhkov called for stabilizing the ruble, laying the foundation for a new Russian banking system, and cutting retail prices. He also stressed that the government should focus on the real economy and goods production. He called for changes in the tax code and the introduction of a state monopoly on alcohol production, tobacco, and the production of audio and visual consumer electronics. (NTV, 16 September)

State Duma member Andrei Nikolaev announced that Luzhkov could run as a presidential candidate of the united left-wing parties including Gennadii Zyuganov's Communist Party of the Russian Federation on 21 September. Luzhkov and the Communists agree on many issues such as criticizing the economic policies of the Gaidar government, seeking the return of Crimea, and blasting the process of privatization in the country (*Kommersant Daily*, 22 September). The alliance would make political sense since Luzhkov would have strong support in the capital, while the Communists could deliver much of rural Russia. To build a winning coalition, Luzhkov must be able to attract support from beyond the ring road where resentment of Moscow's success, partly paid for by the regions, runs high. Most analysts believe that Zyuganov would have little chance of winning an election on his own.

KRASNODAR SEEKS TO STAMP OUT CORRUPTION IN PORTS. Citing threats to Russia's economic security, Krasnodar Krai Prime Minister Vladimir Melnikov announced that the krai's government has a plan to regain control of the ports at Novorossiisk, Tuapse, and Temryuk, according to news agency reports monitored by the BBC on 19 September. Oil from the Caspian Sea is now flowing through the Novorossiisk port. Melnikov charged that

privatization put the ports in the hands of a few people. He claimed that the procedure was conducted illegally and that the managers of several of the port organizations are corrupt. The state's share in the ports is continuing to shrink and tax revenue is not being collected. Melnikov blamed the problems on the inaction of the local branches of the Federal Security Service, tax police, procurator, and transport police, and local administrations.

ALTAI REPUBLIC LEGISLATURE CONSIDERS IMPEACHING PRESIDENT.

The Altai Republic legislature, whose session begins on 23 September, will consider a motion to recall President Semen Zubakin. If the motion is successful, the parliament could begin impeachment proceedings in its next term (Novosti NSN, <http://www.nns.ru>, 17 September). In August ten of the largest parties in the region began agitating for Zubakin's voluntary resignation. Zubakin is the only Russian governor who is a member of former acting Prime Minister Yegor Gaidar's Russia's Democratic Choice party. He won election on 16 December 1997 by a 208 vote margin (see *IEWS Russian Regional Report*, 18 December 1997 and 4 June 1998). In June 1998 Agrarian Party Chairman Mikhail Lapshin won a State Duma by-election, barely edging a Zubakin ally.

COMMUNISTS SEEK REMOVAL OF KAMCHATKA GOVERNOR.

The Communists and Zhirinovskiy's Liberal Democrats are seeking the removal of Kamchatka Governor Vladimir Biryukov. They are blaming him for the oblast's problems - public sector wage arrears, lack of funds for health care and education, little fuel for local power plants, poor preparations for winter, and generally high prices. A meeting of voters has already approved the ideas, so now the opposition is collecting signatures from 1 percent of the population, about 3,500 individuals. Once the signatures are in hand, the electoral committee will set a referendum on the governor. To remove the governor, the opposition will need more than 50 percent of the votes with a turnout of at least 25 percent. In his 1996 election, Biryukov won convincingly. (*Kommersant Daily*, 22 September)

MOSCOW RESTORES KALMYKIYA'S CENTRAL BANK. On 17 September, the Central Bank froze its 8 September order to close its branch office in Kalmykiya (see *IEWS Russian Regional Report*, 17 September) following the protest of the Elista City Court. The order has not been rescinded, however, and local authorities want the new government and Central Bank to do so in order to prevent separatist tendencies in the republic (*Kommersant Daily*, 18 September).

CHEREPKOV DISAPPEARS ON EVE OF ELECTION. Vladivostok Mayor Viktor Cherepkov went underground last week in the run up to the 27 September mayoral elections so that no one could accuse him of abusing the benefits of incumbency. Such behavior is considered unusual even by Cherepkov's standards. However, United Energy System's head Anatolii Chubais managed to meet with him in the Vladivostok apartment of the leader of one of Aleksandr Lebed's political organizations. Chubais said the city was one of the least prepared for the winter and called on the feuding Governor Yevgenii Nazdratenko and Cherepkov to work together to address the city's problems (*Kommersant Daily*, 19 September).

Nazdratenko, a long-time enemy of Chubais, was not ready to compromise and said that then Deputy Fuel and Energy Minister Sergei Kirienko had done a better job of addressing the region's energy problems. The mayor is currently leading his 17 opponents by no less than 20 points in the opinion polls. He is considered unbeatable and disqualification would be the only way to remove him from office.

LEBED LIMITS JOURNALISTS' ACCESS. Krasnoyarsk Governor Aleksandr Lebed has imposed strict regulations on journalists receiving accreditation to work with his administration. On 17 August he signed an order requiring them to file extensive information by 1 October. His press secretary can refuse accreditation if he believes the journalist is incompetent or unable to understand the information that he is given. (*Izvestiya*, 18 September)

ECONOMICS

REGIONAL LEADERS FORBID EXPORT OF GOODS. Many regional leaders are forbidding the export of goods out of their region "in a form of separatism that is much stronger than any political attempts," according to *Izvestiya* on 22 September. Regional leaders, for example want to keep their supplies of sugar, while importing milk and cooking oil from other regions. This system of one-sided autarchy won't work because it destroys the united market and productive industries, the newspaper argues. In many cases, the regional authorities have not issued written decrees blocking the export of goods, but police are taking action at administrative border checkpoints on the basis of oral commands. As a result, it is impossible to measure just how wide-spread this practice is. (See above for a report on these kind of measures from Stavropol Krai.)

Samara is trying to buck these trends by organizing a giant market for goods on its territory and prices are lower there than in general in Russia. However, even the oblast has limited exports of sugar and sunflower oil. It hopes to acquire grain from Stavropol by bartering Zhiguli cars made in the local AvtoVAZ plant (*Nezavisimaya gazeta*, 22 September).

ALUMINUM INDUSTRY CONSOLIDATES. The Krasnoyarsk Aluminum Factory (KrAZ) announced that it was joining with Sverdlovsk Oblast's Bogoslovskii Aluminum Factory to create the Aluminum Company of Russia (ALKOR). The Krasnoyarsk plant is one of Russia's largest producers of aluminum, while Bogoslovskii is one of the largest producers of the raw material needed to make the metal (*Kommersant Daily*, 12 September).

The announcement followed the news that on 11 September, KrAZ elected a representative of the British Trans World Group (TWG) as its director, Aleksei Barantsev. Former KrAZ Director Yurii Ushenin will now head ALKOR. TWG had controlled the plant from 1992-94, until then Director Yurii Kolpakov threw them out. Then, Rossiiskii Kredit Bank gained control of the factory with the support of Anatolii Bykov. TWG reasserted its authority at the factory after this summer's crisis when the plant could not pay its creditors and Rossiiskii Kredit ran into

trouble. TWG initially had been able to gain control of many of Russia's metal factories during the economic chaos of the early 1990s.

Both the KrAZ and TWG are in a much weaker position than they had been at the beginning of the 1990s. The economic situation at the factory is extremely bad, explaining the plant's intense efforts to control the Achinsk Alumina Combine, to which it owes 700 million rubles for raw materials (see *IEWS Russian Regional Report*, 6 August).

TWG has lost control of several of its former factories in Russia and is working in a variety of regions to gain them back. However, it suffered a setback on 18 September when a Khakassiya court refused to examine a case brought by TWG against the Sayansk Aluminum Factory for issuing stock which diluted its ownership share (*Kommersant Daily*, 19 September) (see *IEWS Russian Regional Report*, 27 August).

PETERSBURG WANTS TO CREATE AN ECONOMIC FREE ZONE. St. Petersburg Governor Vladimir Yakovlev has asked Prime Minister Primakov to grant a variety of tax and customs benefits to the city's food importers and producers. Primakov apparently supported the idea since 75 percent of the city's food is imported. The measures would allow importers of food and food processing equipment to put off paying customs duties until the end of the year. Yakovlev also wants to reduce taxes on consumer staples. Last week Yakovlev had suggested a variety of measures for the whole country (see *IEWS Russian Regional Report*, 18 September). Now he is more interested in the narrow interests of his city. (*Kommersant Daily*, 18 September)

EBRD RELEASES FUNDS TO ST. PETERSBURG. The European Bank for Reconstruction and Development has released the first \$30 million tranche of a \$100 million credit line to St. Petersburg and has begun negotiations on the second tranche. The loan provides concrete evidence that the bank still considers St. Petersburg a reliable partner despite Russia's overall economic crisis. Governor Vladimir Yakovlev said that the city has not missed any payments on its debt. He said that sound fiscal management has reduced the share of expenditures on city debt from 30 to 7 percent during the last two years. Yakovlev says that the most profitable route for investment is the food and tobacco industries, electricity, transportation, and telecommunications. (*Nezavisimaya gazeta*, 19 September)

LUZHKOV CALLS FOR LAND SALES. Luzhkov has called for giving firms with majority Russian ownership the right to buy land in the capital. Land is currently leased in 5 to 49 year increments and Luzhkov had opposed land sales in the past. The law would not permit sales to firms with more than 50 percent foreign ownership or private land sales. Analysts see the move as a step in the right direction, although it comes at a bad time and the restrictions on foreigners are unfortunate. The measure seeks to increase funding for the city budget. The mayor will run a pilot program in Zelenograd, but details of the program, including the cost of the land, how much will be sold, and when the privatization will take place, remain unclear. Other regions like

St. Petersburg, Saratov, Samara, Kazan, and Moscow Oblast all have legislation in place to allow lands sales. (*Moscow Times*, 22 September)

BASHKORTOSTAN AUTHORITIES CONSOLIDATE CONTROL OVER REGIONAL ENERGY SECTOR. Bashkortostan President Murtaza Rakhimov has combined five major energy sector companies into the Bashkir Fuel Company under his control, even though the republic only owned controlling stakes in two of the firms. Stockholders in the firms were not warned in advance of the mergers and were not happy about them. The new company now controls the Bashkir Petrochemical Company (in which the republic owned a 98% stake), Bashneft (65%), Bashkirenergo (32.1%), Ural-Siberian Pipeline (24.5%), and Uraltransnefteprodukt (13.8%). The republican leadership wants to gain control over the main revenue producers in the republic. Chubais' United Energy System (UES) owns 21.3 percent of Bashkirenergo and has long been in confrontation with the regional authorities. They do not expect anything favorable from this new arrangement. UES representatives complained that the federal property ministry did nothing to protect federal property from the incursions of regional leaders. Given the weakness of the federal government, the Bashkortostani authorities will likely be able to do whatever they like, *Kommersant Daily* (19 September) commented.

SAMARA BUILDS GOLD RESERVE. Samara Governor Konstantin Titov is building an oblast gold reserve by cooperating with the gold-producing region of Sakha (Yakutiya). Sakha is supplying gold in exchange for food-stuffs. The gold reserve will be used as collateral to win credits increasing the technological level of Samara enterprises (*Finansovye izvestiya*, 22 September). In related news, Titov spoke at the founding congress of the middle class political movement "Developing Entrepreneurship" held in Moscow on 12 September. He said that he had once been a small businessman involved in selling computers (*Ekspert*, 21 September).

BUSINESS BRIEFS

-- The **FORD MOTOR COMPANY** is no longer interested in buying the bankrupt South Korean car maker Kia. As a result, **KALININGRAD'S** Avtotor will not be able to assemble Ford automobiles at its plants which are currently assembling Kias. (*Kommersant Daily*, 17 September)

PATTERNS OF REGIONAL DEVELOPMENT

VORONEZH GOVERNOR IS A LUZHKOV ALLY

by Andrei Muchnik

VORONEZH -- Voronezh Governor Ivan Shabanov is a strong supporter of Moscow Mayor Yurii Luzhkov. Accordingly, he was one of the most die-hard opponents of Chernomyrdin's nomination as a prime minister. When Shabanov called on Yeltsin to resign, he probably saw

Luzhkov as the president's most likely successor (*Novaya Gazeta v Voronezhe*, September 8, 1998).

Despite his close ties to Luzhkov, Shabanov welcomed the nomination of Prime Minister Yevgenii Primakov. Yet, he has reserved judgment on how successful Primakov will be in addressing the crisis. So far, nothing has come of Primakov's promise to impose tight controls on regional governments. Every governor in charge of a struggling oblast would like to receive financial support from Primakov. The Voronezh Oblast Administration is saddled in debt, owing about 400 million rubles in social security payments and wage arrears. Nevertheless, in spite of these problems, Voronezh just celebrated its annual City Day with expensive festivities.

Critics often accuse the oblast administration of cronyism and corruption. For instance, Shabanov's aide in the Federation Council, Moscow native Yevgenii Kulikov, has just been named the general director of one of the largest enterprises in Voronezh, the joint stock company Voronezhskintezkauchuk (Voronezh Synthetic Rubber Plant).

Opposition in Voronezh is no longer associated with the party of power's candidate in the 1996 gubernatorial elections, Aleksandr Tsapin, who is now the mayor of Voronezh. The famous "pharmacies" scandal in which Tsapin took control of the city's partially independent pharmacies proved that he is no different from his former adversary (see *IEWS Russian Regional Report*, 1 September). The Democratic opposition now lies within the local newspapers *Voronezhskiy Kurier* and *Novaya gazeta v Voronezhe*.

KARACHAEVO-CHERKESIYA WINS ELECTORAL LAW. On 22 September the legislative assembly of Karachaevo-Cherkes Republic adopted legislation providing for the direct election of the republican president, *Nezavisimaya gazeta* reported. On 17 September 3,000 demonstrators had gathered in the republic's capital Cherkessk, demanding the immediate resignation of republican President Vladimir Khubiev, the adoption of a law on electing a republican president, and a date for the elections. Khubiev is the only executive of a Russian region not elected to his position. He has been ruling Karachaevo-Cherkessiya since the Brezhnev era, and now remains as a Yeltsin-appointee. In January 1992 Yeltsin appointed Khubiev head of the newly established republic and then reappointed him in April 1995. In spring 1996 the new Constitution of the Karachaevo-Cherkes Republic was adopted, announcing that the head of the republican administration should be elected by popular vote. However, Khubiev has succeeded in postponing any elections, in spite of widespread public resistance. The republican Supreme Court demanded that elections be held by September 1997, an action supported by the national congresses of the republic's five most prominent ethnic groups. Yet, after the Supreme Court made this announcement, the Karachaevo-Cherkessian parliament extended Khubiev's term of office until 2001. On 23 January 6,000 protesters in the capital city Cherkessk demanded Khubiev's resignation. Activists then proceeded to collect more than 60,000 signatures from the republic's 250,000 voting age residents, demanding that elections be held. Elections were then set for April 1999.

On 17 September demonstrators and police officers blocked all entrances to the government building, causing deputies to force their way through the crowd in order to enter the legislative hall for their session. In spite of the intense pressure literally surrounding the legislative meeting, the demanded law on election never even came to a vote. When the demonstrators began to disperse, the legislative assembly suddenly announced that it was breaking for an undetermined amount of time, thus inspiring more than ten people to declare a hunger strike.

On 19 September *Nezavisimaya Gazeta* offered Khubiev's reaction to the demonstration: "They accuse me personally of illegally retaining power. But, did I name myself head of the republic? My term runs out in April of next year. Today demonstrators demand my resignation, saying that I do not have the confidence of the people and am the chief individual responsible for destabilizing the situation in the republic...I am not against lawful elections and will be happy if my place is occupied by a person chosen by the people."

Even though the date remains to be set, the republic is already preparing for elections. About ten people thus far are planning to compete. According to *Russkii Telegraf*, aside from Khubiev, the three strongest contenders are Cherkessk mayor and former vodka giant Stanislav Derev, Communist and former collective farmer Ismail Khachirov, and General-Colonel Vladimir Semenev. - Danielle Lussier

NIZHNI PREPARES FOR NEW MAYORAL ELECTIONS. Nizhnii Novgorod will elect a new mayor on 27 September. The 29 March elections were annulled after businessman and convicted criminal Andrei Klimentev emerged victorious. This scandal prompted the Nizhnii Novgorod Oblast legislature to amend the local electoral law to introduce a two-round voting system. If no candidate receives 50 percent of the vote in the first round, a runoff will be held, making it more difficult for controversial figures to win elections. If a two-round system had been in place in March, Klimentev would probably have lost in the second round, circumventing the subsequent controversy over the results.

Although Klimentev, who is currently serving a six-year prison term, will not be participating in this weekend's elections, the race is proving interesting, although somewhat overshadowed by the country's economic crisis. The top two contenders are former presidential representative to Nizhnii Novgorod Oblast, Yurii Lebedev, and State Duma deputy Vladimir Semago. Both figures have their own claim to controversy: Yeltsin dismissed Lebedev following the March election scandal and Semago recently announced that he was leaving the Communist Party faction of the State Duma.

Semago's announcement has afforded him considerable attention in the days leading up to the election. Several other candidates view his move as a publicity stunt, *Kommersant Daily* reported on 18 September. Lebedev told *Kommersant Daily* that Semago is trying to capitalize on the most active and radical sentiments of the electorate. This strategy is similar to the one pursued by Klimentev, in whose shadow Semago is running. Semago denies that his decision has anything to do with the election. Instead, he said that he left the party's Duma

faction because he does not agree with its support for the new government. Although Semago belonged to the Communist faction while serving previously in the Duma, he is more well known for his success in business, earning renown as the "red banker."

Election controversy continued to build when the city electoral committee on 22 September announced its intentions to investigate complaints of campaign violations by Lebedev and former Nizhnii Novgorod mayor Dmitrii Bednyakov. Lebedev is certain that the investigations will result in nothing more than a warning by the electoral committee, however if the two candidates are banned from the election, Semago will likely win.

NIZHNIY MAYOR GAINS EMERGENCY POWERS TO COMBAT CRISIS. Faced with a deteriorating crisis situation, the acting mayor of Nizhnii Novgorod, Aleksandr Meleshkin, has asked the city Duma to grant him special powers, constitutionally reserved for the legislative branch of local government. Specifically, he wants control over expenditures above and beyond the approved city budget. In turn, the city legislators demanded a comprehensive plan of action from the mayor's office. To date, the city budget is still short 672 million rubles of revenue and has collected only 55 percent of projected revenues in the first 8 months of the fiscal year. Some parts of the city must be subsidized and the city owes 9.5 million rubles in teachers' and doctors' salaries and 60 million rubles in child support payments. Most arrears are being redeemed in food products, not cash.

Among measures adopted by the city administration, the acting mayor cited the following: First, the city temporarily freed retailers from rent payments and licensing fees. Second, at the expense of several other social programs of lesser priority financed by the recent Eurobond issue, the city has created a special food reserve to be distributed to schools and hospitals. The city is also focusing on making sure that Nizhnii Novgorod is properly heated in the winter and that its energy and water supplies are provided for. Besides these measures, however, the mayor's office, unlike the oblast, lacks a clear anti-crisis program. The city government plans to use \$45-50 million originally allocated for renovation and equipment of municipal offices to buy food and medicine, and pay for heat, water and electricity.

The city procurator has warned legislators that by complying with the mayor's wishes to grant him additional powers, they would be exceeding their own authority and violating the Russian Constitution. However, the defiant city Duma decided to expand the mayor's authority to administer the funds necessary for providing for the city's basic needs. - Yurii Rodygin in Nizhnii Novgorod

SPECIAL REPORT: ST. PETERSBURG ELECTIONS

ST. PETERSBURG PARTIES LAUNCH ASSEMBLY ELECTORAL CAMPAIGN

by Daniel Tsygankov, St. Petersburg State University

ST. PETERSBURG--At a special meeting of the city's Legislative Assembly on 26 August, St. Petersburg's parliamentarians approved the original plan to hold the city's next legislative elections in December. For a long time many experts and assembly members speculated that the elections would be postponed until January or even April 1999 (*Vecherniy Peterburg*, 23 July). The reason for possible postponement would have been the discrepancies between the city's election law and federal legislation. A revised draft of the election law would not have passed since both the legal department of the city administration and the governor objected to it. So, the election will be run according to the old law, which is likely to be challenged in court. Additionally, the boundaries of electoral districts set in 1994 do not reflect a fair distribution of voters any longer. The City Electoral Commission has proposed a new apportionment scheme, changing the boundaries of 24 districts (see <http://www.elections.spb.ru>), and the assembly duly approved it, even though some lamented the campaign money they had wasted on image building among voters who are not in their districts anymore.

Electoral commissions in individual districts were formed on 7 September and competing parties and movements immediately began nominating their candidates for the 50 single-member districts. They have until 27 October to register their candidates and the first round of voting will take place on 6 December, to be followed by another round on 20 December. (See the full elections calendar at <http://www.dux.ru/spbved/arts/spbved-1835-art-23.html>.) There is no minimum turnout requirement for the elections to be valid. Experts estimate that a "winning budget" for this election is \$120-200,000 per candidate, while total victory would cost from \$300-500,000. Moscow political consulting firms might be employed, thus raising the costs of campaign. (*Kommersant-Daily*, 4 June; *Vecherniy Peterburg*, 1 August).

Jockeying for electoral positions among parties and blocs began as early as July. The first group to announce its intention to run was the St. Petersburg Industry movement, uniting directors of military-industrial enterprises. The industrialists have been trying to project a positive image with the public and have donated 500,000 rubles worth of equipment to many city schools at the start of the new school year. The movement's ambition is to capture 50 seats in the assembly as well as the speaker's job. (*Sankt-Peterburgskie vedomosti*, 1 September)

In reality, the city's industrialists are divided, as another group of them has appeared, bringing together a diverse group of companies, including the Admiralty Shipyards, Baltika brewery, Parnas-M meat processing plant, Azart confectionery factory and others. The group is part of the nation-wide movement "Buy Russian Goods" created at one time with the patronage of Boris Nemtsov and plans to defend the interests of domestic producers (*Vecherniy Peterburg*, 22 July). The cleavage among industrialists is deepened by the fact that a whole portion of the food processing industry usually supports Yabloko candidates.

At the same time, the democratic camp is equally divided. The local branch of Our Home is Russia (NDR) is in a crisis, having just experienced a sudden outburst of hope followed by equally sudden plunge of disappointment, as its leader Viktor Chernomyrdin failed to win State Duma confirmation as Russia's prime minister. Former NDR Duma faction leader Sergei

Belyaev and his block, the Russian Progressive Union, have also given up any hope of winning assembly seats (for a detailed analysis in Russian, see <http://www.soc.pu.ru/politoboz/analysis.html#8March>). Another democratic movement, the Northern Capital, founded in 1998 by several prominent politicians from St. Petersburg, such as State Duma deputies Galina Starovoitova and Yuliy Rybakov, does not plan to compete either, but will support certain "experienced and honest politicians," most likely from the anti-governor camp. Anti-governor groups in the city have shifted their allegiances from Chubais, who seems to be falling out of favor with the current Moscow regime, to Yurii Boldyrev, one of the former Yabloko leaders, who now has his own movement. Although Boldyrev himself is not running, saving energy for the gubernatorial race in 2000, his supporters will run in at least half of all the districts (*Vechniy Peterburg*, 15 September). Another democratic group, Concord, composed mostly of members of Russia's Democratic Choice as well as several other miscellaneous parties, plans to capture at least 12 seats and might cooperate with Yabloko by stepping down and endorsing its candidates in some districts in exchange for Yabloko returning the favor in others (*Vechniy Peterburg*, 21 July). Finally, the Baltika electoral alliance brings together a motley crew of small, squabbling parties, ranging from the Congress of Russian Communities to the supporters of Boris Fedorov and Irina Khakamada. Baltika has a disparate platform and is already torn by infighting (*Sankt-Peterburgskie vedomosti*, 1 September).

Slowly, but surely, the local branch of Yabloko, known in St. Petersburg as the Regional Party of the Center (RPC), is gaining momentum. The RPC laid the foundation for its political standing in the September 1997 and February 1998 neighborhood election victories. Additionally, it commands supporters in the Legislative Assembly as well as in the governor's administration. To top all this, the RPC has launched an aggressive public relations campaign in the media and at public events, ranging from benefit concerts to receptions. The RPC, seen by many as a pro-governor alliance, has focused its criticism not on the administration, but rather on the assembly for its alleged "irresponsibility." It will put up some 30 candidates for the election, including its leader and current assembly member, Mikhail Amosov (*Smena*, 14 September).

The leftist and nationalist camps do not seem to be well prepared for the race. General Aleksandr Lebed's Honor and Motherland movement and General Andrei Nikolaev's Union of Popular Power and Labor are cases in point. The extremist nationalists are not present in the campaign at all. It is possible that the nationalist-inclined part of the electorate will be tapped by the recently created movement "Native Raions," organized by several heads of raion administrations. It plans to play on the popular fears and distaste for migrants from the Caucasus (*Smena*, 12 September). As usual, the Communists are very well organized and plan to double their current five seats in the assembly, a not altogether impossible goal given the current crisis (*Vechniy Peterburg*, 11 August).

The crisis might raise a whole plethora of issues that have not figured yet in the electoral campaign. Combined with the catastrophic plunge of the ruble, the impending tariff hike for utilities and public transportation has damaged the quality of life in St. Petersburg considerably.

The minimum subsistence consumer goods basket, composed of 25 various products, now costs 424 to 460 rubles, or 1.7-2 times more than it did last year. Specific food products are now 4-5 times more expensive than before the crisis. Additionally, the flight of imports from the city due to a cheaper ruble has completely depleted the St. Petersburg consumer goods market. Even domestic producers depend on imports for raw materials and equipment (*Delovoi Peterburg*, 31 August). This is why St. Petersburg residents have been buying up whatever goods they can lay their hands on *en masse*. Should the crisis persist or even worsen, resulting, for instance, in a collapse of the banking system, a whole army of impoverished depositors could emerge as a new basis for political mobilization.

CENTER-PERIPHERY RELATIONS

GOVERNORS ASSESS NEW GOVERNMENT. The leaders of Vologda, Udmurtiya, Perm, Kurgan, and Mordoviya offered their opinions on the still-incomplete new Russian government to *Nezavisimaya Gazeta* on 22 September. All expressed a generally favorable opinion towards the new cabinet, albeit with some reservations. Vologda Governor Vyacheslav Pozgalev pointed to the cabinet's heterogeneous party make-up as a cause for concern. Although Pozgalev claims that it is good that the cabinet reflects the country's political composition, he says that the question at hand now is how well the different cabinet members will work together and cooperate, and how forcefully they will stick to their parties' ideologies. According to Pozgalev, "by bringing together a coalition cabinet, Yevgenii Maksimovich [Primakov] is taking on an enormous responsibility for the results of its work."

Udmurtiya's executive Aleksandr Volkov, Kurgan Governor Oleg Bogomolov, and Mordovian President Nikolai Merkulshin expressed their strong support for the appointments of Yurii Maslyukov and Viktor Gerashchenko as First Deputy Prime Minister in charge of the economy and head of the Central Bank, respectively. Perm Governor Gennadii Igumnov expressed some apprehension at Maslyukov's and Gerashchenko's chances for success. The executives spoke of the need for emergency measures to be adopted, and all asserted that the new government has the potential to pull Russia out of the crisis, but only if it looks towards cooperation with regional leaders. Bogomolev stated, "I am frequently asked, 'is it possible for the new government to find a way out of the crisis?' I think that it is possible, but only if the new cabinet takes into consideration the opinion of Russia's regions. And the governors, I am sure, are ready to look for a way out of this mess together with the center."

Russia's regional executives are keenly aware of the strategic importance the regions have in determining the economic and political stability of the country. In the past, regional executives looked to the prime minister to support their initiatives on the national level. Now, given Russia's present crisis, regional leaders feel that they have more control over the situation and are trying to assert greater influence. - Danielle Lussier

SARATOV GOVERNOR OFFERED FEDERAL POSITION, RETAINS HIS POST. (18 September) When Saratov Oblast Governor Dmitrii Ayatskov learned that President Boris

Yeltsin wanted to speak with him, he interrupted the important visit to the oblast by LUKoil President Vagit Alekperov and rushed to Moscow on 17 September. Prior to the meeting he refused to talk to the Moscow media, keeping a cloud of mystery around the high level talk. After meeting with Yeltsin, Ayatskov appeared beaming with pleasure and told journalists that the president wanted to talk about the state of affairs in Saratov and endorsed several major projects in the oblast. Only after the disappointed journalists published reports that nothing important happened at the meeting did Ayatskov drop a bombshell by announcing that the president had asked him to join the presidium of Primakov's government. Ayatskov said he would consider this proposal.

Accepting Yeltsin's offer would be a wise move for Ayatskov. First, he would enter the federal government while retaining his post as the governor, insuring the independence of his political standing from Yeltsin's mood swings. Second, he would not bear responsibility for the failures of federal policy. Finally, Ayatskov could use the new position to build a network of support in the Moscow political establishment, while retaining his firm grounding in the regions. Many of Ayatskov's political rivals have already engaged in a smear campaign, as exemplified by several hostile articles in the press. Some see tycoon Boris Berezovskii behind these provocations, since the powerful oligarch has decided to bank on Krasnoyarsk Krai Governor Aleksandr Lebed as Russia's future leader. Lebed will have a difficult time retaining his charismatic image as he tries to solve the complex economic problems of Krasnoyarsk Krai. His preferred method, therefore, will be smearing all of his political opponents. However, Yeltsin's offer undoubtedly elevates Ayatskov above the petty political bickering of his foes. It seems that Ayatskov is making his first calculated step into Kremlin politics. - Lev Voritsin in Saratov

KOMI GOVERNMENT CAUTIOUS OF NEW RUSSIAN CABINET

by Yurii Shabaev, Komi Research Center

SYKTYVKAR--The financial and political crisis has been the main topic of discussion among journalists and government officials in the Komi Republic. At first the debate focused mostly on personalities, but after Viktor Chernomyrdin failed to win Duma confirmation, the discussion turned instead to the effects of the crisis on the republican economic system and on the ways out of the situation. Komi's Chief Executive Yurii Spiridonov described Chernomyrdin's failure to win confirmation as prime minister as a catastrophe. He had supported both the acting prime minister and his economic program, and now accuses the Federation Council of political extremism and its members of parochial, self-serving behavior. (*Molodezh severa*, 10 September) [Although a majority of the Federation Council gave their support for Chernomyrdin's confirmation by the Duma, many members were strongly opposed to his return.]

Indeed, the upper chamber of the federal parliament could have put pressure on the State Duma to approve Chernomyrdin, thus taking the crisis under control and increasing its own general political influence. This action would have also shifted the government's policy toward

developing a true market economy in the regions and encouraging international financial aid to support concrete projects. The IMF already has been accused of focusing too much on backing the ruble and controlling inflation in Russia. Spiridonov is very upset because the governors, in his opinion, have lost a unique opportunity. The republican authorities are not too impressed with the makeup of the new cabinet. (*Molodezh severa*, 17 September)

Meanwhile, the crisis in the republic has subsided as banks began paying their depositors, the republic resumed paying salary arrears, and consumer goods prices have stabilized. Some timber enterprises and farms have actually benefited from the plummeting ruble, as it made their exports cheaper for foreign consumers. On the other hand, parts of the republic dependant on government subsidies have been badly hurt. The republican government has designed a comprehensive anti-crisis strategy, according to an interview with Spiridonov's deputy, Anatolii Karakchiev. Speaking of the necessity to preserve retail distribution channels that now supply the republic with consumer goods, he suggested that some price controls might be in order. Retailers will have to prove, for example, that their prices are reasonable. In many cases Komi will have to revert to barter in order to buy foodstuffs, since the ruble does not work as a medium of commercial exchange anymore.

While the regional banks are doing well, Karakchiev said, the local branches of Moscow banks are a cause for concern. He also stated that the administration will ask the legislature to approve an amendment to the republican budget that would set up a republican food products fund. Additionally, next year's budget will be very austere. Additionally, the republic will have a more difficult time now repaying its foreign debt. Fortunately, the loans were distributed among potentially profitable local enterprises. In the end of his interview, Karakchiev said that the new government team in Moscow might prove capable, but only if the ministers act professionally and in the interests of Russia, not their narrow partisan interests. (*Molodezh severa*, 17 September).

ECONOMIC ISSUES

NIZHNII BANKS SURVIVING CRISIS SUCCESSFULLY. (21 September) According to the head of the Nizhnii Novgorod branch of the Central Bank, the region's banking system has survived the first stage of the crisis with relatively little damage. Most importantly, the region was able to avoid a flight of capital to Moscow or abroad. However, over 500 million rubles worth of deposits have been claimed from Nizhnii banks, which have also lost 700 million rubles they had invested in the federal treasury bills (GKOs). The cumulative loss was 10 percent of reserves for all regional banks. Today there is 500 million dollars in the banking system, of which 85 million comes from individual depositors. The main goal for the Nizhnii banking system is to resume export financing and restore a viable payments system and popular faith in the ruble. The regional branch of the Central Bank plans to petition the Moscow headquarters to compensate the regional banks for their losses on the GKO market. - Yurii Rodygin in Nizhnii Novgorod

REGIONAL PROFILE: VOLOGDA OBLAST

Governor: Vyacheslav Pozgalev

Vyacheslav Pozgalev was elected governor on 6 October 1996 with the overwhelming support of his region; his two rivals received less than 8 percent of the total vote. Yeltsin had appointed Pozgalev to the post six months before the elections, following a corruption scandal involving his predecessor.

Pozgalev's popularity goes back several decades to the time when he was the general director of Cherepovets Metallurgical Works and then the Mayor of Cherepovets – the region's largest industrial center. In December 1993, Pozgalev, then a member of Yegor Gaidar's Russia's Choice movement, was elected to the Federation Council, the upper house of the new Russian parliament, winning more votes than then Governor Nikolai Podgornov.

In addressing Russia's current financial crisis, Pozgalev declared that it would be a disaster to change Russia's overall economic course now. However, he supported the controlled printing of money by the Central Bank saying that the new funds should be given directly to the regions.

Other Local Leaders

Chairman of the Legislative Assembly – Gennadii Khripel, reelected in May 1998 for a third term. He is close to the Agrarian Party of Russia but also describes himself as a social-democrat.

Presidential Representative – Aleksei Titov, appointed in February 1998.

Brief Overview

Vologda Oblast is situated in the northern part of European Russia and borders Leningrad, Novgorod, Tver, Kostroma, Yaroslavl, Kirov, and Arkhangelsk oblasts and the Republic of Kareliya. Its administrative center, Vologda, is 500 km (300 miles) northeast of Moscow on the Vologda River, a tributary of the Sukhona River. Vologda is an important rail junction with lines to Moscow, St. Petersburg, Arkhangelsk and Kirov, as well as the Ural and Siberia.

The oblast is extremely rich in forestry resources, so the timber industry naturally dominates the regional economy. The oblast also houses significant peat, limestone, salt, and gravel fields. Other main industries include metallurgy and chemicals in Cherepovets, which is one of the most important industrial centers in the country, and machine building and engineering in Vologda.

Vologda Oblast is one of the largest exporters in the Northern Economic region. Its main exports are ferrous metals (75.3%), products of the chemical and petrochemical industry (19.1%), and timber (3.1%). The oblast trades and has established joint ventures with

companies from over 80 foreign countries, including Finland, Sweden, Switzerland, Germany, and the US.

Basic Facts

Population (as of Jan. 1, 1997): 1,344,200 (0.91% of Russian total)

Urban population (1996): 67.5% (Russia overall: 73.0%)

Student population (1996): 147 per 10,000 (Russia overall: 190/10,000)

Pensioner population (1996): 27.24% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 8.2% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 33.1% (Russian average: 29.9%); Agriculture: 12.5% (12.8%); Trade: 9.4% (9.1%); Culture: 11.0% (13.6%); Management: 2.2% (2.3%)

Average monthly personal income in 1996: 681,000 rubles (Russian average: 764,000 rubles)

Average monthly personal expenses in 1996: 535,000 rubles (Russian average: 753,000 rubles)

Average monthly subsistence requirement in 1996: 365,100 rubles (Russian average: 369,400 rubles)

Consumer price index (as of Dec. 1996): 99.43 (Russia overall = 100)

Industrial production as percentage of all Russian production (1996): 1.57%

Proportion of loss-making enterprises (1996): 57% (Russia overall: 56%)

Number of enterprises which have wage arrears (1996): 1,015 (6.02% of total number of regional enterprises)

Agricultural production as percentage of all Russian production (1996): 0.98%

Number of private farms (as of Jan. 1, 1997): 1,610 (0.58% of Russian total)

Capital investment (1996): 2,787,700 rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): federal budget: 6.0% (Russian average: 9.2%); regional budget: 5.3% (9.6%); enterprises: 69.6% (66.3%)

Number of joint ventures (as of Jan. 1, 1997): 54 (0.34% of Russian total)

Fixed capital investments in joint ventures and foreign companies (1995): 103.691 million rubles

Number of small businesses (as of Jan. 1, 1997): 3,587 (0.43% of Russian total)

Number of enterprises privatized in 1996: 88 (1.76% of Russian total), including those which used to be municipal property: 85.2% (Russian average: 67.1%); regional property: 5.7% (14.3%); federal property: 9.1% (18.6%)

Number of telephones per 100 families (1996): in cities: 39.7 (Russian average: 48.7); in villages: 20.8 (19.7)

According to a 1997 survey by *Ekspert* magazine, the oblast is ranked 48th among Russia's 89 regions in terms of investment potential and 47th in terms of investment risks. A 1998 survey by Bank Austria ranked the oblast 20th in terms of investment climate.

Electoral History

1996 Gubernatorial Election

Pozgalev: 80.7%

Surov (Popular Movement of Vologda): 4.2%

Beznin (KPRF): 3.2%

Turnout: 44.7%

1996 Presidential Election

Yeltsin: 45.17%/63.97% (first round/second round)

Zyuganov: 18.66%/28.49%

Lebed: 17.63%

Zhirinovskiy: 7.12%

Yavlinskii: 5.92%

Turnout: 69.03%/67.41% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Liberal Democratic Party of Russia: 14.36%

Communist Party of the Russian Federation: 12.09%

Our Home Is Russia: 10.69%

Women of Russia: 6.69%

Agrarian Party of Russia: 6.17%

Yabloko: 5.53%

Russia's Democratic Choice: 4.99%

Communists -- Workers' Russia: 4.71%

Congress of Russian Communities: 4.36%

In single-member districts: 1 Communist Party of the Russian Federation, 1 independent

Turnout: 64.16% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 67.94% "No" -- 29.34%

1993 Parliamentary Election

Liberal Democratic Party of Russia: 29.66%

Russia's Choice: 16.51%

Agrarian Party of Russia: 15.21%

Women of Russia: 9.59%

Yabloko: 5.84%

Communist Party of the Russian Federation: 5.19%

Party of Russian Unity and Concord: 5.18%

Democratic Party of Russia: 4.36%

From electoral associations: 1 Liberal Democratic Party of Russia

In single-member districts: 1 Agrarian Party of Russia, 1 independent

Turnout: 59.98% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 53.78%

Ryzhkov: 20.7%

Zhirinovskiy: 7.8%

Tuleev: 6.01%

Bakatin: 4.00%

Makashov: 2.91%

Turnout: 77.38% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; T. Matiyasevich, N. Mogel, S.A. Nagaev, M. Rossmann, L.I. Smirnych, and A. Woergoetter, *Russia: Regional Risk Rating*, Vienna: Bank Austria, 1998; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regioni Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.

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EXECUTIVE SUMMARY: MAJOR TRENDS THIS WEEK

GOVERNORS, OPPOSITION ASSERT THEMSELVES AS MOSCOW REMAINS IN DISARRAY

With Yeltsin unable to fill out his cabinet, regional leaders continued organizing to assert greater control over policy formation. The governors of Samara, St. Petersburg, and Nizhnii Novgorod met in Samara to coordinate their efforts and demand that the federal government give the regions great control over tax income. First Deputy Prime Minister Vadim Gustov supported these goals in remarks he made to the regional leaders.

Prime Minister Yevgenii Primakov reiterated calls for giving him the power to remove governors who violate the law, but this proposal is likely to face staunch opposition in the Federation Council since it would mark a strong recentralization of power.

How large the 7 October nation-wide protests will be remains a major question. In the past such demonstrations have not amounted to much. However, given the severity of the crisis, many more people may now come onto the streets. Anecdotal evidence from several regions suggests growing support. There is also evidence that the fascist Russian National Unity is growing increasingly strong in southern Russia.

The crisis is having a severe effect on regional economies. Chelyabinskenergo has had to cut electricity to local enterprises because Kazakhstan cut off its coal supplies. Tax arrears in Irkutsk Oblast are rapidly growing. Despite the need for emergency measures, Tatarstan's leadership is on vacation, provoking anger among some ordinary citizens.

In major elections this week, voters in Nizhnii Novgorod eliminated the main challenger to the local establishment. Two seasoned politicians will compete in a runoff in two weeks. The Vladivostok mayoral elections collapsed when more than 50 percent of the voters rejected all

candidates after the electoral commission removed incumbent Mayor Viktor Cherepkov from the ballot. If free elections are held, Cherepkov's ultimate victory is assured. However, for now the city will remain mired in political instability as Cherepkov continues feuding with Governor Yevgenii Nazdratenko.

Some firms have found opportunity in crisis. ICN Pharmaceuticals is trying to keep its Chelyabinsk plant open by bringing in raw materials from Germany. Company managers believe that they will be able to expand their market share by locally producing medicines to replace imports which are now too expensive for most consumers.

COUNTDOWN TO 7 OCTOBER

PREPARATIONS INTENSIFY. President Boris Yeltsin's opposition is planning to hold a national day of protest on 7 October, demanding his resignation. In the past, such protests have not amounted to much, but this time the economic and political problems in the country are so severe, the number of active protesters may be larger.

The main backers of the protest are Mikhail Shmakov's Federation of Independent Trade Unions and the Communist Party of the Russian Federation. In the past these groups have not been able to work well together. The Communists are well represented in the State Duma while the trade unions have little influence in either branch of the federal government. While the Communists seek the removal of Yeltsin, the trade unions have also called for disbanding the Duma since new elections might give them a greater voice. Despite these differences, at a 26 September meeting, Communist leader Gennadii Zyuganov agreed that Shmakov would lead the protest, according to *Nezavisimaya gazeta*, 29 September.

One of the key questions is what actions the police will take. Chairman of the Federation of Trade Unions for the Department of Internal Affairs Mikhail Pashkin said that the organization would support the protests but not participate in them. However, police in Norilsk have already said that they would participate, *Ekspert* reported 28 September. The protests are not expected to get out of hand, however, because Shmakov is personally working with the police to maintain order. Below we publish several reports on preparations for the protests in the regions. - Robert Orttung

RUSSIAN MINERS DEMAND PRESIDENT'S RESIGNATION. When considered against the backdrop of the generally underdeveloped Russian labor movement, the miners seem superbly organized and influential. Their protests act as detonators of wider social upheavals which periodically shake the country. Although their influence has been weakened somewhat in the last several years, neither federal nor regional authorities can ignore them. No wonder that Komi's Chief Executive Yurii Spiridonov has agreed to act as a mediator between the miners and federal authorities. The miners have long been picketing in front of the Russian government building in Moscow. (*Molodezh severa*, 24 September) Similarly, in anticipation of the 7 October nationwide protest actions, Spiridonov met with the miners' leaders in his house on 23 September and asked them to be wise enough to steer away from extreme measures, and not risk losing control over their own men. (TV, *Panorama respubliki*, 23 September)

Komi's official newspaper, *Respublika*, is carefully monitoring the miners and recently (23 September) published their union's open letter to President Boris Yeltsin. The letter lays out the miners' political position. With State Duma elections now set for next year, most left-wing and some mainstream parties and movements will likely shape their platforms with this position in mind. The letter, basically, states the following:

Russian miners were among the first to support economic reforms and stood by the president and his government in the reform effort. However, today the miners are paying for their own naivete. Who now lives well in Russia? Is it miners, teachers, doctors and pensioners? Nobody can accuse miners of lacking in good will. At numerous meetings in Moscow and in the regions miners have been persuaded repeatedly not to strike, keeping in mind the broader interests of the country. At the same time, the authorities and the president refused to listen to the miners' own requests. It seems that the president is the main cause of instability, either unable or not competent enough to help the economy. The president's "talent" for creating explosive situations has put Russia on a course toward the total destruction of its economy and statehood. The Russian coal mining industry is virtually destroyed, many people have been thrown out on the streets and if the state continues withdrawing financing from mining companies, Russia's economic security will be violated and it will lose its political sovereignty.

A social explosion in the miners' communities is imminent, because their conditions have only been worsening in the last several years. Miners do not want such an explosion. While in favor of restructuring the coal mining industry, miners oppose rash and ill-conceived actions which only increase the suffering of common workers. Miners demand balanced reforms, order in the economy and the right for the working people to work. The country badly needs a comprehensive program of economic reform that would give a strong impulse to the fundamental industries. However, the president and his government have failed to deliver on their promises and have lost the trust of the miners. Therefore, the congress of the Russian Miners' Union has asked Boris Yeltsin to resign his presidency. - Yuri Shabaev in Syktyvkar

ROSTOV UNIONS TO JOIN IN PROTEST ACTION. Rostov's remaining workers' collectives have been holding trade union conferences debating whether or not to participate in the nationwide protest action scheduled for 7 October. Some 5,000 employees of Atomash unanimously decided that at 11:00 AM on 7 October they will demonstrate on the plant's main square and later march toward one of the specified meeting places. The company's manager, appointed by Moscow, never showed up at the meeting to answer the workers' grievances. - Milana Slinko in Volgograd

PERM COMMUNISTS PLAN DEMONSTRATIONS, MEETINGS. The Coordinating Council of the Perm regional branch of the leftist People's Patriotic Union of Russia recommended that all its member groups participate in the 7 October nationwide strike, calling for a change in the course of reforms and for the president's resignation. Additionally, the union is seeking protective measures for domestic producers and wants to put the mass media under popular control. Numerous agitators, mostly from the Communist Party of the Russian Federation (KPRF) and labor union ranks, will visit plants and organizations in order to "educate" the workers on the political and economic situation in the country. The Russian

Communist Workers' Party, one of the several hard-line "Communist" parties outside of Gennadii Zyuganov's mainstream KPRF, plans to stage pickets near the entrances of several Perm enterprises. On 3 October the group will hold employees' meetings followed by processions to the local Lenin monument. (*Zvezda*, 25 September) - Andrei Suslov in Perm

RUSSIA'S POLITICAL AND ECONOMIC CRISIS

CRISIS LIMITS CHELYABINSK ENERGY OUTPUT. On 21 September the special anti-crisis team of the Chelyabinsk Oblast administration, headed by First Deputy Governor Vladimir Utkin, met to discuss the impact of the crisis on the regional fuel and energy sector. Since 19 September all oblast enterprises have been receiving electric power on an emergency basis only, according to Vyacheslav Voronin, general director of the Chelyabenergo power utility. The main reason for such a drastic policy is the curtailment of coal supplies from Kazakhstan to one of the largest heating power stations. The suppliers refuse to ship any more coal to Chelyabenergo until it pays off its 100 million ruble debt. The lack of supplies means that the oblast may not have enough fuel reserves to last the winter. The power shutdown has forced the closure of several industrial enterprises, regardless of whether they owe money to the power utility or have paid their bills on time.

Because of the crisis situation, Voronin said, Chelyabenergo has volunteered not to raise tariffs until the end of the year. Additionally, the energy commission of the oblast government has ordered enterprises that pay their energy bills through barter to use the price levels of 1 August in their calculations. Right now the main power station of the Chelyabenergo grid is reorienting its operations to supply just one city with power, thus saving its precious coal. Additionally, the station will speed up its effort to burn natural gas instead of coal. However, Chelyabenergo has not paid Gazprom for the gas it had bought earlier, so it can only expect lower levels of natural gas supplies this year. Finally, Chelyabenergo is negotiating purchasing electric power from the Tyumen and Orenburg branches of the Unified Energy System power grid. Yet, Tyumenenergo, for example, is itself under strain and might not be able to help its Chelyabinsk counterpart. - Igor Stepanov in Chelyabinsk

IRKUTSK TAX AUTHORITIES FAIL TO COLLECT FROM DEBTORS. According to Irkutsk Deputy Governor Yuri Berezutskii, the special commission on tax collection has not done its job well. Out of twenty-one enterprises the commission scrutinized, only three had reduced their arrears to the budget. The tax arrears for the rest are rapidly growing. For instance, in the first six months of this year the tax debt of Vostsibugol coal mining company increased by 159%, Sayanskkhimprom petro-chemical plant, 134%, Vostok, 128%, and the Bratsk Aluminum Factory, 188%. The oblast administration needs to work closer with the fiscal control agencies, said Berezutskii, to insure that tax debtors pay, but not in such a way that they lack funds to continue production. - Yekaterina Vorobieva (Teleinform) in Irkutsk

PERM BANKS SEEK SOLUTION TO NON-PAYMENT CRISIS. In an attempt to resolve the mounting problem of clients' non-payment, the Central Bank authorized a program of mutual cancellation of debts in five regions, including the cities of Moscow and St.

Petersburg, and Moscow, Samara and Sverdlovsk oblasts. The banks in Perm Oblast decided not to wait for salvation from Moscow, fearing that by the time the government takes appropriate measures, such as infusing the economy with more money, most banks will have gone under. Therefore, nine local banks formed a cooperative, setting up a mutual payments system. The banks are: Dzerzhinskiy Bank, Bank Prikamye, Pochtobank, Kredit-FD, the local branch of Komipermbank, and the local branches of two Moscow banks, Sovfintrade and SBS-Agro. Additionally, the Perm office of Sberbank signed on to the agreement, except for one point. The agreement regulates the way member banks can interact with each other and with the newly created clearing center when servicing their financial obligations. The Perm Development Banks will act as the clearing house. Thus, the Perm Oblast banking system might have gained a new lease on life. (*Kapital*, 23 September) - Andrei Suslov in Perm

TATARSTAN ELITES OBLIVIOUS TO PEOPLE'S PLIGHT. With the financial crisis looming and wage arrears growing daily, some companies in Tatarstan have begun paying their workers in food products instead of cash. For example, one researcher at a state-run factory, who has a family of four, received for her work 300 grams of candy and half a kilogram of cookies. On the same day the administration was planning to give out 400 grams of cheese per worker. Last week everybody at the plant received half a kilogram of butter and two frozen chickens.

Tatarstan's population, largely abandoned by the government, is coping in a variety of different ways. It seems that the elite only needs its people during election campaigns, but no elections are in sight, so the government apparently decided to let the people suffer alone for now. No wonder that President Mintimer Shaimiev has been on vacation for three weeks in Turkey and his prime minister, along with the president's son, is racing cars in Kursk. - Midkhat Faroukshine in Kazan

BREAKING NEWS

POLITICS

PRIMAKOV REPEATS CALLS FOR POWER TO REMOVE GOVERNORS. In a meeting with regional leaders on 29 September, Prime Minister Yevgenii Primakov reaffirmed his support for a law allowing the removal of governors who break the law. Primakov cited cases where governors refuse to send the federal government taxes they have collected or forbid the export of goods across their borders. The governors are likely to oppose this proposal since all of them occasionally break a law in the normal course of their governance. (*Izvestiya*, 30 September)

GUSTOV LAYS OUT GOVERNMENT RELATIONS WITH THE REGIONS. First Deputy Prime Minister Vadim Gustov, the former governor of Leningrad Oblast, called for a new form of fiscal federalism in which the center would leave more money in the regions. He called for amending the way the budget is defined at a 25 September meeting with the Central Russia interregional association. The governors have long sought greater control over the money

raised in their districts. Gustov said that the federal government has only paid off its debts to Moscow and St. Petersburg, while the rest of the regions have only received 50-60 percent of the money they had been promised during the first six months of 1998. The governors of St. Petersburg, Nizhnii Novgorod, and Samara are already working together to increase the regions' share of the taxes collected (see below). The governors in the presidium of the cabinet are likely to back this initiative, *Kommersant Daily* noted on 26 September. Gustov also said that he would ask the procurator to nullify the orders of some governors banning the export of goods from their territories.

On 29 September, Gustov said that the government was sending an additional 1.17 billion rubles in aid to Russia's depressed regions, particularly the coal mining regions. He also said that he planned to carry through with Primakov's promise to begin paying off pension arrears by 1 October. Payments are generally between one and five months behind schedule. Such payments are partly aimed at dampening popular support for the planned 7 October protests.

Gustov said that he decided to join the government because of his respect for Primakov. The two worked together for two years on CIS issues, Gustov told *Nezavisimaya gazeta* on 25 September.

TOMSK GOVERNOR ON NEW PRESIDIUM. Tomsk Governor and Siberian Accord leader Viktor Kress told *Izvestiya's* 30 September edition that the membership and activities of the new government presidium are still unclear. He said that several authoritative regional executives had been invited to join beyond the eight regional association leaders mentioned in Yeltsin's decree (see *EWI Russian Regional Report*, 23 September). The list includes St. Petersburg Governor Vladimir Yakovlev, Tatarstan President Mintimer Shaimiev, and Saratov Governor Dmitrii Ayatskov, and could bring the total number of regional executives up to 12, which Kress characterized as "a lot." Kress said that he will participate in the government's regular Thursday meetings if that was what was expected. Kress believes that the government decided to include more regional leaders partly to gain their input and partly to spread the blame for policy failures if the federal leadership proves unable to improve the country's dire economic situation.

GOVERNORS BEGIN TO COORDINATE EFFORTS. Samara Governor Konstantin Titov invited St. Petersburg Governor Vladimir Yakovlev and Nizhnii Novgorod Governor Ivan Sklyarov to Samara for a meeting on 23 September to coordinate their activities in the face of Russia's economic crisis. They agreed not to compete with each other, so, for example, Samara will not build buses since Nizhnii is already making them, while Nizhnii will not invest in producing generators since its Gorkii Automobile Plant (GAZ) can purchase them from Samara or St. Petersburg. They also agreed to share their experiences in paying salaries and wages since they determined that waiting for help from Moscow on this score was pointless. Titov, Yakovlev, and Sklyarov respectively lead the Federation Council's committees on the budget, economic policy, and federal relations and represent the interests of many of the donor regions. In addition to leaving more money in the regions, the leaders want the federal government to give them the ability to coordinate the local actions of the police, tax police, and bankruptcy

agencies. All of these agencies are now under federal control. *Kommersant Daily* on 24 September noted that the meeting was a "demonstration of strength" of a potential new organization of the Russian regions that sent a signal to the federal government that it would have to take into account the interests of the donor regions.

LUZHKOV PLANS STORES FOR THE POOR. Moscow Mayor Yuriy Luzhkov is considering opening a chain of stores for the capital's poorest residents where prices for bread and milk would be about 20 percent less than in the rest of the city. The stores would benefit from reduced rents and taxes. It is still not clear when the stores could open. St. Petersburg is planning to open similar stores in October (*Izvestiya*, 25 September). Luzhkov has also embarked on an ambitious project to build 60 skyscraper apartment buildings along Moscow's third ring road by 2013. In the next five years, the city will build eight such buildings. (*Kommersant Daily*, 29 September)

ZHIRINOVSKY, STAROVOITOVA SEEK LENINGRAD GOVERNORSHIP; YAKOVLEV WANTS MERGER. Following former Leningrad Governor Vadim Gustov's move to the federal government, Liberal Democratic Party leader Vladimir Zhirinovskiy announced that he would seek the governorship of Leningrad Oblast. In response, radical democrat Galina Starovoitova announced that she would also participate in the campaign. Acting Governor Nikolai Smirnov, former Governor Aleksandr Belyakov, and several other candidates are planning to jump into the race as well.

However, St. Petersburg Governor Vladimir Yakovlev sees Gustov's departure as an opportunity to extend his rule beyond the city. He has strongly advocated that St. Petersburg and Leningrad Oblast follow through on their plans to merge. Yakovlev, whose own relatively rich city budget is balanced, is not frightened by the fact that the relatively poor Leningrad Oblast's budget has a 50 percent deficit (*Kommersant Daily*, 24 September). According to Gustov who now supports the idea of a merger as well, Yeltsin has given the idea his blessing (*Nezavisimaya gazeta*, 26 September). He also believes that two thirds of St. Petersburg voters will back the idea.

The next step is for both the city and oblast to approve the merger through referenda. In an initial vote, only 19 of 43 deputies in the Leningrad Oblast legislature supported the idea of a holding a referendum. However, Gustov has suggested creating a bicameral legislature for the newly merged region that could give the oblast deputies incentive to give up their current posts for a seat in the new regional parliament. St. Petersburg is planning a vote on the merger when it conducts elections for the city parliament in December (*Moscow Times*, 26 September). The oblast will vote later. However, if the governor's elections are held before the referendum, it may be difficult to push the merger through since the newly elected governor would likely have to concede his power to Yakovlev. Although he supports the idea now, while he was governor, Gustov did not make any progress in pushing the merger.

BUSINESS BRIEFS

-- The Swiss **MABETEX GROUP** opened the five-star **GOLDEN RING SWISS DIAMOND HOTEL** in Moscow on 25 September. The overall project cost \$60 million (*Kommersant Daily*, 26 September). Single rooms in the hotel will go for \$160, lower than the city's other premiere hotels, suggesting that competition for guests is intensifying (*Moscow Times*, 29 September).

DISPATCHES FROM THE FIELD

CHUKOTKAN VILLAGES FACE DESPERATE TIMES

by Patty Gray

SNEZHNOE -- Snezhnoe is a far eastern village located 350 kilometers upriver from Chukotka's capital of Anadyr, with a population of just under 400. The situation in this remote outpost is extremely bleak. When I visited the village in the summer of 1996, people thought things were bad, but no one dreamed it could get this much worse.

Transportation has become almost impossible to find. To return to Anadyr, I traveled on a barge that departed from the sovkhos in the next village over (Ust-Belaya). The vessel was loaded with tractor tires and barrels of red caviar. Dozens of people are stuck in these two villages, trying desperately to get to Anadyr. Helicopter operators have canceled all passenger flights, so people have to beg the village doctor to let them on a hospital flight, or bargain with a barge captain for passage on the river. In the course of our two-day journey, the captain of the barge I rode on ranted and raved about imminent revolution in Russia. Two years ago people were not talking in such terms. I never heard open criticism of Chukotka Governor Aleksandr Nazarov then, but now I hear it all the time.

Most residents of this reindeer-herding village have long since forgotten the feel of real rubles. Employees of the Sovkhoz "Anadyrskii" in Snezhnoe have not received a kopeck of salary for five years. Many have transferred to work in other sectors of the village, where salaries might be delayed for a matter of months, but at least some cash appears from time to time. All villagers depend primarily on the "otovarka," or the right to take staple foods and other goods in place of their salary. Non-sovkhoz employees receive 300 rubles worth of goods per month from the state-run village store; their employer (for example the school, the kindergarten, the electric power station) sends a list of names to the store, which then keeps a running tab of what each employee takes. The remaining salary exists only on paper, until cash is sent from the district center. This usually coincides with elections, such as the recent by-election for the vacant seat in the State Duma (see *EWI Russian Regional Report*, 4 June). According to villagers, Governor Nazarov flew to the village in a helicopter a few days before the election in order to campaign for Vladimir Babichev, the candidate backed by Our Home is Russia, and he brought with him a sack of cash to pay delayed salaries.

The village store in Snezhnoe offers little: fresh fruits and vegetables are almost never seen. The main staple is bread, baked fresh every day in the store's own bakery. Butter, tea, flour, rice, buckwheat, millet, macaroni, egg powder and a few canned goods are the other key staples in the store. A smattering of imported goods sit on the shelves, but these are far beyond

the budget of most villagers -- small jars of American salsa or packs of American hot dogs for 20 rubles each, canned peaches for 21 rubles. Other prices in the store are typical for Chukotka: flour 9.27 rubles per kilogram, bread 9.60 rubles, rice 8.40 rubles per kilogram, butter 45 rubles per kilogram. Sugar costs 13 rubles per kilogram, but in the summer of 1998 it began to be rationed in state stores: one kilogram per person per month. For Northerners, this is a travesty; they warm themselves by drinking multiple cups of tea every day, and 2-3 teaspoons of sugar go into each cup for energy. Sugar is also needed to preserve locally-gathered berries, which supply villagers with vitamins throughout the winter.

Sovkhoz employees ("sovkhozniki") joke sardonically that they have forgotten what the inside of the store looks like. Their salary is virtually non-existent, even on paper; not a single one I talked to knew how much he is supposed to be paid. They receive an allotment of staples directly from the sovkhoz each month: 4 kg. flour, 1 kg. rice, 1 kg. sugar, 2 boxes of tea, and some matches. In addition, twice a week they can visit the sovkhoz ice house (a cave carved into the permafrost) and receive a few kilograms of reindeer meat or fish. Sovkhozniki have long since become accustomed to eating home-baked flat bread ("lepushki") without butter and drinking tea without sugar. They supplement their diets by catching salmon in nets on the Anadyr River; but the salmon run has been uncharacteristically sparse this summer, and by late August almost no fish were falling into villagers' nets.

In September 1998 the director of Sovkhoz "Anadyrskii," Anatolii Tyneru, introduced a new procedure for obtaining staple foods from the sovkhoz warehouse: sovkhozniki are encouraged to gather berries and pine nuts in the surrounding tundra and trade them in for credit, which can then be redeemed at the warehouse. Berries are worth 20 rubles per kilogram, pine nuts 25 rubles per kilogram. With this announcement, sovkhozniki began frantically to gather berries and nuts; but the summer of 1998 has been uncharacteristically cold in Chukotka, and although usually a wide variety of berries is available, this summer only "bryusnika" (a type of cranberry) produced enough fruit to gather in tradable quantities. A full day of gathering typically yields 3-5 kg. of berries per person. Pine nuts are more labor intensive: one day is spent gathering the pine cones, and another day is spent shelling the nuts. Sovkhozniki engaged in this trade have given up any pretense of working according to their job descriptions. It remains unclear whether the sovkhoz director even expects them to "work" in any traditional sense. In September he forbid the usual monthly allotment of staple foods, insisting instead that sovkhozniki gather berries and nuts if they want to receive food.

Although technically all sovkhozy in Chukotka were "privatized" after 1992 (what is known locally as "reorganization"), in practice very little at Sovkhoz "Anadyrskii" changed except for the disappearance of paychecks for sovkhoz employees and the gradual disintegration of the order that once prevailed in the village. In 1998, Chukotka's sovkhozy are again undergoing reorganization. At an okrug-sponsored "Congress of Reindeer Herders" in March, Governor Nazarov proposed a new plan of operation to sovkhoz directors, which he claimed would be a solution to the catastrophic condition of the okrug's sovkhozy. According to this plan, each sovkhoz should transfer 51 percent of its assets to the administration, which would in turn guarantee support for the sovkhoz: salary for its employees, assistance in marketing its products, subsidies for the purchase of equipment and supplies. Each of Chukotka's eight districts would in effect become a "municipal enterprise" of united agricultural

producers, and "privatized" sovkhozy would again become state-owned and state-controlled. Very few sovkhozy in the region have refused this "offer," recognizing that if they insist on remaining independent, they will be completely cut off from any state support. The specifics of the new plan are still being worked out, and by the end of 1998 all of the okrug's sovkhozy are expected to re-register themselves under this new status.

In the meantime, villagers in Snezhnoe brace themselves for winter, and the first snows have already begun to fall. So far only a fraction of the needed coal and heating oil has been delivered to the village; the okrug administration has been unable to come up with the cash necessary to secure delivery of heating fuel from Vladivostok, and Vladivostok refuses to deliver the fuel until payment is assured. To conserve fuel, apartments in the village are being heated only at night, although daytime temperatures already dip into the thirties. All apartments are also equipped with coal-burning stoves, which villagers stoke using scrap wood scavenged from abandoned buildings in the village. They perform this act of self-preservation sheepishly, under cover of darkness -- in the Soviet period, they would have been severely reprimanded for such "hooliganism." But it may be their only means of survival this winter -- the mayor of Snezhnoe, Anatolii Matveev, estimates that the village has enough fuel to last through mid-October at the most. And by then the Anadyr River will have long since frozen over, making any further deliveries of heating fuel impossible until June, when the river thaws.

CONFERENCE REPORT

DESPITE HURRICANE, AAASS SCHOLARS EXAMINE REGIONAL DEVELOPMENTS

by Robert Orttung, EastWest Institute

BOCA RATON -- Even though Hurricane Georges was threatening to wreak havoc in Southern Florida, numerous specialists on the Russian regions gathered in Boca Raton 24-27 September as part of the annual meeting of the American Association for the Advancement of Slavic Studies. About half of the participants stayed away, sensibly fearing Mother Nature's wrath, so many of the panels were canceled. Some who attended wondered if they had made the right decision as they watched the not-so-gently swaying palms from the stately rooms of the hotel. It certainly was an eerie feeling to sit around discussing Russian politics while many of the locals were busy nailing plywood boards to their windows or simply getting out of town. But for those willing to endure a rather blustery day, a very brief power outage, and long lines for a cappuccino, there was plenty to think about.

Two themes ran through several of the panels on Russian regions in the conference. First of all, many speakers stressed that there should be more methodological rigor in the study of the regions. As Debra Javeline (United States Information Agency) pointed out, scholars need to be more systematic in their analyses. Much of the work being done now is case studies of specific regions which provide useful insights, but may not be generalizable to the rest of the country. She also stressed the need to specify terms and measurements better. Observers need

to explain, for example, exactly what they mean when they say that the regions are becoming more "autonomous."

Philip Hanson (University of Birmingham) has wrestled with these issues in a study that combines statistical analysis with data from all regions and in-depth case studies of seven regions. Even though the two approaches have proceeded in parallel, largely independent of each other, Hanson concluded that the case studies can be useful in defining new hypotheses or refining old ones. They also give the researcher a sense of what is really going on especially when the figures provided by Goskomstat are not entirely reliable. For example, the state statistical agency reported that the real level of income in Kaliningrad in the third quarter of 1997 was 1 percent higher than the Russian average. However, a visitor to the region could see that the actual standard of living is in fact much higher, likely linked to the region's large gray economy. A systematic study of all the regions would clearly be a great advance for the field.

Shinichiro Tabata (Slavic Research Center, Hokkaido University) also addressed questions of methodology by writing an analysis which better defines the "transfers" that are made from federal to regional budgets in Russia. He cautioned that when analyzing the size of transfers a region receives, it is important to be clear what is or is not included. He concluded that "the total amount of transfers the regions received (excluding mutual settlements) has remained at almost the same level since 1994 in relation to GDP, in spite of reforms in the transfer system since that time." Although the size of transfers vary from region to region, each region's share has not fluctuated much from year to year.

A second theme addressed by a number of presenters was the state of center-periphery relations in Russia. Several papers stressed that the federal government is now extraordinarily weak vis-a-vis the regions. In a paper prepared for the conference, Kathryn Stoner-Weiss (Princeton University) argued that "even if the center persists in attempting to slow or control provincial autonomy, the evidence indicates that many provincial leaders, in the face of weak and inconsistent central institutions that are incapable of imposing meaningful negative sanctions, will continue to act beyond their *de jure* rights when necessary. This will do little to strengthen the rule of law in the Russian Federation and could have very negative implications indeed for overall Russian state integration as policy between regions will continue to vary radically. "

Darrell Slider's (University of South Florida) conclusions concurred with this assessment. As causes for the center's weakness, he pointed to unclear and overlapping responsibilities of the local organs of federal power, the federal government's lack of money, and, perhaps most importantly, "the alternating whirlwind and vacuum at the core of Russian national politics."

Robert Orttung (EastWest Institute) argued that the economic and political crisis that began on 17 August intensified many of the existing trends toward the devolution of power. In the face of Moscow's weakness, governors have been strengthening their power at home by declaring emergency situations, intensifying control of the local media, increasing their ownership of regional property, introducing regional import and export controls, freezing prices, withholding federal taxes, and building regional gold reserves, among other measures.

In contrast Jennifer Daniell (Stanford University) stressed that separatist trends are often overstated since the federal government maintains control over a considerable share of the country's financial flows. Her case study of Udmurtiya illustrates the persistence of strong fiscal

ties to Moscow and that Udmurtiya remains highly dependent on revenue from Moscow (both transfers and shared taxes). A secondary point she stressed was that regions with a high concentration of defense plants must turn to Moscow for support. Since the republic remains highly dependent on transfers from Moscow and its centrally-controlled defense industry, the federal government retains considerable influence.

Svetlana Tsalik (Stanford University) applied game-theoretic analysis to show how a weak state could build a reputation as a strong state. If the state takes strong actions against initial challengers, it can ward off future attempts on its power. To maintain this reputation for toughness, there must be asymmetrical information flows so that other regions don't learn that the center is weak. Since most regions do not have detailed information on the relationship between the center and other regions, the center can buy off a strong challenger and still maintain a reputation for toughness as long as it keeps the payoff secret.

Elizabeth Teague (Jamestown Foundation) noted that even the powerful donor regions, who send more money to the federal government than they receive, have a strong interest in holding the country together because they are dependent on other regions for food supplies. The city of Moscow, for example, has treaties with 65 other regions that supply it with food.

Teague noted that the idea of reducing Russia's current 89 regions to a smaller number of super regions is currently gaining considerable attention. She did not think the idea would come to much since many of the current regional executives, particularly the presidents of ethnic republics, would object. Judith Pallot (Oxford University) made the interesting point that if Russia were to combine its regions, separatism would become more likely. The current 89 regions are relatively small and hardly economically viable as independent countries, as Chechnya is discovering. However, if Russia created units loosely based on the eight existing regional associations, the units would be more viable. However, Teague noted that so far these interregional associations have not been successful in fostering economic links among their members, stimulating political parties, or serving as the core for super regions.

Several other interesting themes were addressed. Kelly McMann (University of Michigan) sought to explain why some regions are more democratic than others, focusing on Samara and Ulyanovsk oblasts in Russia (as well as provinces in Kyrgyzstan). Her preliminary analysis suggests that there is greater political contestation in Samara than Ulyanovsk because there are more private economic opportunities in Samara so state threats of removing someone from his or her job are less effective. When people know that they will be able to find a job in the private sector, they do not fear engaging in political activity.

Presidential advisor Leonid Smirnyagin argued that voters' preference across Russia are becoming more stable and that the amount of change between elections in a particular region has been dropping since the early 1990's. He provided a list of unstable and extremely unstable regions, arguing that they would be the main battlegrounds in the upcoming presidential elections. However, the departure of Yeltsin from the political scene will make it difficult to predict who will win the next presidential election, particularly since Moscow Mayor Yurii Luzhkov and Krasnoyarsk Governor Aleksandr Lebed share similar electorates.

Alfred Evans (California State University, Fresno) examined local government in the Semenov Raion of Nizhnii Novgorod Oblast. He noted that just as there is more strain between the governors and the federal government, there is also increasing tension between the governor

and the local leaders, who are now elected rather than being appointed by the governor. The local administration head spends 20 percent of his time in Nizhnii trying to "beat out (*vybit*)" additional financial support. But because of the "financial famine," the vertical links are growing increasingly weak and horizontal cooperation between the district's executive and legislative leaders has grown stronger, as the leaders of both branches of the local government seemed to show a recognition of the need for cooperation for mutual protection in the face of increasing dissatisfaction from the local population, and a lack of adequate assistance from the regional authorities. As a result, during 1996 and 1997, the head of the district's administration was less dominant in local policy making than his predecessor had been, and the local legislative body had assumed a larger share of decision making than it had a few years earlier. Further research in other districts and regions will be necessary to show whether those shifts have occurred in other locales. Evans suggested that as the governors have less money to hand out, their power base within their home regions will be substantially weakened.

Kimitaka Matsuzato (Slavic Research Center, Hokkaido University) provided a detailed analysis of many local governments. Among his many interesting conclusions was the point that party systems at the local level serve a different function from their regional and federal counterparts. While the Communist Party of the Russian Federation performs well in national and regional elections in Tambov Oblast, mainly locally elected officials support the present course of reforms. Samara's electorate, he argues, strongly supports reformers in federal elections, but backs the regional-local establishment.

In a panel on American press coverage of Russia, Laura Belin (Oxford University) offered insights as to why the regions are often neglected in the US media. Even when the Moscow correspondents of major American newspapers want to cover stories beyond the ring road, they are often thwarted. One journalist who wanted to cover the recent presidential elections in Bashkortostan could not convince his editors to pay for a trip there. Moreover the editors told him to keep the number of strange-sounding foreign names to a minimum. Since the paper had recently published a story about Turkmenistan, the editors warned that they were in danger of publishing too many reports about authoritarian leaders in the former Soviet Union. Finally, the story had to be cut down to make room for urgent news from other countries, so the journalist had to edit out much of the balance and detail he had originally hoped to include.

PATTERNS OF REGIONAL DEVELOPMENT

VORONEZH DEPUTY GOVERNOR ARRESTED. Voronezh Oblast Procurator Aleksandr Frolov ordered the arrest of Deputy Governor Vadim Sukhoverkhov on 25 September. Sukhoverkhov had been in charge of the Voronezh Oblast Fund for Development and Investment (VOFRI) and his own company, VORONEZH-ALKO. Observers note that this arrest marks the downfall of a very powerful group that included Sukhoverkhov, Deputy Governor Viktor Sitnikov, and Deputy Chairman of the Oblast Duma Sergey Rudakov. The authorities charged Sukhoverkhov with accepting bribes, improper conduct, and embezzlement.

He accomplished little as a public official since there have been no positive developments in the region's industry or an inflow of investments. VORONEZH-ALKO, the company he created, was supposed to prop up regional alcohol producers. Instead the local

plants are on the verge of collapse, while illegal businesses selling cheap vodka produced in Osetiya are flourishing.

The arrest of Sukhoverkhov is linked to the July arrest of another oblast administration official, Nikolai Shilov. At that time, *Novaya Gazeta's* Voronezh edition noted that Sukhoverkhov and Sitnikov might be next. Additional arrests are likely. Governor Ivan Shabanov limited his comments about the detention of his close aide to noting that "Preventive measures would have been better than arrests." (*Voronezhskii Kurier*, September 26 and *Novaya Gazeta v Voronezhe*, September 29) -- Andrei Muchnik in Voronezh

SECOND ROUND FOR NIZHNIY MAYORAL ELECTIONS. Former presidential representative to Nizhnii Novgorod Oblast Yurii Lebedev and former Nizhnii Novgorod Mayor Dmitrii Bednyakov will face each other in a runoff set for 11 October, following the first round of Nizhnii Novgorod's mayoral elections on 27 September. Communist Duma Deputy Vladimir Semago, running as a surrogate candidate for Andrei Klimentev, who had won the cancelled elections in the spring, failed to make the cutoff. Lebedev pulled in 33.82 percent of the vote, followed by Bednyakov at 25.10 percent and Semago with 21.51 percent. Of the remaining candidates, V. Bulanov and V. Sedov received 4.32 and 1.44 percent respectively, while an additional five contenders took less than 1 percent each. An unusually high number of voters, 10.12 percent, marked their ballots against all candidates. Voter turnout was 37.21 percent, considerably less than in the spring elections.

In the first round, Yabloko supported Semago, but the Communists advocated voting against all candidates. Klimentev openly declared that Semago was his successor and Klimentev's wife Oksana served as Semago's campaign manager. Yet, Klimentev's electorate was unwilling to follow his recommendation. Many presumably did not make it to the polls, and those who did often voted against all candidates this time around. Even though residents of Nizhnii Novgorod look favorably on Semago, the fact that he is a Muscovite definitely hurt him. The days when Moscow politicians can easily win votes in the provinces are past. It was no accident that former Prime Minister Viktor Chernomyrdin chose not to risk defeat in the Yamal Nenets Autonomous Okrug State Duma by-elections and withdrew his candidacy. Part of Klimentev's electorate backed Lebedev since he has been more critical of the local authorities than the other candidates. Nevertheless, Bednyakov is favored to win in the second round. -- Yurii Rodygin in Nizhnii Novgorod

VLADIVOSTOK VOTERS CHOOSE NONE OF THE ABOVE. Fifty-four percent of the votes cast in the Vladivostok mayoral election on 27 September opposed all of the candidates. The protest vote followed the decision of the electoral commission to ban incumbent Mayor Viktor Cherepkov from participating in the elections. Vladivostok's Lenin district court ruled on 24 September in a lawsuit brought by two other mayoral contenders, Yurii Kopylov and Grigorii Nikandrov, that Cherepkov had abused his position as mayor by using public finances for his campaign, and thus should not be allowed to compete in the election. On 25 September the city electoral committee appealed this decision to the krai court, but the court delayed investigation into the appeal until October 1. On the same day the krai electoral committee affirmed the Lenin district court's decision and asserted that Cherepkov's name should be

removed from the ballot. Another contender, Vladimir Murashov, was also removed from the ballot for making anti-Semitic comments during free radio campaign time.

Cherepkov's supporters view the electoral committee's decision to remove the mayor from the race as just the latest move against him by his long-time foe, Primorskii Krai Governor Yevgenii Nazdratenko. After the decision was announced on 25 September, the mayor's supporters immediately called for residents to make the election a protest vote. On Saturday, the pro-Cherepkov newspaper *Primorye* printed sample ballots showing people how to vote against all the candidates if Cherepkov's name did not appear on the ballot. However, some polling stations were not informed that Cherepkov's name should be removed, and thus Cherepkov received hundreds of votes that went untallied. Furthermore, according to the *Moscow Times*, more than 41 percent of those who claimed ballots at polling stations on Sunday refused to turn them back in since Cherepkov's name was missing. Thus, as *Kommersant Daily* reported, "Cherepkov did not run, but he won." Cherepkov formally remains mayor until new elections are held. New elections need to occur within 90 days and may be held on 18 October, simultaneously with elections for the city legislature. Sunday's fiasco has caused Cherepkov's popularity to soar, increasing his chances of victory in the new elections.

Moscow Times reported that Yeltsin's representative to Primorskii Krai and a Cherepkov ally, Viktor Kondratov, wrote a letter asking federal authorities, including the Kremlin, the Procurator General, and the Central Electoral Committee, to investigate the situation. If the elections are not deemed illegal and run-off elections are held, the two candidates will be Vladimir Shakhov and Valentin Legnenko, who each received less than 15 percent of the vote. -- Danielle Lussier

CENTER-PERIPHERY RELATIONS

THE CRISIS AND RUSSIA'S REGIONS: INTERVIEW WITH ALEKSANDR TYAGUNOV, deputy chairman of the State Duma Economics Committee and a member of the Our Home is Russia Political Council

conducted by Boris Goubman, Tver State University

Goubman: How are center-periphery relations developing during the economic crisis?

Tyagunov: I am in complete agreement with the announcement made by our new Prime Minister Yevgenii Primakov at the time of his confirmation before the Duma: there is no place in Russia for separatism. I believe that separatist tendencies have been generated by allowing the regions to take as much sovereignty as they wish. That was when all this began. Chechnya is the most tragic example. Unfortunately, the economic-financial crisis has aggravated several centrifugal tendencies, such as, for example, the behavior of the leadership in Kaliningrad Oblast and a group of other regions. Of course, the center should govern, and this alone does not signify the rebirth of a totalitarian approach. In fact, the federal government bears responsibility for the situation in the country and answers for all that happens in it. The center should not try to

micromanage affairs in the regions. The federal government should adopt a national program for helping the energy sector or the military industrial complex, but the regions should also propose their own initiatives.

Goubman: What is necessary to strengthen the ties between the center and the regions in the economic and political spheres?

Tyagunov: From the economic perspective, it is necessary to establish a federal program for developing the regions. In the Duma we call this a "budget of development." Of course, the regions must take the initiative to develop interesting and detailed proposals which can be adopted by the legislators and government. Naturally, as soon as these initiatives are allotted money from the federal budget, the government has a say in the planning, dissemination, and sale of the resulting product on the domestic and foreign market. Also, there is an overall need for us to use more products that are produced in the country. Otherwise, we will develop a considerable dependence on foreign imports. It is intolerable that for some food groups, 80 percent of what is sold on our market are imports. We need our own resources for basic goods, first and foremost to establish a minimum goods basket for the population. Not long ago I saw an imported bottle of vegetable oil selling for 160 rubles in a store. We need to fight to maintain control of our markets

Once while on a parliamentary delegation visit to Germany I discovered to my amazement that cooking oil imported to Russia was more expensive there. To keep our market we need to introduce price discounts. Of course, the local poultry factory should be able to produce chicken more cheaply than if it must come from abroad.

Regarding political measures, it is necessary to strengthen the role and the resource base of the center. Only when the regions feel the necessity of its existence will the importance of the federal government be recognized. The center should have resources at its disposal for emergency situations. Couldn't we then resolve the present difficult situation similar to the way we handled the Armenian earthquake in the former USSR? Right now there are fires in Sakhalin. The center is joining efforts to combat this problem, but clearly lacks sufficient resources. Villages are burning, people are perishing. Any reasonable regional leader should understand that he needs the center to guarantee successful policies on his territory.

However, there is another side to the coin -- the regions' confidence in the center has been largely undermined. Since the early 1990s, our cabinet of ministers created a climate that did not give the center any additional power. Regional leaders have learned by the example of the GKO's that money can simply vanish across the country's borders. The center needs to reestablish its authority through concrete deeds. This is probably why the center is searching for closer ties with regional leaders by bringing governors into the presidium.

Goubman: What is NDR's strategy with the regions regarding the crisis?

Tyagunov: We have a persistent crisis in the country which is guiding NDR's work with the regions. We need to bring about concrete solutions in each region in Russia and propose a specific program of actions. Unfortunately, so far this has been poorly realized because of the

poor organization of the movement and the lack of the necessary financial resources. NDR was formed before the 1995 elections with the goal of creating a parliamentary faction, and of course, after this was achieved we tried to secure a permanent financial base, but this did not happen. As a member of the Political Council of NDR, I have repeatedly stressed the need to introduce a more strict form of membership and required dues for participating in the movement. We were negatively affected by the criticism that surrounded the appointment of Viktor Chernomyrdin and his cabinet. But the movement quickly and steadily united with followers of the political center and we are gaining the support of the middle-class intelligentsia.

KOMI PARLIAMENT LOSES SOME CIVIL SERVANT MEMBERS. Several members resigned during the most recent session of the Komi Republic's parliament on 22-23 September carrying out the spring ruling by the Constitutional Court that officials employed in "state service" cannot serve in regional legislative bodies. Out of fifty members of parliament, eight were affected by the ruling, of which five decided to leave the legislature and two chose to quit government service. One case is still pending, since the person in question works for the government of Leningrad Oblast and thus technically lives outside the republic. The deputies who decided to leave the parliament are all high ranking government members, mostly deputy ministers or heads of agencies. In contrast, those who kept their seats in the legislature, but gave up their civil service jobs, are middle or low-level bureaucrats. They will most likely begin working in the parliament's committees soon. (TV, *Panorama respubliki*, 23 August).

In principle, about ten more parliamentarians should have followed suit, since they all head raion administrations. However, a republican law does not describe their work in the raions as "state service" and therefore they do not have to abide by the high court's ruling. The seats vacated as a result of the five resignations will not be filled immediately since the next parliamentary elections are due in February 1999.

The parliament also considered several other agenda items, the most interesting of which was the registration of municipal charters in accordance with the republican law on local government. All cities but one have already submitted their charters for registration. The city of Vorkuta is still in violation of the new law, which stipulates that a mayor is to be nominated by the republic's chief executive and subsequently approved by the city council. The Vorkuta residents are instead demanding direct election of their mayor. - Yurii Shabaev in Syktyvkar

ETHNIC CONFLICT AND REGIONAL SEPARATISM

FASCISM SLOWLY SPREADING IN SOUTHERN RUSSIA. The long sought-after "Russian idea" has found a new home in Volgodonsk, Rostov Oblast. Here, one of the leaders of the Don Cossacks, Ataman Anatolii Lavrukhin, has agreed to head the regional branch of Aleksandr Barkashov's fascist Russian National Unity (RNE) movement. Numbering about sixty members, the branch is actively seeking new recruits and is especially popular with teenagers. Former members of Vladimir Zhirinovskiy's Liberal Democratic Party of Russia need not apply since they are banned from joining the ranks of the RNE.

The RNE's propaganda machine is working full-speed in Volgodonsk. One can see the movement's flyers on every street corner and information leaflets are being distributed

everywhere. Among their main goals, Barkashov's fascists plan to propagate the "Russian national idea" among the masses, stop the "genocide" of the Russian people in Russia, and put the "insolent" minorities in their place. Members of the Volgodonsk RNE have also added a slogan of "protecting garden cooperatives" from vandalism and theft, an acute problem in Volgodonsk of late.

Obviously, being a city in a "red belt" region, Volgodonsk can prove fertile ground for nationalist rhetoric. Speaking at the Freedom Forum conference last May, Vladimir Gusinskii, who heads Media-MOST holding company and the NTV television network, said that the next presidential elections in 2000 will be a battle with Russian fascism. Viktor Chernomyrdin also mentioned the fascist threat in his speech during his latest nomination hearings before the State Duma. These warnings sound particularly alarming when taken in conjunction with the joint 1996 report by the Anti-Fascist Center and Panorama, a political research group. The report names the RNE as the largest and best organized of about 30 extremist groups. The movement's rhetoric, mixed with fascist ideology, attracts up to 6,000 members and about 50,000 supporters, according to the report. Its influence in the government is most noticeable in the ranks of police forces and the Ministry of the Interior. The RNE's local branches have spread throughout all of Rostov Oblast, in the cities of Belaya Kalitva, Salsk, Shakhty, and Dubovsk. On 5 September, the fascists held their conference in Stavropol (see *EWI Russian Regional Report*, 10 September). (Based on materials from *Vecherniy Volgodonsk* and *Transitions*, July 1998.) - Milana Slinko in Volgodonsk

DAGESTAN UPDATE: KHACHILAEV WINNING POLITICAL BATTLE. The situation surrounding the arrest of Magomed Khachilaev (see *EWI Russian Regional Report*, 10 September) remains tense. On 18 September the State Duma voted to strip his brother Nadir Khachilaev, currently in hiding, of his parliamentary immunity. On the following day Nadir spoke to the press, saying that he would gladly face the court, but only if the "real guilty parties" of the 20-21 May riots in Makhachkala stand trial as well. Among the perpetrators he cites are Dagestan's Deputy Prime Minister Khizri Shikhsaidov. He also accused the entire leadership of Dagestan of using federal bayonets to prop up their fragile regime and do away with political opposition.

Meanwhile, the head of the special investigative team and Deputy Interior Minister Vladimir Kolesnikov told the press about the evidence uncovered by his investigators. The discoveries include, for example, evidence of massive embezzlement from the republican Pension Fund, even though its head, Sharapudin Musaev, and his armed bodyguards managed to resist arrest and escaped into the safety of his clan's highland village. On 22 September a 500-member crowd of Khachilaev supporters marched toward Makhachkala, where they spent five days protesting the government's actions and meeting with parliament members and investigators. Nadir Khachilaev spoke to the press on 24 September and proposed a meeting with Kolesnikov, but only on his home turf in the village of Novolak, which is controlled by his clan. In the same interview he called the Dagestani authorities a "puppet regime, which has lost not only the trust of, but also any authority over, the highlanders."

What is happening in Dagestan today is not an effort to fight crime, but a political struggle. In this context, public opinion becomes important, which is why the astute politician

Nadir Khachilaev has been giving numerous interviews to various publications, even while in hiding. His supporters lobby newspapers to print endorsements of Khachilaev from religious and other authorities. In many ways, the public is perceiving events from the point of view of Nadir Khachilaev, as the government's press-service seems powerless to do anything. As a result, Khachilaev's supporters have managed to turn a criminal investigation into a case of the political persecution of the legitimate opposition. - Nabi Abdullaev in Makhachkala

ECONOMIC ISSUES

CHELYABINSK ICN PHARMACEUTICALS TO EXPAND IN IMPORTS-FREE MARKET. Formerly known as the Chelyabinsk Chemical Pharmaceutical Plant, the open joint stock company Polifarm was privatized in 1994. In 1996 California-based ICN Pharmaceuticals, Inc. bought a controlling stake (98 percent) in the company, whose charter capital totals 100,658,000 rubles. As of 1 September, the company's debts total about \$15 million.

According to Andrei Zhvakin, the general director of ICN-Polifarm, the U.S. parent company has promised to deliver raw materials for Polifarm from Germany to insure uninterrupted production through October. This action will increase the company's supplies from \$804,000 to \$1.4 million worth of raw materials. Right now the company uses \$1,100,000 worth of raw materials every month, barely half of its optimal productive level. During most of 1998, Polifarm had to endure raw materials shortages and any new shipments of supplies would be immediately used in production. This limited the variety of products the company could offer.

When the president of ICN Pharmaceuticals, Adam Jerni, visited Chelyabinsk on 18 September, he promised to address the shortage issue. Boosting Polifarm's production is especially important now, in his opinion, given the disappearance of imported competitors' products from the market and the subsequent vacuum that could allow the company to expand its market share up to 30 percent. Achieving this goal will mean producing an even more diversified output. Polifarm plans to bring its list of products to sixty by 2000. The main strategy is producing medications that will have prices lower than comparable imports. Polifarm also plans to build its own network of pharmacies in the city of Chelyabinsk, to cut out the middlemen, who now impose huge markups on the company's products. The company already has an embryonic distribution network in the region.

The total sales of Polifarm in 1999 should amount to \$55 million, with the company's own products amounting to \$35 million and the rest imported by ICN Pharmaceuticals. This year, the company will sell \$25 million worth of its own output, or 14 percent more than in 1997. In the first eight months of this year the company's output was 145 percent of the same period last year. Production even exceeded planned levels by 1.5 percent. Clearly, ICN Pharmaceuticals sees Polifarm as a promising business, and in turn the company appreciates the importance of a strategic foreign investor, that virtually saved the company from the kind of deterioration that has plagued other Russian pharmaceutical plants. Obviously, the interests of foreign investors, the plant, and federal and regional authorities coincide in this case. Domestic production, even with close to 100 percent foreign investment, is better than importing all the

necessary products, because it creates jobs for the local population and affordable products for the consumers, as well as providing a secure tax base for the government. - Igor Stepanov in Chelyabinsk

FURTHER PROBLEMS WITH NIZHNI EUROBOND FUNDS. Blaming the country-wide financial crisis, Vladimir Bessarab, the general director of the Nizhnii Novgorod Fair said on 4 September that his company cannot repay the loan it had received from the city. The money was originally borrowed to build a business center and a hotel for a planned forum on Russia in the new century, but the funds promised for the project by the federal, oblast and city authorities never materialized. So, instead, the company borrowed, not from the bank, but from the money obtained by the city through the oblast's issue of Eurobonds. The city was actually losing money on this scheme, as the Fair promised to pay 10 percent annual interest, while the money could have earned a higher yield sitting in the bank. The funds were originally part of an oblast subsidy to the city toward several social programs.

Upon obtaining the money, the Fair began paying its contractors, but the sudden crisis ruined all the plans and almost wiped out the company altogether. Revenues from the forum were meager and even though it turned out to be a money losing operation, the organizers decided to hold it anyway to preserve the city's image as the capital of the greater Volga region. The fair was an expensive and demanding exercise in public relations for the oblast. Keeping this in mind, the city legislators decided to help the fair pay back its debt. They allowed the company to pay back in ruble-denominated installments according to the exchange rate on the payment day. The entire loan must be repaid by 4 June 1999, or one year after it was received. On the same day the oblast recalled the remaining Eurobond money from the city's bank accounts. - Yurii Rodygin in Nizhnii Novgorod

URALS METALLURGY STRUGGLING TO SURVIVE. With all other industries in the region struggling, the state of the metallurgical industry in the Urals is especially alarming. In the first eight months of 1998 the volume of production has been 80 percent of the same period last year. According to the experts from the Ministry of Industry, the shortsighted policy of the Sverdlovsk Rail Road is to blame. The railroad requires prepayment and calculates its tariff rates based on the market exchange rate between the ruble and the U.S. dollar. One of the metallurgical executives has noted that none of the enterprises in the industry can survive in these conditions, first, because of the exchange rate volatility, and, second, because the U.S. plans to limit the amount of metallurgical imports from other countries. Another cause of the industry's troubles is the complex social situation with salary payments. Many enterprises and ore mines have not paid their workers for up to 15 months.

At the recent meeting of the oblast anti-crisis committee, chaired by the head of oblast government, Aleksei Vorobiev, the regional officials discussed the state of the metallurgical industry. However, the shortage of tools available to policy makers in the oblast results in more debate of the crisis, and little action toward resolving it. Among the few actions that have been taken, the committee installed its own external supervisors on the largest enterprises to insure continuous production (see *IEWS Russian Regional Report*, 23 September). Additionally, the commission has discussed several ideas of how to pay workers in the industry their back wages.

One proposal, which met little support, suggested indexing salary arrears. Another unrealistic proposal was to freeze the enterprises' tax debts to the government in exchange for a promise to pay workers' back wages and all future taxes in full. Some in the oblast believe that the recent appointment of Governor Eduard Rossel to the presidium of the Russian government will position Sverdlovsk Oblast favorably and thus serve as an impetus to revitalizing the region's industry. However, no temporary solution like this can be used in place of a new comprehensive economic strategy. - Dmitry Strovsky in Yekaterinburg

FOREIGN TIES

GERMAN INVESTOR FOUND GUILTY OF TAX FRAUD. The German company Avangard-Knauf sued the Federal Tax Police Service in a Moscow arbitration court, contesting a previous ruling by a court in Nizhnii Novgorod as well as actions taken by the tax police. The Nizhnii court and the local branch of the tax police accuse the firm of misusing 25 million rubles (DM 8.5 million) worth of investment funds and want Avangard-Knauf to pay a 52 million ruble fine. After largely technical debate between the two opposing sides, the court ruled against the plaintiff.

The manager of the Dzerzhinsk plant, Boris Pukhov, who was present in the courtroom, said he was shocked by the decision. Even though the tax police was guided by a strong desire to enforce the letter of the law, the unintended consequences will be most damaging to the plant. During the proceedings, the tax police claimed that the plant was used to hide certain company profits from the government, even though neither the money's origin, nor even its amount was ever shown. It is hard to believe that an international company would use a Russian plant to launder several million marks. Why would a respectable, family-owned corporation, which runs 110 enterprises around the world, risk its reputation in Russia? The company is now considering its next steps. - Yurii Rodygin in Nizhnii Novgorod

REGIONAL PROFILE: TYUMEN OBLAST

Governor: Leonid Roketskii

Leonid Roketskii was elected governor on 12 January 1997, when he defeated his rival, businessman Sergei Atroshenko, by over 20 percent of the vote in a runoff. Both rounds of the election were marked by a very low turnout of the electorate due to the refusal of the Yamal-Nenets and Khanty-Mansi autonomous okrug leaderships to participate in the vote. Both okrugs claimed that they were independent federation subjects, and not subordinate to Tyumen Oblast. Even President Boris Yeltsin's intervention ordering the okrugs to take part failed to produce a higher turnout.

Roketskii, 56, has been among the oblast's top leaders since the end of the Soviet era. He was elected oblast executive committee chairman in April 1990. In October 1991 he was appointed deputy governor and became the oblast's top official again in February 1993, when Yeltsin appointed him to succeed Yurii Shafranik, who had been promoted as the country's fuel and energy minister.

In the summer of 1993, Roketskii strongly opposed the president's constitutional draft. He did not like the provisions that gave equal rights to Russia's 10 autonomous okrugs, including Khanty-Mansi and Yamal-Nenets, which were constituent parts of Tyumen Oblast. As governor, Roketskii has been unable to establish a good relationship with the leadership of these two okrugs. In fact, the frosty relations jeopardize the otherwise calm and stable political climate in the region.

In May 1995, Roketskii joined then Prime Minister Viktor Chernomyrdin's Our Home Is Russia movement, becoming a member of its Political Council two years later. He also is among the leadership of Vladimir Shumeiko's Reforms–New Course movement.

Roketskii has been a member of the Federation Council, the country's parliament's upper house, since December 1993, and now serves as deputy chairman of the budget committee. Since April last year, he is also a member of the presidential commission on center-periphery relations.

Other Local Leaders

Chairman of the Oblast Duma – Sergei Korepanov, elected in December 1997, member of the Communist Party of the Russian Federation (KPRF)

Presidential Representative – Gennadii Shcherbakov, appointed in March 1993, member of the Our Home Is Russia movement (NDR)

Brief Overview

Stretching from the Ural Mountains in the west toward the lower reaches of the Yenisei River in the east and from the Kara Sea in the north to the Kazakh border in the south, Tyumen Oblast covers most of the West Siberian Plain (which is drained by the Ob and Irtysh rivers). In addition to Kazakhstan, it borders Komi Republic, Krasnoyarsk Krai, and Sverdlovsk, Kurgan, Omsk, Tomsk, and Arkhangelsk oblasts. The sparsely populated northern parts of the oblast are occupied by the Khanty-Mansi and Yamal-Nenets autonomous okrugs. The oblast administrative center, the city of Tyumen, is situated on the Trans-Siberian Railroad.

The oblast is extremely rich in raw materials. Tyumen Oblast (including Khanty-Mansi and Yamal-Nenets autonomous okrugs) is Russia's main oil and gas supplier (66 percent of total oil and 91 percent of gas extraction comes from the region). Most of the oil and gas, however, as well as other raw materials, such as charcoal, peat, gold, and others, are located mostly on the territory of the okrugs, while the southern part of the oblast houses processing industries and agriculture. Woods cover more than a third of the oblast's territory, making the region the third largest producer of timber resources.

Ninety percent of regional GDP comes from the energy and fuel industry. Most of Russia's national oil and gas companies, such as Lukoil, Yukos, Sidanko, and Gazprom, operate in the region. The rest of oblast's GDP comes from timber processing, machine building, petrochemical industries and agriculture, and such traditional indigenous industries as fishing, hunting, and gathering.

The oblast maintains relations with over 50 countries. Most of the joint ventures established in the region either extract or process raw materials, particularly gas and oil.

Basic Facts

Population (as of 1 Jan. 1997): 3,180,500 (2.16% of Russian total)

Urban population (1989 census): 76.1% (Russia overall: 73.0%)

Student population (1996): 141 per 10,000 (Russia overall: 190/10,000)

Pensioner population (1996): 15.82% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 10.2% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 17.9% (Russian average: 29.9%); Agriculture: 8.1% (12.8%); Trade: 10.4% (9.1%); Culture: 10.3% (13.6%); Management: 1.7% (2.3%)

Average monthly personal income in 1996: 1,744,000 rubles (Russian average: 764,000 rubles)

Average monthly personal expenses in 1996: 1,053,000 rubles (Russian average: 753,000 rubles)

Average monthly subsistence requirement in 1996: 530,400 rubles (Russian average: 369,400 rubles)

Consumer price index (as of Dec. 1996): 96.96 (Russia overall = 100)

Industrial production as percentage of all Russian production (1996): 7.35%

Proportion of unprofitable enterprises (1996): 51% (Russia overall: 56%)

Number of enterprises with wage arrears (1996): 1,841 (3.15% of total number of regional enterprises)

Agricultural production as percentage of all Russian production (1996): 1.65%

Number of private farms (as of 1 Jan. 1997): 3,981 (1.43% of Russian total)

Capital investment (1996): 47,207,800,000 rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): Federal budget: 2.5% (Russian average: 9.2%); regional budget: 10.9% (9.6%); enterprises: 73.8% (66.3%)

Number of joint ventures (as of 1 Jan. 1997): 163 (1.01% of Russian total)

Fixed capital investment in joint ventures and foreign companies (1995): 481,023 million rubles

Number of small businesses (as of 1 Jan. 1997): 32,930 (3.91% of Russian total)

Number of enterprises privatized in 1996: 118 (2.36% of Russian total), including former municipal property: 66.9% (Russian average: 67.1%); regional property: 6.8% (14.3%); federal property: 26.3% (18.6%)

Number of telephones per 100 families (1996): in cities: 39.4 (Russian average: 48.7); in villages: 22.6 (19.7)

According to a 1997 survey by *Ekspert* magazine, the oblast is ranked 15th among Russia's 89 regions in terms of investment potential and 79th in terms of investment risks. A 1998 survey by Bank Austria ranked the oblast 4th in terms of investment climate.

Electoral History

1996/1997 Gubernatorial Election

Roketskii (NDR): 42.01%/58.83% (first round/second round)

Atroshenko: 23.87%/32.94%

Raikov: 8.45%

Cherepanov (Russian Communist Workers' Party): 8.44%

Chertishchev (KPRF): 7.62%

Bagin: 1.34%

Pantelev (Monarchist Party of Russia): 0.44%

Turnout: 25.29% (second round)

1996 Presidential Election

Yeltsin: 39.07%/55.82% (first round/second round)

Zyuganov: 27.31%/38.16%

Lebed: 13.28%

Zhirinovskiy: 9.38%

Yavlinskii: 5.70%

Turnout: 67.15%/67.19% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Elections

Communist Party of the Russian Federation: 15.42%

Communists -- Workers' Russia: 12.13%

Liberal Democratic Party of Russia: 11.15%

Our Home Is Russia: 9.48%

Party of Workers' Self-Government: 5.89%

Women of Russia: 5.51%

Yabloko: 4.42%

Power To The People: 3.07%

In single-member districts: 2 independent

Turnout: 61.25% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" – 65.59% "No" – 31.20%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 21.03%

Women of Russia: 14.77%

Russia's Choice: 13.44%

Communist Party of the Russian Federation: 11.03%

Agrarian Party of Russia: 10.57%

Party of Russian Unity and Concord: 6.72%

Yabloko: 5.90%

Democratic Party of Russia: 6.34%

From electoral associations: 1 Liberal Democratic Party of Russia, 1 Democratic Party of Russia

In single-member districts: 2 independent

Turnout: 48.22% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 56.28%

Ryzhkov: 18.26%

Zhirinovskiy: 9.06%

Bakatin: 5.31%

Makashov: 4.77%

Tuleev: 3.01%

Turnout: 72.20% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; T. Matiyasevich, N. Mogel, S.A. Nagaev, M. Rossmann, L.I. Smirnych, and A. Woergoetter, *Russia: Regional Risk Rating*, Vienna: Bank Austria, 1998; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regiony Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.

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The EastWest Institute (EWI) works to defuse tensions and conflicts which threaten geopolitical stability while promoting democracy, free enterprise and prosperity in Central and Eastern Europe, Russia and other states of Eurasia. The EWI is an international not-for-profit institution established in 1981. It works through centers in New York, Moscow, Prague, Kyiv, Budapest, Brussels and Kosice. The EWI, formerly known as the Institute for EastWest Studies, is a global network of relationships with leaders in the business, governmental, non-governmental and intellectual communities based on shared values and dedicated to providing assistance to regional leadership to address critical issues at both the local and global levels.

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BREAKING NEWS

POLITICS

LUZHKOVA SEEKS ALLIANCE WITH YAVLINSKII. Moscow Mayor Yurii Luzhkov warmly praised Yabloko leader Grigori Yavlinskii on 6 October in a clear attempt to build a coalition for the up-coming presidential campaign. Last week in London, Luzhkov said that he would build a social-democratic political organization of the left-center. Luzhkov described Yavlinskii as a "very serious, solid, and extremely orderly politician." Yavlinskii has yet to respond to Luzhkov's initiative, according to *Segodnya* on 7 October. In the same speech, Luzhkov criticized former acting Prime Minister Yegor Gaidar and former privatization chief Anatolii Chubais for making numerous mistakes in carrying out their reforms. In London Luzhkov said that he would run for president if he determined that the other candidates were unable to rule the country. In Moscow he said that he would win the race.

MASKHADOV LOSING INFLUENCE. The warlords who supported Chechen President Aslan Mashkadov during the war against Russia have now formed an armed alliance that is seeking to oust him from power, the *Moscow Times* reported on 3 October. Maskhadov has failed to win international recognition or economic prosperity for the breakaway republic. Among the new coalition are such field commanders as Shamil Basaev, Salman Raduev, Khunkar Israpilov. Chechnya's parliament is now investigating claims that Raduev sold out to Russia and violated the republican constitution. Maskhadov is unlikely to resign, but the field commanders are also unlikely to attack him because, if they did, they would risk reprisals from relatives of their victims.

Mashkadov is trying desperately to consolidate his power. On 1 October he fired his entire cabinet and announced that he was going to replace about 90 percent of the former ministers with "professionals" (*Vremya MN*, 2 October).

Mashkadov's opponents also apparently murdered Akmal Saidov, the deputy to the Russian government's representative in Chechnya. He was kidnapped on 29 September near where Maskhadov's enemies have been gathering, and the act was probably carried out to hurt the Chechen president (*Segodnya*, 5 September). President Yeltsin's representative in the region, Valentin Vlasov, has been in captivity for five months.

Additionally, three Britons and a New Zealander were kidnapped in Grozny over the weekend. They are employees of Granger Telecom who were working to fulfill a \$324.7 million contract providing a radio-based telecommunications system for the Chechen government offering access to 95 percent of the population, the *Moscow Times* reported 6 October.

GOVERNORS PARTICIPATE IN PRESIDUM MEETING. A group of governors participated in the government presidium's meeting as full members on 1 October, *Vremya MN* reported the next day. Leader of the Great Volga association Nikolai Merkushkin claimed that the meeting was very useful. However, Federation Council Chairman and Black Earth

association Chairman Yegor StroeV, chose not to interrupt his vacation to participate. During the discussion, Tyumen Governor Leonid Roketskii and St. Petersburg Governor Vladimir Yakovlev both criticized First Deputy Prime Minister Vadim Gustov's idea of reducing the number of regions from 89 to approximately 10. (See below for a full list of the cabinet and presidium.)

BUSINESS BRIEFS

-- **ST. PETERSBURG'S BALTIKA** brewery's sales fell from 30 million liters a month to 16 million liters in September. The brewery provides 10 percent of the city's budget. Russia's brewers fear that greater state control over alcohol production and distribution could force them to cut production and raise prices. (*Moscow Times*, 3 October)

-- **ICN PHARMACEUTICALS** has cut its Moscow staff by 50 percent and the remaining managers have agreed to a 40 percent pay cut. Until the current crisis hit, 70 percent of Russia's medicines were imported. Now consumers want cheaper domestically-produced products. ICN is one of the few western firms to benefit from this change in buying habits because it owns five facilities in Russia (*Moscow Times*, 3 October). (For more details about ICN's Chelyabinsk operations, see *EWI Russian Regional Report*, 1 October.)

-- The UK's **INCHCAPE** sold its Russian bottling unit to **COCA-COLA** for \$87million, the *Moscow Times* reported on 7 October. The price was \$100 million less than originally agreed upon because of the collapse of the Russian economy. Inchcape said that it wanted to limit its exposure now.

NATIONAL DAY OF PROTEST

7 OCTOBER DEMONSTRATIONS POORLY ATTENDED IN MOSCOW. Only about 25,000 people joined the anti-Yeltsin demonstrations held on Vasilevskii spusk, just behind St. Basil's Cathedral and Red Square, on 7 October. Overall, the authorities claimed that there were 615,000 demonstrators across the country. The protest organizers naturally claimed more, but all political commentators agreed that the turnout was low and that the demonstration will have little effect.

Most protesters in Moscow were senior citizens, some of whom were holding up portraits of Stalin. Peddlers of extreme nationalist and Communist papers (such as *Zavtra*) were more prevalent than buyers, although the crowd readily snapped up anything being distributed for free. Overall, the masses that turned out for the protest lacked the energized vitality and new ideas of the crowds that used to denounce Soviet rule in 1989-1990. Nor were there any charismatic speakers like the younger Boris Yeltsin or then Leningrad University law professor Anatolii Sobchak. The only idea that seemed to draw any response was demands that Yeltsin resign. Communist Party leader Gennadii Zyuganov showed up for the protest, but did not bother to make a speech. The more extreme Communist and nationalist groups were better represented.

Interestingly, many of the people standing on the square seemed to support the election of Moscow Mayor Yurii Luzhkov as the next president. The newspaper of the new Russian Orthodox Party (Russkaya Pravoslavnaya Partiya), *Russkaya pravoslaviaya*, described Luzhkov as a "white hero," in contrast to Yegor Gaidar, who was depicted as a "black hero." Luzhkov

spent the day working in his office in contrast to Krasnoyarsk Governor Aleksandr Lebed, who joined the protests.

The main consequence of the rally in Moscow was to close off many of the streets in the city center, inconveniencing drivers who may have wanted to bring their cars downtown. The new luxury shopping mall under Manezh Square took the day off, securely closing its entrances, but GUM, which was closer to the actual demonstration, was open as usual. - Robert Orttung in Moscow

ST. PETERSBURG: YOUNG PEOPLE JOIN PEACEFUL PROTESTS

by John Varoli, *St. Petersburg Times*

ST. PETERSBURG -- Under banners seeking Yeltsin's resignation, work, salaries, and a strong social security net, about 30,000 unpaid workers, pensioners, and students (according to police estimates) marched onto Palace Square in the center of St. Petersburg on 7 October. Yevgeny Makarov, chairman of the Federation of Labor Unions in St. Petersburg and the Leningrad Oblast, claimed the actual number of protesters was about 80,000.

Police said there were no violent incidents and that the day of protest passed peacefully. Seven columns of demonstrators converged on Palace Square by 3pm where they rallied for 30 minutes and then went home. Signs carried by the protesters denounced Yeltsin as a "Drunk, Chatterbox, and Loafer," while others criticized the financial oligarchs. Despite the discontent with their miserable plight, and with the crisis in the country as a whole, most people in the crowd were good-natured and calm.

One of the most significant developments, and in striking contrast to events in Moscow, was the noticeable drop in the age of the average protester. Whereas in past demonstrations, pensioners and elderly Communists made up the vast majority of protesters, on 7 October, many young people participated, even though they did not profess any leftist tendencies.

"We are here fighting for our rights and for the rights of our parents, because we have to live in this country and we want to live a normal life," said a 16-year-old high school student.

"The current government does not do what the people want."

"This demonstration will probably not change much," said Artyem, a college student marching in St. Petersburg. "But sooner or later we will not put up with the situation in the country, and then anything might happen."

Older protesters put forward the usual demands. "All we want is for the law to be observed and that workers be paid on time for the work that they do," said Valentina Gorastaeva, chairwoman of the labor union at the Almaz shipyards. "Privatization at first brought some improvement for Almaz, but in the end things have worsened, especially because the government owes us 42 million rubles for ship orders over the past two years." Gorastaeva added that the shipyard's 1,000 workers, whose average salary is 1,500 rubles, have not been paid since July. Leading Russian financier, Kakha Bendukidze, owns a controlling stake in Almaz.

As in Moscow, the extreme parties were among the most visible. "The crisis our party predicted is finally upon us and growing worse," Yuri Terentev, chairman of the Russian Communist Worker's Party (RKRK), told the crowd. "We demand that Yeltsin resign and the government change its policies. These demands are now the demands of the whole country," he claimed.

VORONEZH: LARGE CROWDS TAKE TO THE STREETS

by Andrei Muchnik, Voronzh State University

VORONEZH - Governor Ivan Shabanov and the Oblast Duma supported the 7 October demonstrations held on the central Lenin Square. While most speakers stuck to straight-forward demagoguery and denounced everything connected with democracy, some made sensible arguments for restructuring enterprises and investigating violations of the privatization law. Governor Shabanov was the best speaker. He said that he would have been much bolder if he did not know that Moscow was watching every word. Therefore he largely limited himself to reading slogans on the transparencies held aloft by the crowd. Among the slogans he voiced were some harsh ones like "Down with Yeltsin and his gang" or even "We are heading for a social revolution." The Governor talked about re-nationalization and the revision of privatization deals, by which he meant "returning everything to where it belongs" and expropriation.

The only person to voice opposition to the local administration was a lonely man who held up a poster saying, "Down with Primakov, Shabanov and the entire Communist-Yeltsinist mafia." The crowd was silent about the local leaders despite numerous local problems. It is clear that the oblast's 1998 budget cannot be realized. Last week one of the Shabanov's aides was arrested and another is under suspicion of taking bribes. Most people believe that local officials are embezzling huge sums of money while corruption flourishes.

INTERVIEW WITH SARATOV GOVERNOR DMITRII AYATSKOV

NO NEED TO COMBINE REGIONS

Saratov Governor Dmitrii Ayatskov was in Moscow 2-3 October and agreed to answer a few questions on the evening of 2 October.

RRR: What do you think of the idea most recently proposed by Moscow Mayor Yurii Luzhov to reduce the number of regions in Russia from 89 to somewhere between 10-12?

AYATSKOV: The main issue today is not how many regions are there in Russia, but how to manage them and establish a top-down relationship [so that decisions made in Moscow are carried out in the regions]. To make changes in the borders between the regions, it is necessary to change the constitution. This would take a very long time. Therefore, today it does not make any sense to combine the regions (*ukrupnyat*) into larger units.

There are now 89 regions and eight inter-regional associations. This is normal for management. These eight regional associations are now part of the government's presidium. I think today we do not need to change the borders of the regions.

RRR: How well do these regional associations really work?

AYATSKOV: The regional associations have not achieved their full potential. I would like them to move from political battles to resolving economic problems. They should use the resources and potential of the member regions. The Great Volga association of which Saratov Oblast is a member provides 90 percent of Russia's car production, 80 percent of national aircraft

construction, and 35 percent of the country's bread. We need to address these economic issues rather than engaging in the political debates which take up most of our time.

RRR: Prime Minister Yevgenii Primakov has proposed a law that would allow him to remove governors if they violated federal legislation. What do you think of this idea?

AYATSKOV: No law would simply allow the prime minister to remove a governor if he violated a federal or constitutional law. There would have to be a trial. If any governor were found guilty, then he could be removed from office. This is a constitutional norm. The law says that if a governor commits a crime then he can be removed from office. Therefore there is no need for a new law. It is necessary to use the existing legislation.

RRR: Is it possible today to be a governor and not violate federal legislation?

AYATSKOV: Well, let's say that in every single region of the Russian Federation governors violate the constitution. Then it is possible to remove all governors. In practically all regions today, pensions and wages are not being paid. This is a violation of the constitution. The governors are responsible for carrying out the constitution in their regions. We need to learn how to observe the constitution and federal legislation. It is necessary to educate citizens in obeying the law. Today we have legal nihilism in Russia. ...

RRR: What do you think of the governors who are adopting measures that limit the export of goods from their region?

AYATSKOV: We cannot allow this to happen. If we close the borders between regions we will no longer have a market economy. It is permissible to regulate prices or interests in order to attract those who buy or sell goods, but not place limits on them. When the crisis hit Saratov Oblast, as in the rest of Russia, and demand for basic foodstuffs jumped, we did not impose any restrictions on selling any goods. To the contrary, we tried to expand the market. As a result, the crisis had very little effect on Saratov Oblast.

RRR: If Luzhkov runs for president, will the regions vote for him?

AYATSKOV: Let's wait until 2000 and see what happens. I don't think that the name Ayatskov will be on the list of candidates, but I still have time to think about it. Luzhkov still has time to lose the authority that he wields today. -- Interview conducted by Robert Orttung in Moscow

PATTERNS OF REGIONAL DEVELOPMENT

VOLGOGRAD CONSIDERS RETURNING STALIN TO ITS NAME

By Ivan Kurilla, Volgograd State University

VOLGOGRAD - Last week workers finished restoring the large portrait of Joseph Stalin in the Volgograd Planetarium's main hall. The display is made of semi-precious stones from the Ural region and rare kinds of marble. Stalin's face had been covered by seven coats of paint and wood

paneling. The unveiling drew a variety of reactions from Volgograd residents. Some, like Vice Mayor Stanislav Glindzhev, see the portrait as nothing more than a work of art or a historical artifact. Others fear that it symbolizes the return of the Communists.

Some in the city want to go even further. The Communist Party's renewed strength on the federal level following the beginning of the latest crisis sparked the revival of the long-discussed idea of returning the name Stalin to Volgograd. State Duma deputy Vengerovskii (LDPR) has proposed this idea and the Oblast Duma is considering it.

The city was founded in 1589 as Tsaritsyn, a fortress and trading post on the Volga. The name "Tsaritsyn" came from the Tartar language, but sounded in Russian like its root evolved from the title of the tsar's wife - "tsaritsa". Thus the Bolsheviks renamed the city after the revolution. Joseph Stalin was one of the key figures in the Red Army during the Russian Civil War battles that took place nearby, so it seemed natural to name the city after him - Stalingrad.

During the Second World War the city witnessed the greatest battle in history, one that became the greatest victory for the Soviet people. The name Stalingrad became the symbol of victory, and it is still widely used in political discourse in Russia (see *EWI Russian Regional Report*, January 22, 1998).

During the destalinization campaign launched by Nikita Khrushchev, Stalingrad became Volgograd - just a city on the Volga. Naturally, the Communist Khrushchev did not want to return an old "tsarist" name. All the numerous portraits and statues of Stalin were removed from their places. The huge bronze statue of the former leader above the first lock of the Volga-Don ship canal made way for a concrete Lenin that was only half as large.

Some leftist and veteran organizations support the return of the name Stalingrad as the name of the battle, not the leader. However, a large portion of the population reject such an approach, identifying Stalin as a dictator and executioner. More than a half of Volgograd's current population was born after 1961 (the year the city was named Volgograd). The majority of them do not want to change the name at all. Moreover, a poll conducted during the Perestroika era demonstrated that few supported a return to the name Tsaritsyn.

As for Stalin's portrait in the Volgograd planetarium, the guides say that children believe that the picture depicts the Soviet Union's first cosmonaut, Yuri Gagarin.

CENTER-PERIPHERY RELATIONS

LOCAL GOVERNMENT BECOMING STRONGER. The mayors of Russia's largest cities met with Prime Minister Yevgenii Primakov on 2 October. Krasnodar Mayor Valerii Samoilenko, the vice president of the Union of Russian Cities (SPG) and the executive chairman of the Congress of Municipalities, presented some of the mayors' ideas for resolving Russia's current crisis. He argued that "local government was better prepared than anyone else for the crisis" and therefore the local leaders were in a position to offer advice to the prime minister. The newly-named minister for regions, Valerii Kirpichnikov, resigned his leadership of the SPG and Congress. The new president of the SPG is Omsk Mayor Valerii Roshchupkin and the leader of the Congress is now Vitalii Shipov.

Kirpichnikov's appointment as minister and Primakov's meeting with the mayors demonstrates that local government is becoming more powerful, even though it lacks official status as a state institution. Mayors hope to achieve their long-time goal of gaining such status and their own budgets independent of the governors. The federal government hopes to use the mayors to constrain the power of the governors. As the federal government tries to reign in the

power of the governors, local leaders are gaining a louder voice in the political game. - Sergei Kuzmin in New York, using reports from Krasnodar

IRKUTSK POPULATION'S INCOME EXCEEDS OVERALL VOLUME OF GOODS PRODUCTION. So far this year the Irkutsk Oblast population's income, including the payment of social transfers, is 20 billion rubles. However, goods production is only 18.8 billion rubles. Deputy Governor Yurii Berezutskii claims that this difference indicates that the monetary balance in the region is collapsing and the oblast is increasingly reliant on federal subsidies. Berezutskii also noted that the decline in regional production determined the drop in regional salaries. In 1990 overall production was \$16.7 billion and the average salary was \$608; last year production was \$5.3 billion, while the average salary was \$280. - Nataliya Michurina, Teleinform, Irkutsk

SPECIAL RESEARCH REPORT

WHO RULES SMOLENSK OBLAST?

by Jean-Charles Lallemand, National Foundation for Political Science, Paris

SMOLENSK - MOSCOW -- The city of Smolensk (population 350,000) is an average oblast capital in Russia's central region. It is located 80 km from Russia's border with Belarus. Like other Russian provinces, the regional economy is suffering from the overall drop in the country's industrial output. The nearby aviation factories (producing Yak and Antonov planes), regional branches of Moscow's ZIL vehicle factory, refrigerator maker, and flax growing and processing factories are all suffering.

Nevertheless, there are some bright spots and local success stories. Small business is growing in Smolensk's downtown district and the city looks a little better than other neighboring oblast capitals (such as Bryansk, for instance). In Russia's central economic region, Smolensk Oblast ranks third among exporters, following only Moscow City and Oblast. Two large companies account for much of this success: Kristall, Russia's only diamond-cutting factory produces 70 percent of the oblast's export income. The Dorogobui company, which produces fertilizers in the village of Dorogobui, provides another 20 percent of regional exports.

Komsomoltsy Replace Communists

During election campaigns, Smolensk Oblast is usually described as part of the so-called "red belt." Candidates endorsed by Gennadii Zyuganov's Communists and the "national-patriotic forces" win nearly all elections (federal, regional and local, in the executive and legislative branches alike). For example, former USSR Supreme Soviet Chairman Anatolii Lukyanov, one of the coup-makers in August 1991, represents Smolensk in the State Duma. However, the Communists themselves do not occupy crucial decision-making posts in the oblast's executive branch. The informal provincial lobby of directors of industrial giants (most of them inherited from the Soviet era), rather than the local branch of the Communist Party of Russian Federation (KPRF), had more influence over the policies of the first elected governor, Anatolii Glushenkov (1993-1998). Glushenkov was a former member of Communist Party of Soviet Union (CPSU), but, more importantly, he used to be the director of the local refrigerator factory. He joined

former Prime Minister Viktor Chernomyrdin's Our House Russia in 1995 to improve relations with the federal government.

The gubernatorial elections in April-May 1998 and subsequent events confirmed the strength of the economic elite. The former mayor of Smolensk, Alexander Prokhorov, 45, defeated the incumbent Glushenkov in the runoff. Zyuganov endorsed Prokhorov during the campaign even though he is not member of the KPRF. In the race, Prokhorov also defeated the "first opponent" of Governor Glushenkov, Sergei Antufyev, the former chairman of the regional assembly (1994-1997). The mayor's office provided a much more effective platform for winning the gubernatorial elections than the legislature.

Prokhorov was a tough, young mayor who exercised firm control over the city with the help of his Komsomol networks. As mayor, he systematically collected municipal taxes and license fees for registering small business, imposed order on the city's markets, and drove unregistered private shuttle-traders from nearby Belarus out of business. These successes led many people in Smolensk to believe that Prokhorov has some connection to the local criminal commercial world: "if he does not know the mafia, the mafia knows him," they say.

After Prokhorov's victory, Smolensk really had two leaders. Prokhorov's electoral campaign had been financed by Alexander Shkadov, the general director of Kristall, who served in the Oblast Duma and as chairman of the Smolensk City Association of Entrepreneurs. Shkadov was murdered in the beginning of August 1998, during a wave of political assassinations in the city. Most locals believe that Shkadov had too much economic, political and social influence for his own good. Kristall provided numerous social benefits for its employees, including high wages, housing, and healthcare services, among others. The corporation sponsored numerous public social and cultural activities such as the Smolensk soccer-club or public medical institutions. The corporation owned its own bank ("Mezhdunarodnii Aktsionnarnii Bank") and insurance company. Moreover, several control levers gave Shkadov unfettered access to the highest decision-makers in the regional administration and an ability lobby his own interests. For example, Prokhorov's wife works in Kristall as chief of the personnel department. And Shkadov was said to have paid for Prokhorov's prestigious house in Smolensk and luxurious holidays in Greece.

Today, after Shkadov's murder, Prokhorov is alone at the top of the provincial elite. After his victory, Prokhorov purged the administration staff, putting in place twelve deputy-governors. But, contrary to the "classic" American "spoils system", Smolensk's is based only on personal ties and micro-interest groups. It is not structured by the mediation of a political party. There are no communists in the new regional government. Former legislative chairman Antufyev serves as regional prime minister and manages the provincial government. Only the chairman of the Finance Department kept his job from the previous administration, mainly because he has good links in Moscow, which are viewed as crucial for negotiating financial agreements with the federal government.

The defining characteristic of the new ruling team is that it is composed almost exclusively of people who once worked together in the Komsomol. The locals say that the "Komsomoltsy replaced the Communists". A lot of them have experience in business. This new regional elite defines itself as "pragmatic," although its rhetoric mixes words from the business world and the traditional Soviet lexicon. Governor Prokhorov has already said that his political models are Moscow Mayor Yurii Luzhkov and Belarusian President Alexander Lukashenko. He "de facto" controls the main regional papers: the Soviet-style "Rabochii Put" and the more contemporary "Smolenskie Novosti" and "Smolenskie Gubernskie Vedomosti". In the foreign

policy sphere, the Smolensk elite is violently opposed to NATO expansion. These pragmatic "former komsomoltsy" appear more dynamic than the previous team, especially in their ability to conclude barter agreements with neighboring oblasts. Additionally, Governor Prokhorov has opened trade representative offices in Minsk and in Kiev.

How "Smolenshchina" is Ruled

Nevertheless, the provincial elite spends most of its time seeking to collect and retain greater revenue. In Smolensk Oblast, there are no raw materials (such as gas or oil) which the regional elite could exploit. However, provincial rulers see the Moscow-Minsk highway as a source of revenue for the region and its ruling circles because of the important trade with Germany and Poland. In the beginning of 1997, former Governor Glushenkov arbitrarily introduced an illegal tax on all vehicles that were not registered in the oblast (initially the fee was about \$17 for cars and \$25 for trucks, but in the spring of 1998, the rates were doubled). In order to collect this tax, Glushenkov created the Assistance Foundation, which lacked any legal standing. That organization built a series of check points on all the highways crossing the region. Even though newly-elected Governor Prokhorov had criticized Glushenkov for that illegal tax during the electoral campaign, he did not disband the Assistance Foundation once he came to power. Moreover, he started rebuilding the highway with financial help from European institutions. Eventually, he intends to make the highway a toll road, in order to legalize this local source of revenue for the oblast budget. Additionally, he wants Gazprom and Russian oil companies to pay a tax to the oblast budget for sending their products across the region to Europe.

Another source of revenue for the provincial elite is the Bacchus Complex, a conglomeration of spirit, liqueur, and vodka factories. Bacchus is the second largest source of revenue for the oblast budget, following the Smolensk atomic electric station, which is situated in the city of Desnogorsk. Moreover, since Desnogorsk pays its taxes to the oblast budget only in the form of promissory notes (*veskels*) or other non-cash forms of money, while Kristall pays taxes only to federal budget, "Bacchus" supplies 70 percent of the budget's real money income. That is why the management of Bacchus is extremely politicized. Two weeks after his election, Governor Prokhorov put a new director in charge of the complex. During an extraordinary session of the oblast Duma, convened by the governor in July, regional legislators adopted a regional law limiting the import and sale of alcoholic beverages produced outside the oblast. Many other regions have similar laws.

The regional elite's rent-seeking and rent-protecting behavior is reinforced by its small membership. There are particularly close interconnections between the administration and banking spheres. For instance, former Governor Glushenkov was very closely tied to the director of the local commercial SKA-Bank. They both ruled the regional branch of Our Home is Russia. And SKA-Bank was de facto the official commercial bank handling the oblast's funds. Moreover, the director of Smolinter, the regional branch of the Moscow-based Interbank, in which the banking account of the non-legal Assistance Foundation is said to be held, was elected to the Oblast Duma in December. In fact, he was nominated chairman of the committee on finances, charged with monitoring the financial activities of the oblast administration. Last but not least, the new deputy governor for financial issues in Prokhorov's team is the former director of the regional branch of the Moscow-based Rossiiskii Kredit. His wife was and remains director of the regional branch of the Sberbank. For the sake of "pragmatism", public and private matters seem to be closely interconnected.

The regional elite focuses on a series of additional monopolistic institutions (most of them inherited from the Soviet era) which provide further opportunities for interconnection: Smolensksvyazinform (the local telecom), Smolenskenergo (electricity), Smolenskneftprodukt (a branch of the national Rosneft that sells gasoline), Smolmyaso (meat), Smolensk milk-kombinat, and Smolensk bread-kombinat. The provincial government mobilized all those economic structures to address the August-September crisis and they generally support regional economic separatism. As other provincial governments did, the Smolensk regional administration enlarged the list of products with controlled prices, built stockpiles of essential food stuffs and other products, and introduced road checks to prevent the export of such products outside the province.

Another preferred solution for the Smolensk elite's crisis management program is close cooperation with the Belarusian authorities. In September the Smolensk administration made public its plans to establish closer ties to Belarus. Numerous barter deals are in the works. Smolensk authorities intend to concede the flax sector to Belarusian enterprises in order to reduce local unemployment. They want to create a mixed consortium for selling electricity produced at the atomic station in Desnogorsk to European countries. In the cultural sphere, they want to merge Smolensk and Vitebsk (Belarus) (Vitsebsk in Belarusian) university institutions into a "Slavic University".

The regional ruling circles are increasingly consolidated in Smolensk Oblast. But the question remains: Is there any real regional governance in Smolensk, good or bad? The basic features of Russian statehood have certainly not been fixed yet. In any case, with or without Moscow, the provincial elite is now accustomed to ruling its region without regard for legality and feel very little responsibility for meeting the needs of their citizens.

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SOCIAL ISSUES

EVERYONE IS PROTESTING IN TVER, FROM SHUTTLE TRADERS TO STUDENTS

by Boris Goubman, Tver State University

TVER - The financial crisis has naturally inspired protest in all strata of the population, from the most secure business circles to pensioners and students. In the past week the groups to most actively voice their discontent have been shuttle traders who deal with imported goods and students. Governor Vladimir Platov is seeking ties with other regions to address the crisis.

Shuttle traders, who number no less than 16 million throughout the country, brought considerable revenue to Russia before the crisis. The Tver branch of the state aviation transport committee collected \$3.5 million in customs duties for the first half of this year, but has been inactive since August. After Kirienko's cabinet raised the customs duties on imported goods this summer, the financial crisis collapsed the shuttle trade, paralyzing the import of small lots of goods due to the unstable exchange rate. On 3 September the federal government announced a

decree obliging all market and street vendors to use cash registers that issue receipts, presenting a huge problem to many small vendors who simply cannot comply with this order.

Shuttle traders in Tver appealed to Governor Platov in a demonstration on 28 September. In addition to complaining about the cash-register problem, they demanded that the governor help them pay their taxes and defend them from racketeers in the market. The governor has stated that he supports the traders and has sent a message to the tax authorities and the federal government about the impossibility of complying with the 3 September decree. He assigned the head of the Tver Oblast Department of Internal Affairs General Kuznechik to address the problem of racketeering. However, it appears that the government's decree will be executed, regardless of the governor's position. Still, the governor's letter served to postpone the decree's realization until 1 January 1999. It is possible that between now and then a new approach to the problem will present itself since the government is looking for measures to stimulate imports by lowering customs duties.

On 1 October students gathered at the oblast administration building, driven to despair over not having received their stipends. Previously, student leaders had managed to compel the administration to find money for paying September stipends. Organizers had demanded that the government issue stipends based on the minimum sustenance level, which at present is no less than 400 rubles. However, the government's provisions do not take into consideration the lack of a Tver residence permit. Even though residence permits were formally abolished long ago, they are still necessary for participating in political life, receiving medical attention, and holding a job. Students lacking such permits constitute 20 percent of those studying in local institutes and universities.

Additionally, students are strongly opposed to the government's education reforms. The reforms, in their view, reduce the financial resources for education without taking the opinions of students and teachers into consideration, thus forcing educators into poverty. All of this is stated in a message the students sent to President Yeltsin, and in a petition addressed to Governor Platov. The presidential representative in Tver Oblast Tamara Karyakina and Governor Platov addressed the students, announcing that 420 million rubles in stipend arrears for the summer months had been received in the budget and would be paid out.

Throughout these various protests, the oblast administration has been searching for ways to intensify contacts with other Russian regions to aid with the socio-economic development of the oblast. On 24 September Platov signed a cooperation treaty with Moscow Mayor Yuri Luzhkov. He has also been strengthening his ties with Tver's neighbors in the Central Russia regional association. In an association round table a week ago, the governors decided to join their efforts in finding a way out of the present situation.

ECONOMIC ISSUES

TAX CULTURE IN NIZHNI NOVGOROD. The Russian tax system is experiencing an extreme crisis, with tax collection becoming increasingly more difficult. Nizhnii Novgorod Oblast is no exception. A sociological survey analyzing society's tax culture conducted 1-11 September offers some useful insight into this problem.

The overwhelming majority of taxpayers perceive the tax system as a structure that stands above the law, creating its own rules of conduct for others and controlling the execution of these rules. Eighty-three percent of taxpayers feel that the tax collectors can cause problems for any entrepreneur they feel like harassing. The Russian tax mechanism does not carry out the

function of an economic regulator of society's development. According to 76 percent of taxpayers, it does not stimulate the growth of production. Furthermore, 81 percent of the respondents asserted that the complete payment of all taxes by an enterprise would cause the firm to go bankrupt. Tax policies are far from transparent and do not allow the public to monitor how public funds are used.

This popular stereotype has two important consequences. On the one hand, public consciousness is clouded by the myth that Russia has an all-powerful tax service, but, on the other hand, people believe that it is morally and economically acceptable to violate tax legislation on a massive scale. Fifty-five percent of taxpayers feel that the arbitrariness of officials has furthered stimulated the wide-spread acceptance of not paying taxes. There is a strong negative perception of widespread corruption in the tax services. According to 74 percent of those surveyed, a revision of the tax laws will not change this perception, and it is therefore necessary that the tax system be restructured on the basis of a new socio-cultural basis. While the current tax system is frequently criticized, 77 percent of taxpayers believe that paying taxes is a civic duty. Nevertheless, 62 percent of the tax payers agree that it is within one's right to evade payment when one finds a loophole in the law.

Western tax practices cannot serve as an example to Russian taxpayers at present. Forty-two percent of those surveyed say they do not understand western tax practices. It is difficult to say which direction Russia will take regarding taxes--traditional or western. The direction depends heavily on the development of Russian tax culture. Yuri Rodygin in Nizhnii Novgorod

TATARSTAN SELLS TELECOM TO COMPANY EMPLOYING THE PRESIDENT'S SON. The Tatarstani government has unexpectedly sold the Tatinkom Cellular Telephone company for \$40 million to a firm that employs the son of Tatarstani President Mintimer Shaimiev. The republican government founded the company in 1991 and invested \$27 million in it. Cellular phones first became available in 1994 in Kazan and now 15,000 people use them (6,500 have mobile phones while the rest are stationary). Tatinkom's 17 nodes cover all the cities in the republic, comprising about 70 percent of its territory.

Tatinkom is one of the government's most successful projects. Even though it charged the lowest per minute rates in Russia, its profit in 1997 was \$2.7 million. Last spring the Israeli firm Klial Trading offered a similar amount for 51 percent of the firm's stock, but was rebuffed. Now the government has sold 75 percent of Tatinkom's shares to the little-known TAIF-invest and TAIF-telekom. Each of these firms will receive 37.5 percent of Tatinkom's stock. They each must pay Tatarstan's State Property Committee \$20 million.

Each of these small companies officially has only 100,000 rubles of charter capital and it is not clear where they will get the funds to buy the stocks. Both TAIF-invest and TAIF-telekom are subsidiaries of TAIF, one of the most mysterious companies in Tatarstan. Practically all of the company's projects, some of which are connected to the oil exports, are shrouded in secrecy. Since the price of oil is now very low, the purchase of TAIF is clearly an attempt to move into another profitable sphere of business. Maybe the speed, secrecy, and lack of competition with which the deal was carried out is easy to explain. After all, the son of Tatarstan's president, Radik Shaimiev, works at TAIF. - Midkhat Faroukshin in Kazan

IRKUTSK APPROVES PROGRAM SUPPORTING SMALL BUSINESS DEVELOPMENT. The Irkutsk Oblast administration has approved a program to support and develop small businesses in the region. The committee for industrial policies and enterprises and

the small business department in the oblast administration designed the program. The anticipated results of this program are a 10-15 percent growth in the number of small businesses and a 12 percent growth in the number of small business employees in the oblast in 1999-2000. However, achieving these results requires investing the 71.7 million rubles necessary to carry out the program.

Since 1996 Irkutsk has firmly held first place in Eastern Siberia for the number of small businesses. According to official statistics, in 1997 the oblast boasted 12,518 small businesses and more than 75,000 entrepreneurs. Practically all economic growth in the oblast can be attributed to small businesses, however, the majority of growth has been concentrated in the trade and food industries. Deputy Governor Nikolai Melnik believes that the main impediments for small business today are a weak financial base, a lack of qualified personnel, and the tax burden.

The program prioritizes developing an infrastructure supportive to small business, providing greater sources of information and legal advice, helping with the search for employees, and restructuring large businesses into smaller ones. -- Yekaterina Vyrupeva, Teleinform, Irkutsk

AMERICAN INVESTORS REMAIN IN URALS MARKET

By Dmitry Strovsky, Ural State University

YEKATERINBURG - Foreign investors do not look favorably upon the difficult economic situation in Russia. Recently, the Russian press has been full of stories about western companies gradually curtailing their activities in the country's market. It would be incorrect, however, to evaluate the present situation pessimistically. This is the position taken by the investment branch of the Sverdlovsk Oblast Economics Committee. According to its director, Vladimir Lomvtsev, there has been no mention of foreign capital flight from the oblast, and foreign firms and companies have no intention of decreasing their activities.

As of the beginning of July, more than 651 enterprises were receiving foreign investment. The majority of them, 69, have American partners, then Chinese (68 firms), German (58), Great Britain (31), etc. The overall sum of deposits by Russian and foreign partners for this period came to 592.6 million rubles, and of this sum, 235.5 million rubles, or 39.7 percent, came from foreigners.

Russia's current financial fever has not greatly affected the overall composition of business. The main explanation for this is that many firms have already laid out a large amount of capital in the oblast economy, and do not intend to surrender their position. According to information received from the US Consulate General in Yekaterinburg, the American government has recommended that American businessmen continue with their projects in Russia, while "observing caution in all transactions."

Today there are several companies operating in the oblast whose image is linked in the Russian consciousness with the "face" of America. Among these is Pepsi-Cola International, which has more than 20 years of experience working in the Russian market. On 14 August in Yekaterinburg the company opened a \$43 million factory for producing non-alcoholic carbonated beverages. The factory's capacity at present stands at 12,000 two-liter bottles per hour or 22,000 half liter bottles. Although beverage consumption has decreased in the past month, the company will continue to sell its product during the crisis.

Philip Morris is in an analogous situation. Yekaterinburg representative Vadim Murtazin said that in November the company is planning to celebrate the sixth anniversary of doing business in Russia. The Yekaterinburg enterprise has been in operation since 1995 and has not undergone any changes over the past month in promoting its goods and services.

Even though the volume of sales of copying equipment fell 30 percent in September, Xerox has not altered its work regime in Yekaterinburg. According to the Yekaterinburg regional manager, Joseph Zinger, the company has tightened control over its internal expenses, but has not reduced the size of its personnel in the Urals. Xerox also regulates its dollar exchange rate, setting it at 15 percent higher than the rate determined by the Central Bank. Under these financial conditions, work with the most solid clients has not undergone any serious changes in Yekaterinburg, and the situation in Russia is not seen as a tragedy.

It is apparent that Ural-American relations will continue to further develop regardless of the overall economic difficulties in the region. American businesses are aware that the market in Yekaterinburg and Sverdlovsk Oblast is far from saturated. Furthermore, there is no doubt that the number of investors in the Urals will increase in the future. Industries are going down in price, so the situation for potential buyers is likely to become more favorable than before.

REGIONAL PROFILE: KURSK OBLAST

Governor: Aleksandr Rutskoi

Aleksandr Rutskoi -- one of the most notorious politicians in the country -- was elected Kursk governor on 20 October 1996 with over three-quarters of the vote. Because of his popularity, he did not have to fight to win electoral support. However, he did have to fight to be registered for the campaign since the local electoral commission and local court tried to prevent him from running. However, the Russian Supreme Court overruled the local agencies' decisions, and Rutskoi successfully joined the race.

Rutskoi, a career military officer, became known in the late 1980s when he was awarded a Hero of the Soviet Union award after being a POW during the war in Afghanistan. He was invited to run for vice president by Boris Yeltsin who hoped to increase his chances in the race by allying with the patriotically-oriented officer. In the fall of 1993, Rutskoi rebelled against his boss, becoming one of the leaders of the parliamentary revolt. He has also become involved in party politics, eventually establishing the patriotic movement Derzhava, which in the summer of 1996 joined the opposition Popular Patriotic Union of Russia becoming its third largest constituent part. However, after being elected governor, Rutskoi drifted away from the Communists as well. The local Communists, after the new governor had not invited them to join regional administration, accused him of creating a "lawless" situation in the oblast, criticized his occasional cooperation with the federal authorities and demanded his resignation. Rutskoi denounced the local and national Communist Party organizations as among his enemies. He also does not have a close relationship with any of the other regional leaders. As a result, he currently appears to be a figure not belonging to any political camp. However, earlier this year his movement announced its support for Moscow Mayor Yurii Luzhkov should he run in the next presidential campaign.

Rutskoi's policies are often described as "egregious nepotism and authoritarian tactics in the tradition of Communist-era party officials." He appointed his relatives, a brother and two sons, to the key economic and political positions in the region. He also tried to remove the local

procurator who attempted to prosecute some corrupt members of the regional administration. Like some of his deputies and aides, Rutskoi himself is often accused of corruption since, when he was vice president, he helped some companies and commercial banks receive tax breaks and other benefits. He now pursues similar policies. Last year, he created the odd-sounding KGB -- Kursk Gubernatorial Bank -- and ordered all the local enterprises, including private companies, to transfer all their accounts there. Since all export-import transactions and investment projects must go through this newly created institution, the governor has complete control over the region's finances. Rutskoi also reportedly seized control over one half of the shares of the Mikhailovskii Iron Ore Works, the largest regional enterprise. Experts say that the governor's active policy of establishing monopolies has caused small and medium-sized businesses to leave the region.

Other Local Leaders

Chairman of the Oblast Duma -- Viktor Chernykh, former deputy governor, elected in January 1997.

Presidential representative -- Viktor Surzhikov, appointed in April 1996.

Brief Overview

Kursk Oblast is about 500 km south of Moscow on the Ukrainian border. In Russia it borders Belgorod, Voronezh, Lipetsk, Orel, and Bryansk oblasts. The oblast's administrative center dates to the 11th century. By the end of the 18th century it became the administrative center of Kursk Guberniya and a century later -- an important industrial center with about 80 plants and factories processing raw materials -- iron ores, peat, and construction materials. The region, now ranked 13th in the country according to total reserves of mineral resources, has retained its industrial character and national importance. Major regional industrial enterprises include iron mining and enriching, machine building, chemicals and petrochemicals, and are located for the most part in the cities of Kursk and Zheleznogorsk. Kursk Oblast is also an important source of energy, which is generated from a large nuclear power station in the regional capital, for neighboring regions.

Once covered with forests, the oblast offers rich soil that is used for intensive farming -- including grains, fruits, and vegetables -- with the unfortunate consequence of severe soil erosion.

According to *Ekspert* magazine, regional investment risks have decreased by 11 points since 1996 (the 15th largest decrease in the country) though the oblast is reported to be under invested by both domestic and foreign companies. The magazine also ranked the oblast as 10th according to the lowest life risks with 13.27 homicides per 100,000 people.

Basic Facts

Population (as of Jan. 1, 1997): 1,342,800 (0.91% of Russian total)

Urban population (1989 census): 59.9% (Russia overall: 73.0%)

Student population (1996): 157 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 30.47% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 7.9% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 29.3% (Russian average: 29.9%); Agriculture: 22.6% (12.8%); Trade: 8.6% (9.1%); Culture: 10.6% (13.6%); Management: 2.3% (2.3%)

Average monthly personal income in 1996: 442,000 rubles (Russian average: 764,000 rubles)

Average monthly personal expenses in 1996: 366,000 rubles (Russian average: 753,000 rubles)

Average monthly subsistence requirement in 1996: 264,800 rubles (Russian average: 369,400 rubles)

Consumer price index (as of Dec. 1996): 98.60 (Russia overall = 100)

Industrial production as percentage of all Russian production (1996): 0.66%

Proportion of loss-making enterprises (1996): 63% (Russia overall: 56%)

Number of enterprises which have wage arrears (1996): 1,186 (7.30% of total number of regional enterprises)

Agricultural production as percentage of all Russian production (1996): 1.72%

Number of private farms (as of Jan. 1, 1997): 1,662 (0.60% of Russian total)

Capital investment (1996): 1,990 billion rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): federal budget: 6.8% (Russian average: 9.2%); regional budget: 6.5% (9.6%); enterprises: 71.4% (66.3%)

Number of joint ventures (as of Jan. 1, 1997): 48 (0.30% of Russian total)

Fixed capital investment in joint ventures and foreign companies (1995): 7,359 million rubles

Number of small businesses (as of Jan. 1, 1997): 2,095 (0.25% of Russian total)

Number of enterprises privatized in 1996: 34 (0.68% of Russian total), including those which used to be municipal property: 66.7% (Russian average: 67.1%); regional property: 0% (14.3%); federal property: 32.4% (18.6%)

Number of telephones per 100 families (1996): in cities: 41.2 (Russian average: 48.7); in villages: 12.8 (19.7)

According to a 1997 survey by *Ekspert* magazine, the oblast is ranked 43rd among Russia's 89 regions in terms of investment potential and 16th in terms of investment risks. A 1998 survey by Bank Austria ranked the oblast 55th in terms of investment climate.

Electoral History

1996 Gubernatorial Election

Rutskoi (Derzhava movement): 76.85%

Shuteev (ex-governor): 17.55%

Molokoedov: 0.69%

Kureninov (Kursk Oblast People's Party of Russia): 0.62%

Turnout: 56.98%

1996 Presidential Election

Zyuganov: 51.13%/58.92% (first round/second round)

Yeltsin: 24.06%/36.24%

Lebed: 11.06%

Yavlinskii: 5.38%

Zhirinovskiy: 3.89%

Turnout: 73.17%/70.50% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Derzhava: 30.69%

Communist Party of the Russian Federation: 28.29%

Liberal Democratic Party of Russia: 6.08%

Our Home Is Russia: 5.15%

Communists -- Workers' Russia: 3.63%

Agrarian Party of Russia: 3.34%

In single-member districts: 2 Communist Party of the Russian Federation

Turnout: 71.59% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 42.96% "No" -- 55.18%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 33.48%

Communist Party of the Russian Federation: 20.03%

Agrarian Party of Russia: 11.46%

Russia's Choice: 10.64%

Women of Russia: 5.02%

Yabloko: 4.79%

Democratic Party of Russia: 4.41%

Party of Russian Unity and Concord: 4.11%

In single-mandate districts: 2 Communist Party of the Russian Federation

From electoral associations: 1 Communist Party of the Russian Federation, 1 Liberal Democratic Party of Russia, 1 Agrarian Party of Russia

Turnout: 64.67% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 54.16%

Ryzhkov: 21.03%

Zhirinovskiy: 9.08%

Tuleev: 5.33%

Makashov: 3.58%

Bakatin: 2.30%

Turnout: 85.43% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dумы 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; T. Matiyasevich, N. Mogel, S.A. Nagaev, M. Rossmann, L.I. Smirnych, and A. Woergoetter, *Russia: Regional Risk Rating*, Vienna: Bank Austria, 1998; *Ekspert*, 8 December 1997; *Roadmap to Russian Regions*, Salomon Brothers, 1997; *Goskomstat, Regioni*

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BREAKING NEWS

POLITICS

GOVERNMENT TAKES REGIONAL AFFAIRS FROM PRESIDENTIAL ADMINISTRATION. Oleg Sysuev, the first deputy chief of staff for the presidential administration in charge of regional relations, admitted on 13 October that the Kremlin has given up its long time monopoly over regional affairs and transferred this responsibility to the White House. Sysuev said that the administration would not interfere in the government's handling of regional relations. Sysuev's statement means that the presidential administration will let the government deal with financial requests coming from the regions, according to *Vremya MN* on 14 October. He believes that requests for help in providing minimal social services are likely to increase in the near future. Sysuev said that he would not support any efforts to reduce Russia's current 89 regions to 12-17, remove governors who violate the law, or completely wipe out local government. *Vremya MN* commented that by giving up its control over finances, the administration had effectively ceded all levers of influence over the regions.

ZYUGANOV SEEKS ALLIANCE WITH LUZHKOVA. Communist Party leader Gennadii Zyuganov made explicit his desire for an alliance with Moscow Mayor Yurii Luzhkov on 14 October, calling him an "authoritative and intelligent man" (*avtoritetnyi i gramotnyi*) (NTV, 15 October). Such an alliance could signal the formation of a winning coalition in the next presidential elections. Zyuganov might be able to deliver the rural vote which Luzhkov currently lacks since his political base is in the capital. However, it remains unclear if the Communist rank-and-file would follow Zyuganov into such an alliance. Last week Luzhkov sought to build his ties with Yabloko leader Grigorii Yavlinskii. (For more on Luzhkov's support in the regions, see Ayatskov Likes Luzhkov, Saratov Journalists Don't below)

FEDERATION COUNCIL NARROWLY DEFEATS MEASURE CALLING FOR YELTIN'S RESIGNATION. The Federation Council defeated a measure that called on President Yeltsin to resign voluntarily by a vote of 79-18 on 14 October. The measure needed a simple majority of 90 votes to pass (*Segodnya*, 15 October).

ITOGI: KRASNOYARSK TURNING AGAINST LEBED. The voters of Krasnoyarsk are turning against their newly-elected governor Aleksandr Lebed who rarely makes an appearance in the region, according to *Itogi* (13 October). Locals complain that Lebed is trying to run the region on the fly as he dashes to Moscow, the Caucasus, or abroad. They also complain that he has filled his administration with outsiders, many of whom jet

home to Moscow for the weekend. The mayors and other local officials in the krai complain that there is no one in the krai administration for them to consult. There is only one person left from the former administration and he has little power. Not only do Lebed's assistants have little understanding of the krai, they are changed "more often than gloves," the magazine commented.

Even though the local businessmen who opposed Lebed during the elections have tried to establish friendly ties with the victorious governor, he has not been forthcoming in working with them. He reportedly also has not maintained good connections with his key supporters, Krasnoyarsk Honor and Motherland leader Viktor Zubarev and Krasnoyarsk Aluminum Factory (KrAZ) boss Anatolii Bykov. Zubarev, a member of the krai legislature, is still supporting a bill that would subordinate the krai's government to the legislature rather than the governor even though Lebed has made clear that he does not support this idea. Although Lebed helped KrAZ gain access to cheap electricity, Bykov is unhappy with the governor because he has named many members of the administration from the Moscow offices of the Rossiiskii Kredit Bank, one of Lebed's key financial backers.

Many whisper that the most influential member of Lebed's staff is Vice Governor Viktor Novikov who never gives interviews to the press. He supports a mixture of ideas borrowed from the Black Hundreds, various mystics, and philosophers about a strong state. Since Lebed only supports the idea of a strong state, the main attraction of Novikov and his group is their access to financial support. Novikov is the main conduit for money from the two key oligarchs who support Lebed, Rossiiskii Kredit's Ivanishvili and Boris Berezovskii.

Lebed faces no organized opposition in the krai partly because he does not have a clear set of policies which his detractors could oppose. According to *Itogi*, his administration works like a fire brigade, running from crisis to crisis without a clear, overarching plan. Lebed has been able to mollify some of the miners by getting money from KrAZ, the only source of cash in the region, but these credits will not last for long. The main opponents are journalists working in the newspapers *MK v Krasnoyarske* and *Vechernii Krasnoyarsk*. But even *Krasnoyarskii rabochii*, whose founders include the krai administration, is increasingly critical of the governor, asking when Lebed will begin to deal with the krai's problems. (For more on Lebed's anti-corruption campaign, see below.)

LEBEDEV WINS NIZHNII ELECTIONS. Former presidential representative Yurii Lebedev won the Nizhnii Novgorod mayoral runoff on 11 October, edging former acting Mayor Dmitrii Bednyakov, 44-41 percent. Lebedev has been very critical of Nizhnii Novgorod Oblast Governor Ivan Sklyarov since the time he worked as presidential representative. In particular, the new mayor has accused the governor of improprieties during the last mayoral elections, whose results were cancelled, and of poor leadership (*Nezavisimaya gazeta*, 13 October). After meeting with the governor, Lebedev said that "we hugged, but did not kiss," *Kommersant Daily* reported 13 October.

Lebedev said that he will consider replacing all high ranking officials in the city administration, and particularly plans to offer positions to Nizhnii leaders now working in Moscow. Lebedev's victory works in favor of former First Deputy Prime Minister Boris Nemtsov, once the Nizhnii Novgorod governor, because Nemtsov has strained relations

with Sklyarov. Lebedev worked as Nemtsov's deputy from 1994 to 1997. Many believe that Lebedev will oppose Sklyarov in the next gubernatorial elections. Many mayors of regional capitals have defeated governors in recent elections.

The first mayoral elections in March were cancelled after convicted criminal Andrei Klimentev won. Lebedev lost his job as presidential representative on 3 April immediately after those elections. The Kremlin was unhappy with Lebedev's victory because it means that there will be greater conflict between the mayor and the governor, *Segodnya* (13 October) reported.

LIPETSK ELECTS NEW MAYOR. Lipetsk elected City Council Chairman Aleksandr Korobeinikov mayor on 11 October. He defeated the Communist-backed head of the city telephone system, Ivan Garkushin, 41 percent to 24 percent. Turnout was 29 percent.

KALININGRAD ACTING MAYOR LEADS GOING INTO RUNOFF ELECTIONS. Acting Kaliningrad Mayor Yurii Savenko won 43 percent of the vote in the 11 October mayoral election. He will face TransRailWest Director Anatolii Khlopetskii, who won only 12.5 percent of the vote, in a runoff. Twenty-two candidates participated in the elections, many of them representing powerful financial-industrial groups. LUKoil had backed Fedor Yaroshevich, who claimed his victory would bring the region enormous investment from the powerful oil company (*Vremya MN*, 13 October). He won only 8 percent, for a fourth place finish. Khlopetskii promised lower transportation tariffs. Savenko did not make any grand promises during the campaign. He is known for supporting stability and has a reputation as a cautious administrator.

ECONOMICS

MOSCOW CITY WILL NOT INTRODUCE A SALES TAX SOON. The Moscow City Duma is not likely to adopt a sales tax soon, according to Chairman Aleksandr Krutov. However, a working group is studying the different options. One would be a 3 percent tax on all sales. A second would be to impose the maximum permissible (by federal law) 5 percent tax on alcoholic beverages and imported sausage while not taxing essential domestically-produced goods at all. Some deputies don't want to impose new taxes, but suggest that the city should work harder to collect existing taxes. Another idea is to introduce payment by cards in stores rather than cash and use this method as a way to tax sales that are currently unreported (*Segodnya*, 12 October). Kemerovo Governor Aman Tuleev has also rejected the introduction of a sales tax (*Profil*, 12 October). However, Chelyabinsk began implementing a 5 percent tax on 1 October (see below for details).

IMPROVED RAIL LINKS BETWEEN MOSCOW, ST. PETERSBURG. Reconstruction of the railroad between Moscow and St. Petersburg will allow trains to travel up to 200 km per hour and reduce travel time between the cities to 4 - 4.5 hours by the year 2000. The fastest train now is 5.5 hours. Making these plans a reality will cost 7.1 billion rubles (*Nezavisimaya gazeta*, 10 October). This project is a replacement for the high-speed train project recently cancelled by President Yeltsin.

GOVERNORS START LIMITING ALCOHOL SALES. Following the introduction of greater federal controls on alcohol producers and wholesalers, governors have begun regulating retail trade as well. Kemerovo Governor Aman Tuleev issued a decree on 1 October which allows sales only in relatively large stores, but not in street markets or kiosks. Krasnoyarsk Governor Aleksandr Lebed signed a similar decree on 12 October (*Izvestiya*, 13 October). Bashkortostan already has a state monopoly on alcohol production, which provides 12 percent of the republic's budget, but, after an inspection of the 12 factories, the president fired many of the directors and is seeking to improve oversight over the industry. Now the republic will only allow sales at state stores during working days (*Kommersant Daily*, 13 October).

SAKHA DEFAULTS ON LOAN. On 12 October, Sakha (Yakutiya) defaulted on a \$75 million syndicated bank loan organized by western banks, justifying the default as a result of the federal government's 17 August moratorium on repaying loans to foreign banks. Deutsche Morgan Grenfel had provided \$50 million of the loan and Samyang Merchant Bank provided \$25 million. CS First Boston and other consulting companies had helped organize the loan. The federal moratorium runs out on 14 November and *Vremya MN* (13 October) predicts that no payments will be made before that deadline. The republic also has not paid off the 100 million rubles in agro bonds which came due on 13 August. BaltONEKSIMbank is currently suing the republic to get back some of the money invested by one of its clients (*Kommersant Daily*, 9 October.)

COURT FREEZES ORENBURG OBLAST BANK ACCOUT. A Moscow court has frozen the bank account of Orenburg Oblast after the Moscow bank Globeks sued the regional administration for not paying off a 100 million ruble credit (including the original loan and the interest due on it). The loan was made in September, and the region failed to pay it off eight months later in April 1998. The two accounts have a total of 5 million rubles. This is the first instance where the funds of an entire district have been frozen, according to *Kommersant Daily* on 8 October.

BUSINESS BRIEFS

-- **RENAULT** will assemble its first Megane at **MOSCOW'S AVTOFRAMOS** plant by the end of November, the project managers predict. The main obstacle now is for the Moscow government to get the Russian government to remove all customs duties from importing the kits to assemble the cars. Next year the plant will assemble a maximum of 1,000 cars and they will cost as much as imported French models (\$18,000-\$20,000) (*Kommersant Daily*, 13 October). **AVTOVAZ** is also planning to go ahead with its joint venture with General Motors to produce Opels in **SAMARA** this year (*Kommersant Daily*, 9 October)

DISPATCHES FROM THE FIELD

AYATSKOV LIKES LUZHKOV, SARATOV JOURNALISTS DON'T

by Robert Orttung, EastWest Institute

SARATOV - Saratov is a pleasant city of almost one million inhabitants directly south of Moscow on the Volga River and Kazakhstan border. Its energetic governor Dmitrii Ayatskov has given the region more than average prominence in the national press lately by pushing through legislation allowing the privatization of land and declaring his support for the legalization of prostitution. More recently, he gained further press attention by claiming that pop star Alla Pugacheva would run in the State Duma by-elections set for 18 October in the city of Engels, just across the 3 km trans-Volga bridge from Saratov.

Ayatskov is quite a wily politician, somehow maintaining close ties to the presidential administration while appearing to be in tune with the popular opinion that the president should resign. On 8-9 October, he organized a conference to mark the 50th anniversary of the adoption of the Universal Declaration of Human Rights in Saratov. As a result, he was able to coopt the trade unions' anti-Yeltsin demonstrations on 7 October into a march for human rights. Reflecting the mood of the rally, Ayatskov mounted the tribune and said that Yeltsin should join the ranks of Russia's pensioners (*Saratovskaya Meriya*, 9-15 October). However, the next day at the conference, he explained that what he really meant was that Yeltsin should start collecting his pension once he has served out his full term through June 2000 (*Saratovskie Vesti*, 10 October).

The residents of Saratov like to describe their city as the capital of the Volga, asserting themselves over nearby Samara and Volgograd. Sometimes they even compare themselves to Chicago. Saratov is certainly a city that works. On Saturday 10 October, a relatively warm Autumn day, the downtown pedestrian mall on Prospekt Kirova was bustling with shoppers. At the far end, there is a farmers' market that was crowded with many people buying the abundant supplies of food despite the catastrophically low harvest this year. The city streets are clean and orderly and even the Radishchev Art Museum is filled with surprisingly bright and cheerful paintings.

Saratov was a closed city until 1994 and much of the mentality remains. The city's premier hotel, the Slovakia, nestling on the banks above the Volga, is more than adequate for the random academic wandering through, but would not be suitable accommodations for wealthy western investors accustomed to five-star treatment. Besides some remodeling, the main concession to the reform era seems to be a café where the waitresses were somewhat underdressed for polite company.

Luzhkov in the Regions

Moscow Mayor Yurii Luzhkov's recent more or less straightforward announcement that he is running for president was one of the key topics of discussion in the city. Clearly how much support Luzhkov can build outside Moscow is the key question in gauging the potential success of his campaign. Although Ayatskov is clearly a strong Luzhkov supporter, seeing eye-to-eye with the mayor on such issues as returning Crimea to Russia, local journalists are either carefully reserving judgement or strongly opposed to a Luzhkov candidacy.

Luzhkov's campaign is well underway in Saratov, according to Leonid Yurev, writing in *Saratovskaya Meriya* (9-15 October). Last year Saratov's Channel 24 began local broadcasting Luzhkov's TV-Tsertr. On 8 October, for example, the station ran a

hidden camera expose showing how the Azerbaijani mafia at a Moscow produce market used violent measures against a planted Moscow Oblast farmer who was offering food at prices lower than those charged by the Azeri traders. The police arrested the traders. The broadcast then showed Luzhkov announcing that he would defend the right of anyone to sell food at lower prices. Luzhkov was careful to stress that the ethnicity of the traders was irrelevant and that he would arrest Ukrainian or Muscovites as well if they were suspected of price-fixing. No other presidential candidate will directly control his own TV station in Saratov, although obviously the national broadcasters will clearly favor one candidate or another.

Luzhkov is also building a network of his own organizations to distribute literature stressing the benefits of centrism, Yurev wrote. At the national level, he is supporting the Political Centralism Foundation, led by State Duma member Stepan Sulakshin. Luzhkov hopes to use newly created social-democratic and regional Political Development Foundation organizations to get his message out to the voters.

In an informal discussion, a journalist from the newspaper *Sovety Fakty Sobytiya* charged that Luzhkov had built Moscow by stealing from the regions. He said that local voters would never forgive him for this theft. If these feelings are wide-spread among the population, it will be difficult to determine how voters will choose between the likely exhortations of their governor to support Luzhkov and their anger at the regions' treatment by the powerful Moscow mayor.

The local press is facing a catastrophic financial situation. Top journalists for local papers make only 650 rubles a month (about \$43 at the current exchange rate). One man in Saratov told me that he left the military because his family could not live on his 1,000 ruble/month salary. The journalists joke that they are somehow able to make something out of nothing by bringing out their newspapers everyday. At the moment, there seems to be a variety of opinions in the local press, and not all of them favorable to the governor. The only central newspapers widely available are *Izvestiya*, *Komsomolskaya pravda*, and a local edition of *Moskovskie komsomolets*.

Economic Crisis Bites

The country's current economic crisis is major concern in Saratov. The local journalists are afraid that since Moscow can no longer import many of its meat and dairy products, it will begin to buy up regional supplies, causing shortages outside the capital. Bread producers are in a better position to meet the demand. The banks are still not willing to service their clients and stores that did not have a stockpile of goods are no longer in business. There had been 25 investment companies working on the local exchange. Most of them went out of business and now only 3-4 are left.

One employee of a local investment company said that the main problem for businessmen was that the laws concerning business are always changing. He stressed that there is not enough money in the system and that mutual debt-clearing between factories is very expensive. Additionally, firms generally paid people more than they actually produced.

The city's small business sector is almost entirely concentrated in the trading sector. The large factories are idle and small enterprises produce very little, according to local journalists. Even though the Oblast Duma recently passed legislation to support

small business, creating special enterprise zones, there is very little conception in society of what small business is.

Saratovskaya meriya's Yuri Chernyshev argued that the state is the greatest enemy of small business. He said the local authorities had only assigned one policeman to deal with problems of racketeering. In one case he investigated, the police only took action when the governor personally intervened. Chernyshev said that if the government followed through on the proposal made public by Sverdlovsk Governor Eduard Rossel to remove dollars from circulation in the Russian economy, it would be impossible to buy clothes in Saratov.

Chemical Weapons Destruction May Violate Human Rights

The regional government is violating human rights by building a chemical weapons destruction facility without first obtaining the proper environmental impact reports, according to Olga Pitsunova of the Center for Assistance to Environmental Initiatives. She fears that destruction of chemical weapons in the region could adversely affect the health of the local population. She also charged that the authorities are violating agreements about the destruction process by not providing sufficient information about what they are doing and preventing the public from finding out what is going on. The regions where the weapons are being held are all sealed off to keep outsiders from investigating. She charged that it doesn't make sense to destroy the weapons now and that the government should use its limited resources to address more pressing economic problems.

Local Government is Ineffective

Local government has very little impact on daily life in Saratov according to Sergei Perepechenov. Perepechenov is the "producer" of the samizdat newspaper *Zhitel Saratova* which is not registered with the local authorities because its print run is less than 1,000 copies. He also complained that the Oblast Duma was little concerned about the average life of the population and that political parties did not really exist in the region. However, his colleagues criticized him for suggesting that local self-government could only exist with the help of the state.

While Saratov's problems are severe, the leader of the local Yabloko party stressed that nobody was giving up and that it would be possible to find a way to deal with the situation. To an outsider, life in this particular region does not seem to be as bad as the newspapers make it out to be, but neither is it nearly as good as it could be.

PATTERNS OF REGIONAL DEVELOPMENT

LEBED ARRESTS FORMER GOVERNOR'S DEPUTY. Last week police arrested former Krasnoyarsk Krai First Deputy Governor Vladimir Kuzmin on charges of swindling. Kuzmin was responsible for economic matters in the krai administration during the entire tenure of former Governor Valerii Zubov, who served from 1993 to 1998, and then lost a bitter fight to Aleksandr Lebed.

Kuzmin's arrest had the effect of an exploding bomb among the krai's political elite. Many requested that Kuzmin be released from prison under the provision that he not leave the region, but the krai authorities and procurator refused to let him out of jail. At the end of last week Krasnoyarsk Governor Lebed even announced on television that, "Kuzmin's guilt is already fully proven." Many are calling this act a "political crime," aimed at instilling fear in Lebed's present and potential political opponents. Two of Zubov's other deputies who were also responsible for economic affairs, Astrakhantsev and Cherezov, are now in hiding.

Not long ago Lebed created a powerful investigative group to uncover the misuse of state funds. The decree explicitly stated the need to make public criminal acts carried out by the previous administration. According to krai Procurator Yuri Antipov, the criminal activities of several administration officials were known already in March, but criminal proceedings began only in July after Lebed's victory.

Until his arrest, Kuzmin was not involved in any court proceedings, either as a witness or perpetrator. Nevertheless, his arrest does not violate Russian legal procedures. However, workers in the procurator's office are unsure of evidence incriminating Kuzmin and are distancing themselves from the straightforward accusatory position taken by Lebed's administration. All this, as well as the procurator's demonstrative refusal to release Kuzmin with a signed statement not to leave the region, has raised justifiable doubt about why Kuzmin was arrested.

On 11 October former Governor Zubov defended Kuzmin on television saying, "I am taking it upon myself to prove that not only did Kuzmin not steal, he enriched the krai's treasury by several billion [rubles]." However, it is necessary to recall that during the electoral campaign Zubov fired Kuzmin "for personally discrediting the governor." Now Kuzmin is silent. There are no documents to prove his guilt. Only time will tell if the Krasnoyarsk procurator will be able to convict him of a crime.

VOLGOGRAD COMMUNISTS SEEK TO CONTROL REGIONAL DUMA.

Volgograd voters will elect representatives to fill one-third (16) of the seats in the oblast Duma on 13 December. Volgograd's Communists need to win only four additional seats to gain an absolute majority in the legislature. Whether winning a formal majority will allow the party to define the legislature's policies remains unclear because of the weak discipline within party ranks. Often the Communist deputies do not vote according to party recommendations.

To deal with this problem, the regional Communist party organization is signing "contracts" with candidates who receive party support on the condition that they will vote according to party preferences, according to *Delovoe Povolzhie* (#41, October 1998). If a deputy elected with Communist support does not vote along party lines, he will be obliged to return all the money the Communists spent supporting his campaign. Additionally, by signing the agreement, the candidate pledges to spend only an amount equal to the average wage of the region from his salary and donate any additional income to an orphanage. – Ivan Kurilla in Volgograd

FOCUS ON SVERDLOVSK OBLAST

STRUGGLE INTENSIFIES FOR SVERDLOVSK GOVERNORSHIP

by Sergei Pushkarev, Ural State University

YEKATERINBURG -- Although gubernatorial elections in Sverdlovsk Oblast will not take place until 1999, several potential candidates have significantly increased their activities in recent days. Current Governor Eduard Rossel has an excellent chance for reelection. He heads one of the most influential political movements in the oblast and his popularity rating is consistently high. Rossel took advantage of the celebrations surrounding the 400th anniversary of the founding of Verkhoture, the "spiritual capital of the Urals," to raise his popularity in the Urals. In honor of the occasion, many churches were restored, a hotel, train station, school, and residences were built, and many roads were paved. Several observers noted the parallel between Moscow Mayor Yurii Luzhkov's reconstruction of the Christ the Saviour Church and Verkhoture's revival -- both instances guaranteed the support of the local community and religious people. In honor of the event, a new road connecting Yekaterinburg to the airport was also opened. The road was financed by the oblast budget, yet Rossel considers it his gift to the city of Yekaterinburg. Finally, Rossel's inclusion in the federal government's Presidium as leader of the Greater Ural Regional Association allows him to effectively lobby for the interests of Sverdlovsk Oblast, which will certainly affect his popularity. The potential of this new status was demonstrated on 1 October when Rossel suggested that the use of dollars be banned in Russia. This idea proved to be hugely unpopular and Rossel was forced to quickly back track. Nevertheless, it showed that he was once again a player on the national stage.

Several analysts in the oblast believe that the relative failure of Rossel's Transformation of the Urals movement in the Sverdlovsk Oblast legislative assembly elections in April had been planned by political consultants with the intention of hurting Rossel's main opponent, Yekaterinburg Mayor Arkadii Chernetskii. Since Chernetskii's supporters did relatively well in the elections, he may now have to take some of the blame for the problems in the region. It is no secret that Chernetskii is planning to participate in the 1999 gubernatorial elections. However, Chernetskii's political movement Our Home, Our City did not win a majority in the April legislative elections, even though Rossel's movement staggered. Chernetskii's chances at becoming governor have not improved over the last six months. His movement spent \$4.5 million for the April elections, and given the economic crisis, it is unlikely that he will be able to gather a strong financial base for the 1999 elections. Additionally, Chernetskii has lost the potential support of the federal authorities. Moscow no longer perceives Rossel as a separatist and thus there is no need to oppose him. Furthermore, Primakov is now stressing the need for strengthened vertical lines of authority, something Rossel has been working on in Sverdlovsk for a long time.

Chernetskii may be losing his status as Rossel's main opponent, since former Deputy Prime Minister of the oblast government Anatolii Gaida also intends to participate in the election, with the aid of the region's most experienced and influential image makers. Gaida left the post of deputy prime minister after the student demonstration in Yekaterinburg in April. Many associate his departure with the relatively poor performance of the Transformation of the Ural movement in the April

elections since Gaida was responsible for the movement's electoral campaign. Soon after the elections he left the movement citing "political reasons."

Several other politicians and businessmen have already announced or will soon announce their decisions to run for governor. These contenders include entrepreneur Kakha Bendukidze, who owns a controlling stake in Yekaterinburg's Uralmash, State Duma Deputies Andrei Nikolaev and Leonid Nekrasov, and local businessmen Igor Kovpak and Valerii Yazev.

CRISIS PROVOKES PESSIMISTIC BUDGET IN SVERDLOVSK OBLAST. The Sverdlovsk Oblast government began considering the oblast's 1999 budget in the middle of September. Similar to the federal budget, the Budget Committee developed two budget forecasts, one optimistic and one pessimistic. The two different budgets are a result of the fact that the regional authorities don't know what kind of measures, if any, the federal government is going to take to stabilize the economic situation in the country.

The optimist version of the budget assumes that the federal government will adopt adequate measures to resolve the crisis in the near future. But it is already clear that this goal will not be achieved. The figures listed for maintaining past rates of growth and continuing social-economic reforms are not realistic.

The pessimistic version of the budget assumes that the crisis will be more serious and that it will take longer to overcome. The Economics Committee is predicting inflation at the end of 1998 at rates of 118-122 percent and 130-135 percent by the end of 1999. This increase in prices will naturally reduce consumer buying power, bringing trade turnover down 4 percent and reducing investment by 19 percent. Additionally, it will reduce the amount of money that the oblast budget can spend. Such cuts will mean the curtailment or elimination of social programs, which will most severely affect average citizens. Since there will be gubernatorial elections next year, Governor Eduard Rossel and rest of the regional elite have no interest in increased levels of social conflict. However, Rossel's opponents hope to use the economic crisis to achieve their political goals. The current elite are therefore devoting priority attention to maintaining the region's industry, energy system, and food supply. If they cannot improve the situation, they are at least trying to prevent a complete collapse. -- Olga Gorchakova in Yekaterinburg

CENTER-PERIPHERY RELATIONS

TATARSTAN PRESIDENT REJECTS IDEA OF PM GAINING ABILITY TO REMOVE REGIONAL EXECUTIVES. After returning from his vacation in Turkey, Tatarstan President Mintimer Shaimiev stated his reaction to Prime Minister Yevgenii Primakov's proclamations about the necessity of giving the federal government the power to remove regional executives if they violate federal legislation. Tatarstan falls into this category because it limits exports across republican borders to other parts of Russia and refuses to pay taxes to the federal budget. Shaimiev stated that the process of improving federal relations should be bilateral: the center should back away from its imperialistic view of its relationship to the regions, and then the regions could take a step towards meeting the center part way. He believes that the federal government should not point fingers at the regions but should support them since they will be key to preserving

Russia's integrity during the crisis. In Shaimiev's opinion, no one has the right to remove a popularly elected governor or president. Such an act would only provoke conflict with the people.

Regarding the idea of consolidating regions suggested by several Russian politicians, Tatarstan's president said, "If someone wished to join Tatarstan, our government would seriously consider this request. We will not allow other sorts of relations to our republic."

Shaimiev feels that the next step the Russian government should take is to solve the question of defense enterprises, determining whether they should exist at all, and if so, how. This is particularly important for Tatarstan, which has a higher concentration of defense enterprises in comparison with other regions.

The new director of the Federal Tax Service Georgii Boos has criticized Tatarstan for not paying its debts to the federal budget. In response, Tatarstan's authorities stated that the two governments never reached an agreement regarding the 1998 budget. The federal government clearly no longer intends to grant Tatarstan the tax privileges hammered out in the 1993 budget agreement between the republic and the center, but Tatarstan insists on maintaining them. -- Midkhat Faroukshine in Kazan

CHELYABINSK GOVERNOR MEDIATES BETWEEN LARGE ENTERPRISES, MONOPOLIES. Chelyabinsk Governor Petr Sumin on 9 October told the directors of the 10 largest enterprises in the region that he would personally coordinate their relations with the regional railroad, electricity provider, and natural gas supplier until the economic situation stabilizes. The governor hopes to nip in the bud any conflicts that could cause the region's enterprises to shut down.

Following the governor's announcement, the monopolies are no longer able to adopt any decisions that could shut down the region's large enterprises without first consulting the governor or his first deputy, Vladimir Utkin. Governor Sumin called on the directors of the enterprises and monopolies to work harder to improve their relations. By the beginning of November, the directors must report to the governor about their progress, while the enterprise directors must report every day to the governor or his team about the situation at the plants concerning electricity, gas, and cargo shipments.

Additionally, Governor Sumin called on the enterprise directors to give the oblast administration better information about their debts to the monopolies so that the governor would have a more objective picture of what is going on.

As a reason for taking these actions, the governor cited the experience of the Chelyabinsk Elektro-Metallurgical Combine (ChEMK), which had to shut down the vast majority of its operations during the first part of October because its electricity was cut off and the railroads demanded prepayment for the delivery of raw materials. ChEMK lost its electricity when it was a week late in transferring 6 million rubles to Chelyabenergo. The plant's workers were sent home without pay during the shut down. During the nation-wide strike on 7 October, Sumin visited the plant and promised that he would not allow the region's other large enterprises to be shut down as well.

Last year ChEMK increased its output 30 percent and paid 220 million new rubles in federal, regional, and local taxes. This year the plant has already lost 150 million rubles. -- Igor Stepanov in Chelyabinsk

SOCIAL ISSUES

TEACHERS STRIKE IN STAVROPOL. The crisis of the past few months has so severely impacted the most defenseless strata of the population, such as teachers, that they organized a protest demonstration in front of the government building in Stavropol Krai on 5 October, two days before the planned nation-wide strike. The main demand was to pay wage arrears, since salaries have not been paid for several months. Teachers, who came to Stavropol from all over the krai, discussed the deplorable state of schools. There are only 2-3 textbooks for a group of 13-14 students and a teacher. Many teachers are certain that school attendance will fall sharply as winter sets in for the simple reason that the children lack warm clothing and the schools are unable to pay for utilities.

In the afternoon Governor Aleksandr Chernogorov appeared before the demonstrators with the words, "I didn't force you to vote for the president and the government. If we had maintained our previous Communist enthusiasm, everything would be as before. In past years, salaries, pensions, and stipends were paid on time." Chernogorov claimed that he was able to distribute some money now for the first time because a new Communist government had come to power. -- Irina Morozova in Stavropol

CASPIAN PIPELINE THREATENS RESORT AREA. The State Duma Ecology Committee held an extraordinary meeting in early October to examine ways of preserving the recreational potential of Russia's Black Sea coast. Unfortunately, the chairman of Anapa's (Krasnodar Krai) branch of Yabloko, Yevgenii Filimonov, was the only representative present from Anapa and Novorossiisk. Filimonov sharply criticized the state's study examining whether to build the pipeline proposed by the Caspian Pipeline Consortium (KTK).

Stockholders in KTK refer to research conducted by the Russian Academy of Sciences, which states that each year the pipeline is in operation, Russia will earn \$33 billion and employ 4,000 people. Yet, no one considers how many residents of the Black Sea shore will be left without work if the pipeline is built too close to the health resort zone and leaks oil. Many doctors, service personnel, and farmers depend on the sanatoriums for their survival. What costs will be incurred if the sanatoriums stand empty and who will compensate Russians for the loss of the Black Sea coast?

Filimonov argued that "Preserving Anapa's resorts is in Russia's national interest." The audience strongly supported his arguments. In particular, Ecology Committee Chairman T. V. Zlotnikov suggested that the Duma conduct a parliamentary hearing on 27 October featuring ecologists from Anapa and Krasnodar. However, it will not be easy to preserve the coastline since the struggle involves huge amounts of money and the geopolitical interests of several countries. – Sergei Kuzmin

CHUKOTKA LIVES WITHOUT MAIL. For more than a month, the postal service has not brought mail from Russia's central regions to Chukotka nor has it taken mail from Chukotka to the rest of the country. People are waiting for letters, periodical subscriptions, and packages without result. There is no foreseeable solution to this problem. The Federal Postal Service can not cover the debts that have accumulated since

1993 when the postal service and telecommunications providers were separated and the postal service began to rely on state subsidies.

Since the state has provided no help, the debts grew over the years and now the mail trains have stopped rolling and the planes are no longer willing to fly without being paid. The Ministry of Finance has not given any money to the State Communications Committee and is unlikely to do so in the future. The postal service's debt to Chukotkavia, the only airline that connects Chukotka to Moscow and provides service within the okrug, alone is 4.5 million rubles. Aircraft is the only mode of transportation for many parts of the region.

The federal postal service has sent many of its employees on unpaid leave. Those who remain have a shortened work week. Twenty-two postal workers are now at home without work. Now the residents of Chukotka, peering into their empty mailboxes, are wondering whether the entire Chukotka postal system will be shut down. -- Varvara Litovka in Anadyr

ECONOMIC ISSUES

TELEPHONE WAR IN KARELIYA. The Elektrosvyaz telephone company has finally decided to initiate time-based billing for local telephone usage. Elektrosvyaz General Director Valerii Nikiforov announced that starting 1 November, consumers will receive new bills that calculate the time spent on local telephone calls and charge them extra for usage above a certain minimum. Until now, consumers had unlimited local dialing.

Petrozavodsk Mayor Andrei Demin continued his long-standing attack on this idea, which he had initially denounced during his electoral campaign. He appealed to the Chairman of the Russian State Anti-Monopoly Committee, N. Fonarevoi, calling attention to the fact that limited local calling, with a system that would allow customers 217 minutes per month or 7.2 minutes per day for the price of 29 rubles, is a real blow to consumer interests.

Elektrosvyaz's Nikiforov has also appealed to the Anti-Monopoly Committee asking it to rule on the legality of Kareliya Prime Minister Sergei Katanandov's decision to prohibit time-based local telephone billing. He is certain that such a procedure is the only way to go. It has already been successfully introduced in four districts in Kareliya. Additionally, investors have given Elektrosvyaz millions of dollars to develop this project, and now the firm must make money to pay them back.

The political aspect of this dispute goes beyond the fact that it was the basis for Mayor Demin's electoral campaign. Prime Minister Katanandov has stated multiple times in public that he does not want Nikiforov in the position of Elektrosvyaz's general director. Nikiforov headed former Prime Minister Viktor Stepanov's campaign team in the recent elections. Katanandov defeated Stepanov and now does not want to see Elektrosvyaz led by a close associate of his main political rival.

However, removing Nikiforov from his post will not be easy. Elektrosvyaz is a joint-stock company, not a ministry. Overall, it has 350 employees, 4,100 stockholders, and 50 subordinate firms. It pays all of its taxes on time even though the government is behind in paying its bills. The board of directors of Elektrosvyaz recently met and approved a new three-year contract for Nikiforov. Thus, Nikiforov will remain despite

the prime minister's wishes. But the government will use every opportunity to keep the firm from raising its rates. Naturally, if time-based payments are repealed, Katanandov's personal popularity will only go up. -- Boris Matveev in Petrozavodsk

NEW SALES TAX CAUSING TROUBLE IN CHELYABINSK. Chelyabinsk's new sales tax went into effect on 1 October. It is supposed to generate 750 million rubles a year for the oblast's consolidated budget, but it has also unsettled the social-political situation in the region.

The Chelyabinsk vice governors for social issues and economics both complained that the law is ineffective at a 5 October press conference. There have already been many abuses of the law creating considerable unhappiness among the population. Nevertheless the authorities are confident that the new tax will bring the regional budget more real money (rather than money substitutes). Since 40 percent of the proceeds will go to the oblast budget and 60 percent to local budgets, the oblast expects to make 300 million rubles and the local governments expect to make 450 million rubles a year.

According to Chelyabinsk Vice Governor for Social Issues Andrei Kosilov some shopkeepers whose goods are not affected by the new tax (mainly sellers of essential food items, children's clothes, and medicines) took advantage of the situation to raise their prices 3-7 percent. Such price increases angered many in the population. Despite these violations in Chelyabinsk and eight other regions where the tax was introduced, the new tax will remain in force. During the fourth quarter of 1998, the new tax is expected to generate 9.253 million rubles for the oblast and local budgets. These figures are based on expected sales of 3.4 billion rubles worth of goods and 1.4 billion rubles worth of services in the oblast, and assuming that 50 percent of the taxes actually owed will be collected.

With the introduction of the new sales tax, local governments cancelled 16 other taxes, including a tax to generate money for educational institutes. The authorities believe that initially the large cities in the oblast (Chelyabinsk, Magnitogorsk, Zlatoust) will lose between 2-5 million rubles, but by the first quarter of 1999, they should start making money. The income from the sales tax will be used to pay off wage and pension arrears owed to workers in the public sector.

The Chelyabinsk Legislative Assembly adopted the legislation authorizing the new tax on 27 August. Under then-Prime Minister Sergei Kirienko, the federal government authorized regions to adopt such sales taxes on 31 July. -- Igor Stepanov in Chelyabinsk

NEW RUSSIAN GOVERNMENT

PRIMAKOV ASSEMBLES COALITION GOVERNMENT. The government of Prime Minister Yevgenii Primakov is dramatically different than the cabinets assembled by his predecessors Victor Chernomyrdin and Sergei Kirienko. In contrast to past governments, this one is a coalition that tries to reflect the distribution of political support in the State Duma. Former governments largely ignored the Duma. Where Kirienko's cabinet strongly backed reforms, the ultimate course of the current government remains unclear. It includes members from the Communist Party, Yabloko, the Agrarians, and even a member from Vladimir Zhirinovskiy's Liberal Democratic Party of Russia for the

first time. The only party missing now is Our Home is Russia (NDR), the former party of power. Aleksandr Shokhin resigned his position as deputy prime minister ten days after accepting the post.

Of the regional elite, only Leningrad Governor Vadim Gustov agreed to give up his elected post to serve as first deputy prime minister. He replaces former First Deputy Prime Minister Boris Nemtsov who resigned after Kirienko was sacked.

The cabinet has been unable to come up with a clear program for addressing Russia's economic problems. Given the political diversity of the cabinet, it is hard to see how the ministers could agree on a single plan. Most likely, the government will pursue a series of ad hoc measures rather than a coherent overall strategy.

While Primakov is generally respected now, many observers believe that he will serve as prime minister only temporarily. With President Yeltsin ailing, the government divided, and the Duma as weak as ever, the federal government is unlikely to be the source of innovative solutions. The governors could play an increasingly larger role, but only if they can come up with effective ways to deal with the crisis.

SHORT BIOGRAPHIES OF RUSSIA'S NEW CABINET MEMBERS

Prime Minister

Yevgenii Maksimovich PRIMAKOV, 69

Born in 1929 in Kiev to a family of civil servants, Primakov spent his youth in Tbilisi. His original name was Finkelstein, but he changed it to the more Russian-sounding Primakov. He graduated from the Moscow Institute for Oriental Studies and received his doctorate in economics from Moscow State University. Primakov, who speaks English, Arabic, and Georgian, spent many years working as *Pravda's* correspondent in the Middle East and in academia, as a preeminent expert and policy advisor on Asian affairs. He ultimately gained the position of director of Moscow's prestigious Institute of the World Economy and International Relations (IMEMO). In the mid-1980's Primakov entered the national political arena, becoming one of Mikhail Gorbachev's trusted political advisors. He served in the Communist Party Central Committee and the Soviet parliament. In 1991 Primakov joined the Security Council of the USSR, and from December 1991 to January 1996 he served as the director of Russia's foreign intelligence services. In January 1996 Primakov replaced Andrei Kozyrev as Minister of Foreign Affairs in Viktor Chernomyrdin's cabinet. He managed to hold onto this position throughout the cabinet shakeups that occurred in March 1997 and April 1998. As foreign minister he was considered more adept at defending Russia's interests than his predecessor Andrei Kozyrev.

First Deputy Prime Minister (responsible for economic policy)

Yuri Dmitrievich MASLYUKOV, 61

Yuri Maslyukov was born in 1937 to a working-class family in Leninabad, Tajikistan. After graduating in 1962 from the Leningrad Mechanics Institute as an engineer-mechanic, Maslyukov excelled in climbing the typical Soviet career ladder. He served in a variety of positions culminating as the director of Gosplan, the USSR's State Planning

Committee. At the end of 1991, he lost his high government positions and turned to being a consultant for Russia's powerful financial/industrial groups.

After having worked for several Russian corporations, Maslyukov was elected to the State Duma in December 1995 on the Communist Party list. During his campaign, he stated that he was returning to politics after a four-year break to participate in the restoration of an economic system based on fundamentally socialist principles. Immediately following his election, Maslyukov became Chairman of the Duma's Committee on Economic Policy and in 1997 he became a member of the federal commission in charge of privatizing the defense sector. He joined Kirienko's government in the end of July as Minister of Trade and Industry.

First Deputy Prime Minister (responsible for regional affairs, CIS, youth issues)

Vadim Anatolevich GUSTOV, 49

Gustov was born in 1948 in the village of Kalinino in Vladimir Oblast. In 1971 he graduated from the Moscow Geological Surveying Institute with a degree in mineral engineering. After first working as an engineer, he entered politics in 1978 when he took a job in the Kingisepp city committee of the CPSU. Gustov ultimately became chairman of the Leningrad Oblast Soviet in 1991. In 1993 he was elected to the Federation Council, where he served as the Chairman of the Committee on CIS Affairs. In September 1996 Gustov defeated the incumbent to win election as governor of Leningrad Oblast. Gustov is a centrist politician who maintains amicable relations with both the Communists and liberal reformers. St. Petersburg Sociologist Leonid Kesselman has described Gustov as a manager more concerned with efficient administration than with ideology. Foreign investors praise Leningrad Oblast's tax policy as one of the most business-friendly in Russia and under Gustov the oblast won several large investment projects, despite competition from St. Petersburg. Nevertheless, the economic situation in the region was extremely difficult when Gustov resigned his governorship.

Deputy Prime Minister (responsible for social issues)

Valentina Ivanovna MATVIENKO, 49

Matvienko was born in 1949 in Ukraine and graduated from the Leningrad Chemical-Pharmaceutical Institute in 1972. She then studied at the CPSU Central Committee's Academy of General Sciences and completed advanced courses in diplomacy at the Diplomatic Academy of the USSR Ministry of Foreign Affairs. Until 1989 Matvienko worked as deputy chair of the Leningrad City Executive Committee. From 1989-1991 she was the chair of the USSR Supreme Soviet's Committee on Women, Children, and Family Issues. Matvienko moved into diplomatic work in 1991, serving as Ambassador to Malta until 1994. From 1995-1997 she worked as director of the Ministry of Foreign Affairs' liaison department with the Russian parliament, regions, and political organizations. Matvienko was serving as the Russian Ambassador to Greece when appointed Deputy Prime Minister.

Deputy Prime Minister (responsible for agriculture)

Gennadii Vasilevich KULIK, 63

Kulik was born in 1935 in Zhekom, Pskov Oblast and graduated from Leningrad University as an agrarian economist. He conducted research at the Siberian branch of the Institute of Agricultural Economics, served as an instructor for the Novosibirsk oblast committee of the CPSU, and eventually led the oblast's agricultural department. He then served for more than twenty years in the Ministry of Agriculture, becoming First Deputy Chairman of the State Agricultural Industry in 1989. In post-Soviet Russia Kulik won election to the Duma as a member of the Agrarian Party. At the time of his appointment to the post of Deputy Prime Minister, Kulik was a leader of the left-wing agrarian movement and deputy chairman of the Duma's Budget Committee. He is very close to Tula Governor Vasilii Starodubtsev and Agrarian Party leader Mikhail Lapshin. He said that his decision to accept the position of Deputy Prime Minister was rooted in the fact that his colleagues in the Agrarian Party wanted him to lead the reforms in the agricultural complex. The Agrarians had demanded Kulik's appointment in return for supporting Primakov's nomination. Kulik announced that his first priority would be to support the country's privatized collective farms. He intends to concentrate on increasing domestic food production and opposes imports.

Deputy Prime Minister (responsible for industry and communications)
Vladimir Borisovich BULGAK, 57

Bulgak was born in Moscow in 1941. He graduated from the Moscow Electrical Engineering Communication Institute in 1963 and the National Economy Management Institute in 1973. Bulgak's early career was based in party work, serving as a Komsomol committee instructor and deputy secretary and secretary of the Komsomol's communication committee. Bulgak then worked in radio engineering, ultimately serving as the deputy head of the Moscow city radio relay network directorate. In 1983 Bulgak began working for the USSR Ministry of Communications, rising to become the RSFSR Minister of Communications in 1990-1991 and then the Russian Federation Minister of Communications until 1997. Bulgak served as Deputy Prime Minister from March 1997 until the cabinet shake-up in April 1998 when he became Minister of Science and Technology. Bulgak has a reputation for being a long-standing supporter of Boris Berezovskii.

Minister of Internal Affairs
Sergei Vadimovich STEPASHIN, 46

Stepashin was one of the first appointments to the new cabinet, retaining the post he held under Kirienko. This is of little surprise given his intense loyalty to Yeltsin. Stepashin was born in 1952 in Port Arthur, and was educated in ideology at the Political School of the Soviet Ministry of the Interior, where he eventually worked as an instructor. Stepashin became the director of the Federal Security Service in 1994. However, he lost this position in June 1995, when he took part of the blame for mismanaging the armed intervention in Chechnya. Despite his association with the unpopular war, Yeltsin brought him back to power as Justice Minister in July 1997.

Minister for State Property

Farit Rafikovich GAZIZULLIN, 52

Gazizullin was born in 1946 in Zelenodolsk, Tatarstan. For nearly twenty years he was involved in local Komsomol and party work, becoming director of the Tatarstan Council of Ministers' department on economics and social development in 1987. In 1989 Gazizullin became the First Deputy Chairman of the State Planning Committee of Tatarstan, and in 1991 he became the First Deputy Prime Minister of Tatarstan and Chairman of the Tatarstan State Committee for Industrial Policies and the Management of State Property. In 1992 Gazizullin moved to federal-level property management, ultimately being named First Deputy Chairman of the State Committee for Managing State Property in 1996. In November 1997 he was named acting Minister for State Property in place of Maksim Boiko.

Minister for Civil Defense, Emergency Situations, and Natural Disasters

Sergei Kuzhugetovich SHOIGU, 43

Shoigu has held this ministerial position since 1994. He was born in 1955 in what is now the Tuva Republic and pursued a successful career in construction in Krasnoyarsk Krai. In 1990 Shoigu joined the state committee on construction and architecture and in 1991 was appointed head of the State Committee on Emergency Situations.

Minister for CIS Affairs

Boris Nikolaevich PASTUKHOV, 64

Pastukhov was born in Moscow in 1933 and was educated at the Moscow Higher Technical School in the 1950s. Pastukhov spent twenty years working for the Komsomol, and was a member of the Central Committee of the CPSU from 1978-1986. Pastukhov served as the Soviet Ambassador to Denmark from 1986-1989 and to Afghanistan from 1989-1991. From 1992-1996 he served as the Deputy Minister for Foreign Affairs, and since February 1996 had been serving as the First Deputy Minister of Foreign Affairs with responsibility for the CIS.

Minister of Foreign Affairs

Igor Sergeevich IVANOV, 53

Igor Ivanov was born in Moscow in 1945 and, in 1969, graduated from the Moscow State Pedagogical Institute of Foreign Languages. After graduation he worked at IMEMO and began working for the Ministry of International Affairs in 1973. Ivanov, who is fluent in both English and Spanish, worked at various positions focusing primarily on Western European affairs, becoming the Soviet Ambassador to Spain in 1991. Ivanov remained in Spain until 1994 when he was named First Deputy Minister of Foreign Affairs. In January 1995 Ivanov was appointed State Secretary and First Deputy Foreign Minister. One of Ivanov's first duties will most likely be to push the Duma to ratify START II. Given his diplomatic background, Ivanov is likely to be more sympathetic to western concerns than Primakov had been as foreign minister.

Minister of Science and Technology

Mikhail Petrovich KIRPICHNIKOV, 52

Born in Moscow in 1945, Kirpichnikov graduated from the Moscow Physical-Technical Institute in 1969, and then proceeded to obtain a doctorate in biology. He built a career in academia for nearly twenty years before serving as the director of the State Committee for Science and Technology in 1989. Since then, Kirpichnikov has held various high-level government positions on science and technology.

Minister of Nationality Policies

Ramazan Gadzhimuradovich ABDULATIPOV, 52

Abdulatipov was born in 1946 in Dagestan. He studied in the history department of Dagestan University and defended his doctoral dissertation at Leningrad State University. From 1988-1990 Abdulatipov directed the Central Committee department for Interethnic relations, and from 1990-1993 he served as Chair of the Nationalities' Council of the Supreme Soviet. Abdulatipov was elected to the Federation Council in 1993, and in 1995 was elected to the State Duma. In August 1997 he became the Deputy Prime Minister in charge of nationality policy, though he lost this position in the Kirienko cabinet reshuffle.

Minister of Defense

Igor Dmitrievich SERGEEV, 60

Sergeev became Minister of Defense in 1997, holding on to this position throughout the subsequent cabinet shake-ups. Yeltsin tends to favor Sergeev because he does not complain about a lack of financial resources for military reform. Born in 1938, Sergeev has led a strong military career, attending two military academies and holding various command positions in the Strategic Rocket Forces, ultimately becoming the chief commander in 1992. Sergeev was the first individual to achieve the rank of marshal in post-Soviet Russia.

Minister of Railroads

Nikolai Emeliyanovich AKSENENKO, 49

Aksenenko was born in 1949 in Novosibirsk. He studied railway transport and engineering and was a graduate student at the Economics Academy. Aksenenko's professional career evolved from an entry-level position at the East Siberian Railroads up to Minister of Railroads, a position to which he was appointed under former Prime Minister Sergei Kirienko.

Minister of Fuel and Energy

Sergei Vladimirovich GENERALOV, 35

Generalov was first appointed Minister of Fuel and Energy under former Prime Minister Sergei Kirienko. Born in 1963 in Simferopol, Generalov's career has been based in

energy and business. He received degrees in radio technology at the Moscow Energy Institute and in administration at the Ordzhonikidze School of Management. Generalov worked for Yukos oil company from 1993 to 1997, becoming the company's vice-president in 1994. He left Yukos in 1997 to serve as Deputy Chairman of the Board of Menatep bank.

Minister of Trade

Georgii Valerievich GABUNIYA, 46

Gabuniya was born in Moscow in 1952 and studied at the Moscow State Institute of International Relations. He then joined a research institute at the USSR Ministry of Foreign Trade. He pursued a career in foreign economic relations, serving in the UN Conference on Trade and Development (UNCTAD) in Geneva, the Soviet Ministry of Foreign Affairs, and in the Russian Ministry of Foreign Economic Relations, where he ultimately served as First Deputy Minister. Gabuniya was instrumental in preparing Russia's application to join the World Trade Organization. Gabuniya was serving as acting Minister of Trade and Industry in Kirienko's cabinet until Maslyukov was appointed to the post in July.

Minister of Transportation

Sergei Ottovich FRANK, 38

Frank was one of the young reformers characteristic of the cabinet of former Prime Minister Sergei Kirienko. He first began working in the Ministry of Transportation in 1995, handling marine transport and eventually becoming deputy minister. Frank was born in Novosibirsk in 1960 and spent his pre-political career in the Far Eastern Shipping Company.

Minister of Finance

Mikhail Mikhailovich ZADORNOV, 35

Born in Moscow in 1963, Zadornov moved straight from academia to high level political work. Zadornov was educated in economics and completed graduate work on direct capital investment in industrial enterprises in 1988. He then worked as a scientific assistant at the economics institute and was drawn in to work as an expert for the Supreme Soviet. In 1990 he joined the Council of Minister's Committee for Economic Reform and was one of the authors of the 500-Day economic reform program. Zadornov was elected to the Duma in both 1993 and 1995 on the Yabloko party ticket. He was first appointed Minister of Finance in November 1997, replacing Anatolii Chubais, who was removed following a scandal in which he accepted \$90,000 for a manuscript from a publisher with connections to ONEXIM Bank.

Minister of Justice

Pavel Vladimirovich KRASHENINNIKOV, 34

Krasheninnkov is another young reformer who joined the cabinet under Sergei Kirienko in April 1998 from the post of Deputy Minister of Justice, which he had held only since August 1997. Krasheninnkov was born in 1964 in Sverdlovsk Oblast and received a candidate's degree in law at the Sverdlovsk Legal Institute. His legal career included teaching civil law and working as an expert for the Supreme Soviet before moving into the Ministry of Justice.

Minister of Economics

Andrei Georgievich SHAPOVALYANTS, 46

Shapovalyants was born in 1952 in Moscow. In 1974 he graduated from the finance department of the Moscow Institute of the National Economy with a degree in finance and credit, and in 1981 he received his candidate's degree in economics. Shapovalyants worked for the State Planning Committee, Gosplan, for over ten years before joining the USSR Ministry of Economics in 1991. In 1991 Shapovalyants became the Deputy Minister of Economics and Finances of the Russian Federation, and in 1992 became the Deputy Minister of Economics. In 1993 he was named First Deputy Minister of Economics, a position he held until his present appointment.

Minister of Education

Vladimir Mikhailovich FILIPPOV

For the five years prior to his present appointment, Filippov worked as Rector of the Patrice Lumumba University. Viktor Chernomyrdin invited Filippov to join his government several times, but Filippov always refused. He agreed to join this time after much persuasion from members of higher educational institutions and the Duma. Filippov hopes to maintain free higher education in Russia, partially by making wealthier Russians contribute more.

Minister of Culture

Vladimir Konstantinovich YEGOROV, 50

Yegorov was born in 1947 in Chuvashiya. He graduated in 1971 from Kazan State University and proceeded to earn a doctorate in philosophy and become an academic at the International Academy of Information. In the 1970s and 1980s Yegorov worked actively for the Komsomol, taught at Kazan State University, and served as the head of the Gorky Literary Institute. From 1990-1991 he served as assistant to the president of the USSR for cultural and religious issues. From 1992-1996 he was the head of the analytical center of the state committee for science and technology and the Ministry of Industry. In November 1996 Yegorov became the director of the Russian State Library, the position he held at the time of his appointment.

Minister of Health

Vladimir Ivanovich STARODUBOV, 48

Starodubov was born in 1950 in Arkhangelsk Oblast and graduated in 1973 from the Sverdlovsk Medical Institute. He worked for more than fifteen years as a doctor and medical instructor before joining the ranks of the Health Ministry in 1989 as the head of Medical-Prophylactic Assistance. From 1990-1994 and again from May 1996, Starodubov served as the Deputy Minister of Health.

Minister of Regional Policies

Valerii Aleksandrovich KIRPICHNIKOV, 52

Kirpichnikov was born in Rostov in 1946. He graduated in 1969 from the Leningrad Poly-Technical Institute and proceeded to serve in the army and build a career in engineering. Kirpichnikov moved to political work in the late 1980s and was elected to the Russian Congress of People's Deputies in 1990. In 1992 he became the president of the Union of Russian Cities. Kirpichnikov ran for governor of Leningrad Oblast in 1996, but lost to Vadim Gustov. He was subsequently named Deputy Governor, and held this position until his recent appointment.

Minister of Atomic Energy

Yevgenii Olegovich ADAMOV, 59

Born in 1939, Adamov graduated from the Moscow Aviation Institute and later earned a doctorate in technical sciences. He worked for more than 20 years at the Kurchatov Atomic Energy Institute and for twelve years at the Institute of Energy Technologies in Moscow. Adamov is a member of the Russian Academy of Engineering Sciences and the New York Academy of Sciences. He was first appointed Minister of Atomic Energy in March 1998 and was reappointed to Primakov's cabinet.

Minister of Agriculture and Foodstuffs

Viktor Aleksandrovich SEMENOV, 40

Semenov was born in Moscow Oblast in 1958. He was trained in agricultural economics and became a state farm director by 1988. Semenov was elected to the Moscow Oblast Duma in 1995, and in 1997 he became First Deputy Head of the Russian Agricultural Industrial Union. He was first appointed Minister of Agriculture and Foodstuffs under Kirienko, and held onto the post in Primakov's cabinet.

Minister of Labor and Social Development

Sergei Vyacheslavovich KALASHNIKOV, 47

Born in Kazakhstan in 1951, Kalashnikov attended Leningrad State University and conducted graduate work in psychology. He worked in oil technology for several years before winning election to the State Duma in 1993 and 1995 on Vladimir Zhirinovskiy's Liberal Democratic Party of Russia (LDPR) ticket. In 1996 Kalashnikov became the chair of the Duma committee for labor and social policies and chairman of the CIS committee on social policies and human rights. Kalashnikov is the only member of the Liberal Democratic Party in the cabinet. He has expressed his support for indexing

pensions as early as November. After Kalashnikov was appointed, Zhirinovskiy announced his party's full support for Primakov's cabinet. Zhirinovskiy had strongly supported the ratification of Chernomyrdin for a second term.

Minister of Natural Resources

Viktor Petrovich ORLOV, 58

Orlov was born in Krasnoyarsk Krai in 1940. He graduated from Tomsk State University in 1968 and began a career in geology. Orlov worked in geological enterprises in Western Siberia until 1981 when he became the deputy chief of geological management for the RSFSR Ministry of Geology. He received a graduate degree in 1986 from the USSR Council of Ministers' Academy of the People's Economy and became general director of Central Geology. Since 1990 Orlov has served at various national level posts concerning geology and natural resources. From August 1996 to April 1998 he was the Minister of Natural Resources.

NOTE: Yeltsin still has not appointed a minister to the **Ministry for Anti-Monopolist Policies**. Deputy Prime Minister (for economic issues) Aleksandr Shokhin resigned ten days after his appointment, citing unhappiness over the appointment of Zadornov, and his duties have been divided between Primakov and Maslyukov.

PRESIDIUM: The Presidium will include the Prime Minister, the two First Deputy Prime Ministers, Deputy Prime Ministers Bulgak, Kulik, and Matvienko, and the Ministers of Internal Affairs (Stepashin), Defense (Sergeev), Foreign Affairs (Ivanov), Economics (Shapovalyants), Finance (Zadornov), and State Property (Gazizullin). The governors presiding over the eight regional associations have also been included. They are: Mordoviya President Nikolai Merkulshin (Great Volga), Sverdlovsk Governor Eduard Rossel (Urals), Khabarovskii Krai Governor Viktor Ishaev (Far East and Trans-Baikal), Rostov Governor Vladimir Chub (North Caucasus), St. Petersburg Governor Vladimir Yakovlev (Northwest), Tomsk Governor Viktor Kress (Siberian Accord), Yaroslavl Governor Anatolii Lisitsyn (Central Russia), Orel Governor Yegor Stroev (Black Earth). The chair of the Central Bank and the president of the Russian Academy of Sciences occupy the final two spaces in the presidium. -- Compiled by Danielle Lussier

REGIONAL PROFILE: KRASNODAR KRAI

Governor: Nikolai Kondratenko

Nikolai Kondratenko -- one of the very few regional leaders who consistently supports the Communist hard-liners and criticizes the central government -- won election on 22 December 1996 by a large margin. He could have assumed gubernatorial responsibilities two months earlier when he received twice as many votes as incumbent Nikolai Yegorov, but the results of the October 1996 voting were annulled because turnout was below the required 50 percent.

Kondratenko, who worked as a party functionary during the Soviet era, refused to join the Communist Party of the Russian Federation (KPRF) when it was resurrected in 1993. However, the KPRF, as well as other opposition movements, such as the People's Patriotic Union of Russia (NPSR) and Krasnodar political organization "Otechestvo" ("Fatherland"), supported him during the campaign. Moreover, he was included in the opposition shadow cabinet and is said to have good chances of becoming deputy prime minister in charge of the economy if the opposition ever comes to power.

In his home region, Kondratenko is implementing an orthodox-Communist economic policy. His agenda includes paying wages, social security benefits, and pensions on time, and protecting local industry from outside competition. In 1997, he ordered an examination of privatization in the region, which, he believed, had resulted in the concentration of "national wealth in the hands of a small group of people, provoked numerous complaints from workers' collectives, ... and exacerbated the economic crisis." His administration has limited the export of grain beyond krai borders. Last year, it issued a decree that allowed selling grain to outside customers only at a price which exceeded world levels. As a result, a lot of grain rotted in storage because nobody would buy it for such an artificially high price.

Kondratenko is also renown for his ultra-nationalist and anti-Semitic speeches. He is convinced of a global Jewish conspiracy and blames the Jews, as well as other foreigners, for the collapse of the Soviet Union, destruction of the Communist Party, the Chechen war, and country's economic crisis. His xenophobic convictions have become krai policy -- several foreigners working for various institutions were recently expelled from the region. Additionally, his administration is often charged with human rights violations, particularly of some 12,000 Turk--Meskhetian refugees who fled to the region from Uzbekistan but are denied residency permits and, as a result, the right to work and receive medical care and other social benefits.

Kondratenko is a consistent critic of the federal government. He has repeatedly denounced President Yeltsin and his cabinets for conducting genocidal policies. He has called on the federal government to transfer its shares of enterprises crucial to the regional economy to the regional administration's ownership or management. He has also threatened the center with the possibility of organizing a sustainable independent military, based on Cossack units, in case of a new standoff in the North Caucasus.

As much as he does not like the Russian Federation leadership, he admires Belarussian leader Alyaksandr Lukashenka and supports the Russian-Belarussian Union. He has also tried to establish closer ties with Ukraine and, surprisingly, the rebellious Republic of Chechnya.

Other Local Leaders

Chairman of the Legislative Assembly -- Vladimir Beketov, former local administration head, elected in December 1995. Next election to regional legislature is scheduled for November 22, 1998.

Presidential representative -- Vitalii Spiridonov, appointed in February 1997; reportedly, is "an enemy" of the governor.

Brief Overview

Krasnodar Krai lies in the western part of the North Caucasus. The region borders Rostov Oblast, Stavropol Krai, Karachaevo-Cherkes Republic, the Republic of Adygeya (which was an autonomous oblast within the krai until 1991), and Georgia (Abkhaziya) and its coastline stretches along the Sea of Azov and the Black Sea to the Caucasus Mountains. The regional capital -- Krasnodar (until 1920 Yekaterinodar) -- located on the Kuban River, was founded in 1793 as a guard post of the Kuban Cossacks.

The region is the 16th largest in the country according to total reserves of various mineral resources, such as oil, gas, marble, limestone, iron ores, salt, and mineral and thermal waters. The northern two thirds of the krai territory contain an extensive plain where the rich black earth soil is used for intensive agriculture, which, along with the food-processing industry, dominates the regional economy and makes the region one of the country's most important "bread baskets."

Oil and gas extraction, particularly on the Tamann Peninsula, is also a significant contributor to the regional GDP. Other local industries include energy, chemicals, light industries, machine and equipment building, forestry, and timber-working. The krai also has a well-developed transport infrastructure. The city of Krasnodar is an important railway junction and there are large Black Sea ports at Novorossiisk and Tuapse.

Basic Facts

Population (as of Jan. 1, 1997): 5,070,200 (3.44% of Russian total)

Urban population (1989 census): 54.2% (Russia overall: 73.0%)

Student population (1996): 107 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 26.95% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 9.2% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 20.7% (Russian average: 29.9%);

Agriculture: 22.7% (12.8%); Trade: 10.9% (9.1%); Culture: 10.9% (13.6%);

Management: 1.9% (2.3%)

Average monthly personal income in 1996: 532,000 rubles (Russian average: 764,000 rubles)

Average monthly personal expenses in 1996: 506,000 rubles (Russian average: 753,000 rubles)

Average monthly subsistence requirement in 1996: 273,500 rubles (Russian average: 369,400 rubles)

Consumer price index (as of Dec. 1996): 99.84 (Russia overall = 100)

Industrial production as percentage of all Russian production (1996): 1.21%

Proportion of loss-making enterprises (1996): 40% (Russia overall: 56%)

Number of enterprises which have wage arrears (1996): 1,162 (1.26% of total number of regional enterprises)

Agricultural production as percentage of all Russian production (1996): 3.78%

Number of private farms (as of Jan. 1, 1997): 22,489 (8.07% of Russian total)

Capital investment (1996): 8,917.7 billion rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): federal budget: 6.3% (Russian average: 9.2%); regional budget: 1.9% (9.6%); enterprises: 63.9% (66.3%)

Number of joint ventures (as of Jan. 1, 1997): 309 (1.92% of Russian total)

Fixed capital investment in joint ventures and foreign companies (1995): 460,931 million rubles

Number of small businesses (as of Jan. 1, 1997): 28,936 (3.44% of Russian total)

Number of enterprises privatized in 1996: 146 (2.92% of Russian total), including those which used to be municipal property: 60.9% (Russian average: 67.1%); regional property: 11.0% (14.3%); federal property: 28.1% (18.6%)

Number of telephones per 100 families (1996): in cities: 39.5 (Russian average: 48.7); in villages: 20.4 (19.7)

According to a 1997 survey by *Ekspert* magazine, the krai is ranked 7th among Russia's 89 regions in terms of investment potential and 9th in terms of investment risks. A 1998 survey by Bank Austria ranked the krai 12th in terms of investment climate.

Electoral History

1996 Gubernatorial Election

Kondratenko (NPSR): 82.00%

Krokhmal: 7.18%

Yegorov (incumbent): 4.83%

Vavilov (LDPR): 1.42%

Dyakov (Union of Kuban's Resurrection): 1.13%

Suslov: 0.32%

Pozdnyakov: 0.14%

Turnout: 48.63%

1996 Presidential Election

Zyuganov: 39.42%/52.48% (first round/second round)

Yeltsin: 26.26%/43.89%

Lebed: 17.49%

Zhirinovskiy: 6.38%

Yavlinskii: 6.36%

Turnout: 67.19%/65.12% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Communist Party of the Russian Federation: 24.39%

Liberal Democratic Party of Russia: 15.19%

Our Home Is Russia: 6.80%

Congress of Russian Communities: 6.55%

Communists -- Workers' Russia: 6.46%

Yabloko: 6.39%

Party of Worker's Self-Government: 4.38%

Women of Russia: 2.99%

In single-member districts: 2 Communist Party of the Russian Federation, 3 Power to the People, 1 Union of Labor, 1 independent

Turnout: 60.53% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 50.10% "No" -- 47.84%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 25.48%

Communist Party of the Russian Federation: 16.82%

Russia's Choice: 11.90%

Yabloko: 9.51%

Women of Russia: 8.57%

Agrarian Party of Russia: 7.59%

Party of Russian Unity and Concord: 7.51%

Democratic Party of Russia: 5.65%

In single-mandate districts: 1 Agrarian Party of Russia, 6 independent

From electoral associations: 1 Russia's Choice, 1 Agrarian Party of Russia

Turnout: 56.71% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 45.89%

Ryzhkov: 24.26%

Zhirinovskiy: 12.87%

Tuleev: 6.82%

Makashov: 3.19%

Bakatin: 3.46%

Turnout: 72.83% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; T. Matiyasevich, N. Mogel, S.A. Nagaev, M. Rossmann, L.I. Smirnych, and A. Woergoetter, *Russia: Regional Risk Rating*, Vienna: Bank Austria, 1998; *Ekspert*, 8 December 1997; *Roadmap to Russian Regions*, Salomon Brothers, 1997; *Goskomstat, Regioni Rossii* [Regions of Russia], Moscow, 1997; *Central Electoral Commission, Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii* [Elections of the top executives of the federation subjects of the Russian Federation], 1995-1997, Moscow: Ves mir, 1997.

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BREAKING NEWS

POLITICS

SHAIMIEV BACKS PRIMAKOV FOR PRESIDENT. Tatarstan President Mintimer Shaimiev argued that Prime Minister Yevgenii Primakov could keep the country from slipping into chaos as the next president if President Boris Yeltsin were to resign in an interview with *Izvestiya* on 21 October. Shaimiev is one of the regional leaders who would like to see someone other than Moscow Mayor Yurii Luzhkov as Russia's next president. Shaimiev said that Primakov would be a good president because he is not seeking power, was willing to take on responsibility in a difficult time, is well known abroad, is quickly able to orient himself in his new job, and would preserve democratic freedoms in Russia. The idea of Primakov's candidacy gained wide credibility when NTV's *Itogi* publicly aired the idea on 18 October.

Shaimiev was careful to point out that he was not calling for Yeltsin's resignation. However, he noted that to be president, one must have direct information of what is going on. Yeltsin has been ruling the country recently based on the information provided to him by his staff, Shaimiev noted, suggesting that the information he received was not objective.

Shaimiev also said he believed that former privatization chief Anatolii Chubais and former Prime Minister Sergei Kirienko would return to the government to carry out further market reforms.

KONDRATENKO EVADES GOVERNMENT CRACKDOWN. Krasnodar Krai Governor Nikolai Kondratenko has found a way around a government order revoking decrees of regional leaders that limited the export of food beyond regional borders. In exchange for removing his decree, Kondratenko has forced regional growers and food processors "voluntarily" to give first priority to supplying the krai market in the form of a reserve food fund set up by the governor. The measure hurts the region's growers because prices in Krasnodar are lower than in central Russia and the krai administration plans to buy grain at sub-market prices, reducing producers' income further still. Many krai producers have already signed contracts to deliver food to other regions and will have to pay fines if they don't meet these obligations. Three quarters of the krai's agricultural enterprises already owe the fund 510 million rubles, 386 million of which are krai back taxes. (*Kommersant Daily*, 21 October)

PRUSAK WANTS TO DUMP PRESIDENTIAL REPRESENTATIVES, APPOINT GOVERNORS. Novgorod Governor Mikhail Prusak suggested that President Yeltsin appoint him as the presidential representative in his region. The position is currently vacant because former presidential representative Mikhail Dyagilev was recently appointed head of the local customs service. The presidential representative is supposed to report to the president on the situation in the region and coordinate the activity of the federal agencies working there. These agencies include the military and security services, tax collectors, the Ministry for Emergency Situations, forestry service, and others. Prusak claims that the presidential representative duplicates the work that he already does and is therefore inefficient.

He wants the president to appoint governors so that there will not be a repeat of the situation that occurred on 7 October, when some of the governors joined the nation-wide protest against Yeltsin. Prusak described the situation as "nonsensical" when one part of the executive branch protests against itself (*Segodnya*, 21 October). In the unlikely event that Prusak's proposals were implemented, the governors would become more powerful than they are now, but also more beholden to the president.

SVERDLOVSK SEEKS ADDITIONAL HORIZONTAL TIES. Sverdlovsk Governor Eduard Rossel signed agreements with Yamal-Nenets Autonomous Okrug and Saratov Oblast on 19 October. The agreements include plans for joint research programs, exchanges of industrial goods, consumer goods, and foodstuffs. With Yamal, Rossel hopes to develop mining opportunities, as well as build roads, housing, and industries in the northern region. He expects to receive grain, electric buses, fuel, and domestic appliances from Saratov. *Vremya MN* (20 October) considers the establishment of these links as part of a strategy by Rossel to build up an economic network that is beyond the control of the Kremlin. In the last month, he has also visited Kazakhstan, Armenia, and Finland, seeking to expand his connections abroad.

KALMYKIYA ELECTS PRO-ILYUMZHINOV LEGISLATURE. In the 18 October legislative election, Kalmykiya's voters elected a pro-Ilyumzhinov 27-member legislature. President Kirsan Ilyumzhinov said that the new deputies would quickly get down to business (*Kommersant Daily*, 20 October). Yabloko and the Communist party ran opposition candidates in most of the districts, but not one of them was elected. Many campaigned on such themes as "Down with Feudalism," but voters rejected these candidates probably because they were too reminiscent of Moscow's recent criticisms following the murder of independent journalist Larisa Yudina, *Nezavisimaya gazeta* (21 October) commented.

FEDERATION COUNCIL BLOCKS PRESS PRIVILEGES. The Federation Council is holding up financial benefits for Russia's press. If the state aid is not approved, many publications could become financially untenable. Three years ago Russia adopted a law on the media that gives the press customs and tax benefits (canceling the 20 percent value added tax, customs fees, and some of the profit tax). The law has now expired and must be extended.

The Federation Council action is actually self-contradictory. On one hand, the upper council approved aid for the media in principle. However, it failed to set the actual customs and tax benefits, so the law cannot be implemented in practice (*Moskovskii komsomolets*, 16 October).

Samara Governor Konstantin Titov argued that providing such benefits was a big blow to the state budget and, moreover, many publications were published abroad. As a result, the Russian state was effectively subsidizing foreign workers, he claimed (NTV, 15 October). Titov would prefer to support local printers. His concerns are not unfounded. Fifty six percent of Russian journals and 15 percent of its newspapers are printed abroad, mostly in Finland (*Segodnya*, 16 October).

The media naturally accuses the governors of trying to control the press and limiting Russians' freedom of speech (*Kommersant Daily*, 16 October). Without the federal support, many of the local media would become even more dependent on their governors.

ECONOMICS

EKSPERT PUBLISHES NEW REGIONAL RANKINGS. The business journal *Ekspert* (19 October) has published its annual ranking of Russia's 89 regions two months early this year. The survey draws mostly on information from 1997 and was produced early to give investors a sense of investment opportunities in the rapidly changing environment after the beginning of the economic crisis on 17 August. The journal reports that signs of financial crisis, particularly in deficits in regional budgets, were already apparent in the regions last year.

The top ten regions in Russia according to the new rankings are: the city of Moscow, St. Petersburg, Moscow Oblast, Sverdlovsk, Krasnoyarsk, Khanty-Mansi, Samara, Perm, Tatarstan, and Nizhnii Novgorod. Yamal-Nenets and Khanty-Mansi were the regions that made the greatest improvements during the last year. Kareliya, the southern part of Tyumen Oblast (excluding Khanty-Mansi and Yamal-Nenets), and Belgorod showed the greatest drop in potential.

Moscow and St. Petersburg alone make up 20 percent of Russia's investment potential. Moscow alone provides 40 percent of the federal budget's income. In 1997 it attracted 78 percent of Russia's foreign investment potential. At the same time, the investment activity in many of the regions dropped noticeably.

FOREIGN COMPANIES REMAIN IN RUSSIA FOR THE TIME BEING. Most large foreign companies are continuing to do business in Russia despite the on-going crisis, but it is not clear how long they will stay. Although American candy-maker Mars refused to talk to journalists, *Nezavisimaya gazeta - Politekonomiya* (October) reported that the firm had shut down its plant in Stupino (Moscow Oblast) because of the crisis and it did not know when it would resume production. The firm's pet food plant in the oblast is partially working. The workers are on leave and the local administration did not know if they were being paid. Cadbury's plant in Novgorod Oblast was shut down

temporarily, but now it is working again. Since consumer buying power has dropped considerably, most people are buying essentials rather than chocolates.

Despite the crisis, Swedish furniture maker IKEA is still forging ahead with plans announced last year to spend about \$1 billion opening 6 stores in Moscow and 3 in St. Petersburg. The firm is planning to open its first store along the road between Sheremetev airport and Moscow next October.

PRIMAKOV RESTRUCTURES KAMAZ, ROSTSELMASH DEBTS. On 15 October Prime Minister Primakov restructured more than a billion dollars worth of KamAZ's debts so that the plant's creditors will receive shares in the plant instead of money. The Tatarstan-based truck maker will issue \$1.2 billion in stock to cover the debt. The governments of Russia and Tatarstan each own 25 percent of the plant's stock already. The effect of the state's move is to forgive the plant's debts since the Russian government will not receive any dividends from the shares it owns. However, *Finansovye izvestiya* (21 October) pointed out that the plant will be unlikely to find any new creditors and without them the plant will be unlikely to become profitable.

KALININGRAD AUTHORITIES HURT CHICKEN FACTORY. Kaliningrad's Pribrezhnaya Chicken Factory, Russia's largest, is on the verge of bankruptcy because the oblast authorities have imposed a high tariff on the imported eggs it needs to grow the chickens that it sells. The factory must import eggs from Holland because the Dutch eggs produce saleable chickens within 40-42 days, whereas domestic eggs take 54-56 days. The longer wait cuts deeply into the firm's profit margin. The factory also supplies the heat for one of Kaliningrad's suburbs, but the city authorities hold up the payments that come in from the population. As a result, the factory cannot pay Mezhtregiongaz for the natural gas that it buys and supplies have been substantially reduced. (*Vremya MN*, 21 October)

PETERSBURG SURVIVES ANOTHER FLOOD. Strong winds caused the waters in St. Petersburg's rivers and canals to rise more than two meters higher than their usual level on 19 October. This 229th flood in St. Petersburg's history caused no casualties and little damage. During the largest flood in 1824, which inspired Pushkin's famous poem, *Bronze Horseman*, the water rose over 5 meters. City engineers fear that there will be a more damaging flood later this fall. The gigantic dam in the Bay of Finland, designed to protect the city, remains uncompleted. Now, there are fewer environmentalists opposed to the project than in the past, but simply no money to finish construction. (*Segodnya*, 20 October)

SAMARA WANTS TO BE AN AIR TRAFFIC HUB. Samara wants to establish itself as an air-traffic hub so that passengers can travel from one region to another within Russia without having to go through Moscow. Seventy percent of Russia's air traffic now goes through Moscow, making it time-consuming and expensive to travel from region to region. If the idea is implemented, it could make air travel cheaper and quicker than it is now. The idea has the backing of 26 regional carriers from the Volga, Urals, Far East,

and several CIS countries. Additionally, 14 regional carriers have agreed to create a unified company on the base of the Samara airport. (*Kommersant Daily*, 16 October)

DISPATCHES FROM THE FIELD

IN POST-NEMTSOV ERA, BUDGET BATTLES CONTINUE TO DIVIDE NIZHNI NOVGOROD MAYOR, GOVERNOR

by Robert Orttung, EastWest Institute

NIZHNI NOVGOROD - After more than a year of tumult and scandal that somewhat tarnished its reformist reputation, the city of Nizhni Novgorod finally elected Yuri Lebedev as its mayor on 11 October. The trouble began when former Governor Boris Nemtsov left in March 1997 to serve as first deputy prime minister in the Russian cabinet. Following Nemtsov's departure, former Nizhni Mayor Ivan Sklyarov won a narrow victory over the Communists to succeed Nemtsov. Sklyarov's victory opened up the mayor's seat, and set the stage for another round of elections. Local businessman and former Nemtsov economic advisor Andrei Klimentev won the city's top seat on 26 March 1998. This result did not sit well with the Yeltsin administration though, so the results were quickly canceled and Klimentev was given a six-year prison term for the improper use of a state grant. Nemtsov and Klimentev had fallen out long before the elections. Lebedev, a former Nemtsov assistant who had lost the governor's race to Sklyarov, was then serving as Yeltsin's representative to the region and resigned in protest over the federal intervention into the city's electoral process. During the summer and fall, the city witnessed a nasty battle between Lebedev and former Mayor Dmitri Bednyakov for the mayor's chair. With Klimentev sidelined, Vladimir Semago, a Communist member of the State Duma who also owns a bank and casino in Moscow, joined the race as a surrogate for the jailed entrepreneur. However, his lackluster campaign and outsider status greatly limited his electoral appeal. Now, with the excitement of the campaign over, the city leaders are returning to the difficult job of governance.

Built around the confluence of the Volga and Oka rivers, Russia's third largest city, with a population of about one and a half million, has a relatively small town feel. The governor, mayor, both the oblast and city legislatures, and presidential representative all have offices within the walls of the old Kremlin, sitting above the banks of the Volga. Even Klimentev's Rokko casino is not far off.

Although under Nemtsov the city was considered a "bastion of western-style reform," its overall look does not seem to have changed much. While the local authorities have restored some of the crosses to the churches and fixed up the old Yarmarka exhibition center, the city has very little of Moscow's current glitter. McDonald's built its first of three local restaurants in what used to be Nizhni's largest bookstore, Baskin Robbins has an outlet, and there are some Western cosmetics dealers, but most of the stores and cafes are domestic. Unfortunately, since the crisis began, the number of customers in the cafes plunged and local business activity has been sharply curtailed.

Despite these problems, the situation is far from bleak. Fiat has reconfirmed its commitment to assemble its cars at the city's Gorky Automobile Factory, and the first vehicle is expected to roll off the line by the end of the year, only a few months behind schedule. One definite problem though is that nobody knows how many Russians will have the \$12,000 - \$14,000 to buy one of the cars. Coca Cola Inchscape Bottlers Nizhnii Novgorod has also announced that it will stay in the market for the long term and is planning not only to keep on its current 290 employees, but to hire more for its sales department. Intel is working with 40 local firms to increase the general demand for its chips. The company's representatives are particularly targeting the children's market since these computer users tend to be neglected by firms hoping to sell numerous computers to businesses.

On 18 October, the day of his inauguration as the new mayor, Lebedev organized a big concert on Minin and Pozharskii Square in front of the city's Kremlin. One of his campaign themes had been that his administration would be more open to the people and on this Sunday afternoon, he was standing in the middle of a crowd, about a foot taller than most of his audience, reassuring everyone that the situation would quickly stabilize. While singers entertained a few hundred listeners nearby, young activists from Vladimir Zhirinovskiy's Liberal Democratic Party of Russia sought to coopt the gathering as a show of support for their party. College students distributed the party's newspaper, which claims a readership in 89 regions, while about 20 others waved the blue party flag with the letters LDPR. Zhirinovskiy made a big splash in the city when he threw a glass of orange juice on then-Governor Nemtsov during the 1995 State Duma campaign, an incident that hurt Zhirinovskiy's standing among locals.

With the election campaign now over, the big question in Nizhnii is how the new mayor will get on with the governor. Typically in Russian regions, the mayor of the capital city and the governor are at loggerheads because the governor usually wants to subsidize the relatively poor rural regions at the expense of the city, which gives more money to the oblast budget than it receives back. Mayors want to keep money earned by the urban population from drifting beyond city limits. Governors typically have all the power in this situation because they control the oblast and city budgets. Mayors naturally try to gain greater independence for their city budget. In 1994, then-Mayor Bednyakov sought to separate the city and oblast budgets. Such a move would have given him control of the city's wealth while limiting Nemtsov's sphere of influence to the poorer outlying area. Naturally Nemtsov could not allow such a development and forced Bednyakov out of office by disrupting the mayoral elections. When it became obvious that Nemtsov's candidate would not win, Nemtsov had him withdraw and the elections had to be canceled because according to Russian law there have to be at least two candidates for the elections to be valid.

Sklyarov and Lebedev have a history of conflict. They both sought the governor's chair last year and Sklyarov's administration openly supported Bednyakov in the mayoral campaign. Bednyakov's campaign manager was Ilya Lastov, an advisor to the governor. In the runoff, however, the governor's administration essentially dropped its backing for

Bednyakov and did not oppose the ultimate victor (*Birzha*, 15 October). Lebedev's success is a clear defeat for Sklyarov.

Although both sides say that they want to work together, the outlines of their potential conflict are already becoming clear. The main point of dispute will be the division of the budget pie, the same issue that divided Nemtsov and Bednyakov (*Gorod i gorozhane*, 15 October). The Nizhnii Novgorod Oblast Duma has already begun debating the oblast's 1999 budget. Governor Sklyarov wants to update the 1996 budget norms to give all parts of the oblast sufficient funds to maintain a minimum standard of living (*Nizhegorodskii rabochii*, 17 October). Adopting such a plan would naturally cost the city money, while providing more support to the rural areas. After meeting with the mayor, the deputies in the oblast legislature representing the city of Nizhnii Novgorod voiced their opposition to the governor's proposal. They believe that the plan would force the city to increase rents and the rates that it charges for municipal services, while the mayor called for a moratorium on such hikes during his campaign. The battle over the 1999 budget is just beginning and it looks like it will be intense given the severity of the economic crisis.

Taking the reigns of power in a city that has lived for more than a year without a mayor in the middle of financial instability is not a job many would want. Only 35 percent of the people think that Lebedev will be able to improve the situation, while the rest believe it will stay the same or get worse. Among Lebedev's first moves was to announce his clear support for the foreign-financed Spring Investments project to build a four-star hotel in the city's historic center. Work on site was halted when an ancient graveyard was discovered on the land. Both the governor and the local church leaders called for blocking the project and moving it to a different site. No progress was made on the issue during the heat of the campaign. Now Lebedev wants to green light the project so that direct foreign investors will feel secure working in the region, creating new jobs and generating hard currency revenue for the city budget (*Delo*, 16-22 October). Most of the deputies in the oblast duma back Lebedev on this point, but the body's leadership, supporting the governor's position, is opposed.

Lebedev hopes to revive industrial production by waiving the fines and penalties local industries owe on their tax arrears. However, this proposal is likely to have little effect since the mayor plans to take additional measures to force the enterprises to pay their tax arrears. He wants to pay pensions by using an innovative oil swap scheme that is already generating 30 percent of the money used to pay local pensions.

Governor Sklyarov has done a poor job dealing with his new challenger since one of his first moves was to try to gain greater control over the local media. The mayoral campaign was often a battle that pitted the local television broadcasters against each other. According to *Birzha*, the broadcaster Seti NN beat out its competitor local broadcasters Volga and NNTV. On 8 October Deputy Governor Olga Savinova announced that the administration would register journalists who would be allowed access to oblast officials and declared that the services of the pro-Lebedev Seti NN would not be required. Only two correspondents from other publications and broadcasters would be allowed access (*MK v Nizhmem Novgorode*, 15-22 October). Savinova declared that by asking so many

questions, the journalists kept administration employees from their jobs. Lebedev's current openness cannot help but look good against this background.

When Sklyarov was running for governor, he and Moscow Mayor Yurii Luzhkov made common cause against their mutual enemy, Nemtsov. Now the provincial governor and big city mayor have few common interests. Unlike Saratov, Nizhnii does not rebroadcast the Luzhkov-controlled TV-Tsentr. However, a local version of the pro-Luzhkov *Moskovskii komsomolets* is available and a recent issue dutifully reproduced the Moscow mayor's anti-crisis program. Luzhkov is just trailing Communist Party leader Gennadii Zyuganov (29-26.7 percent) in the latest regional public opinion polls.

Bednyakov damaged his chances in the mayoral race by relying too heavily on negative campaigning, according to *Delo*. He accused his opponents of various Moscow connections without supporting evidence. He also insulted Lebedev by claiming that he had not made his alimony payments. Additionally, he lost support among his traditional intelligentsia-based electorate by trying to attract the worker and peasant vote with rude slogans.

Nemtsov, who since resigning his government position is now serving under Yeltsin on the presidential Council on Local Government, clearly intends to play a big role in the life of the region. He said that he will help coordinate the relations between the new mayor and Moscow and will provide weekly oversight (*Delo*, 16-22 October). He admits, however, that many tasks, such as passing laws on land use and investor rights, will have to be accomplished at the level of the oblast legislature. He used the occasion of Lebedev's inauguration to announce the formation of a new political party called Young Russia. If things go well for him in Nizhnii, he will expand his political activity to other regions.

Despite Nizhnii Novgorod's reputation for successful innovation, it is facing many of the same kind of problems that afflict all Russian regions. Hopefully, the current crisis will stimulate the governor and mayor to work together to find a way out.

PATTERNS OF REGIONAL DEVELOPMENT

SVERDLOVSK GOVERNOR, MAYOR BATTLE OVER BUDGET

by Dmitrii Strovskii, Urals State University

YEKATERINBURG -- Sverdlovsk Governor Eduard Rossel presented his 1999 budget proposals to the Oblast Duma on 8 October, stressing several positive economic developments in the central Urals region. He said that this year he is planning to spend 20 percent more on construction than last year. Machine building has increased, and there has been a tangible growth in small businesses, he claimed. Rossel admitted that the crisis has had an impact on the economy, causing tax collection to fall and hindering the development of the region's financial system. Nevertheless, his presentation did not

dramatize the situation and he blamed most of the region's problems on the federal government.

Many deputies did not agree with Rossel's conclusions and views for developing Sverdlovsk Oblast. They assert that a decrease in the real standard of living was noticeable in the first half of 1998. This drop raises doubts about the economic well-being of the oblast. Several of the suggestions in Rossel's draft budget caused serious concern among the majority of deputies. Among the most controversial ideas were: the introduction of a regional currency, a \$500 million Eurobond issue, the possibility of abolishing social benefits provided to citizens in accordance with federal and oblast laws, and the nationalization of banks and various industries. Implementing such initiatives could exacerbate the already difficult situation in the oblast.

When commenting on Rossel's document, Yekaterinburg Mayor Arkadii Chernetskii, who also chairs the Duma Committee on Legislation and Local Government, mentioned one positive aspect. He pointed out that for the first time in three years, the oblast budget takes a differentiated approach to forming the budget of the oblast's cities, and gives them the main responsibility for their own development. Nevertheless, Chernetskii asked why the oblast administration had conducted a socio-economic experiment for the last three years in a way that caused significant damage to the municipalities and the economy of the oblast as a whole. According to Chernetskii, the oblast has already lost more than one and a half trillion rubles.

Chernetskii also criticized the strategy for forming the oblast budget. He believes that the oblast government, as before, is trying to solve its problems at the expense of Yekaterinburg. He is particularly angry that the oblast has lowered the city's share of income tax receipts to 30 percent, when not long ago the city retained 100 percent of the money collected from this source.

Clearly, Chernetskii's statements should be evaluated in light of the up-coming gubernatorial elections, set for next year. The controversy surrounding the budget is the first artillery for the forthcoming political battle.

ROSSEL CONSIDERS INTRODUCING LOCAL CURRENCY. The most interesting part of Governor Rossel's 109-page draft budget is the call to introduce a local currency in Sverdlovsk. This proposal inspired memories of the so-called "Urals Franc," a monetary surrogate printed in Sverdlovsk in 1991 during a catastrophic shortage of cash. This money substitute served as a symbol of the notorious "Urals Republic," Rossel's plan to create a separatist state that resulted in his dismissal as regional executive. After that the franc was never used, not counting the oblast administration's unsuccessful attempts to use it to pay children's benefits, and Serov Metallurgical Factory Director Anton Bakov's attempts to use it as a food rationing coupon to feed his employees.

The governor's response to questions regarding the introduction of a local currency was predictably confusing: "The [oblast] minister of economics wrote about this, and why it

was written does not need to be discussed now." He then explained that the prescribed unit is not really money but rather trade coupons issued in accordance with the volume of goods produced in the oblast. These coupons could prove useful if the money supply shrinks and there is not enough cash to pay salaries. Then, cash could be replaced with oblast coupons. However, the governor did not explain why the coupons nevertheless would be called a monetary unit.

Many economists and businessmen are seriously concerned about Rossel's desire to introduce a local currency. According to the chair of the oblast Duma Committee on Industrial Policy, Boris Choinzonov, the appearance of a regional monetary surrogate will not protect the oblast from a shortage of cash, rather it would speed the destruction of a unified Russian market. Neither the governor nor the oblast Economics Minister, Galina Kovaleva, can say how Sverdlovsk will use this money to settle accounts with Perm or Chelyabinsk.

However, the introduction of a Urals currency is still far off. The local legislators disapprove of the idea and it is unclear how it will be received in Moscow and in the Ministry of Finance, whose approval is necessary. It is true that the federal government approved of the "Urals Franc" in 1991, but that was before the "Urals Republic."—
Natalia Mints

MOSCOW POLICE HARRASS OUTSIDERS

by Nabi Abdulaev

MOSCOW -- Undoubtedly, Moscow is the city where the democratic reforms that are being conducted in Russia are most fully developed. However, the continued use of the *propiska* system, which regulates who can live in Russia's capital, raises doubt about the sincerity of the democratic aspirations of Moscow's leadership.

There has been a great deal written on this topic, but personal experience provides a much better understanding. I came from Makhachkala to Moscow, but because of an illness I was unable to register my residency within the three allotted days. To be honest, I did not see any necessity in this; I am a Russian citizen and the Constitution states that I am equal to all the other citizens of the country, independent of residency. Nevertheless, after several days, I was stopped by a policeman at the metro station who examined my passport with its Makhachkala residence permit and invited me to come to the police station. At the station, he aggressively questioned me about my affairs and the reasons for my presence in Moscow. I produced my press credentials and answered that I was in Moscow on personal business. Showing my press credential instantly changed the tone of my interlocutor and he let me go apologetically.

However, my Asian appearance brought me down once again, and this time I did not escape so easily. I was stopped by a police patrol near my apartment, which I legally own, but do not have registered. After examining my documents, including my press credentials and an accreditation card issued by the State Council and government of

Dagestan, the police officers subjected me to a body search right on the street. Then, having seized my documents, they demanded that I get in their car. They drove me to a secluded place and tried to extort money from me, threatening to take me to the station where they would "find" weapons or drugs in my possession. When I agreed to pay the Moscow city fine of 8 rubles for failing to register, they laughed in my face and suggested that I complain to Moscow Mayor Yurii Luzhkov. Only after I gave them 80 rubles did the officers return my documents and let me go.

By paying I was forced to break the law, but if I did not pay, I could have easily become the victim of an even greater lawlessness. The central newspapers constantly publish articles about how the police "improve" the statistics in the struggle with the circulation of narcotics and weapons through forbidden methods. I still believe that I am right in thinking that the less contact you have with representatives of the law, the safer you are. Bringing my complaint before the court would leave me dissatisfied since there were no witnesses to my blackmail and the testimony of a "person of Caucasian nationality" carries considerably less weight than the testimony of two policemen.

However, the police hunt more than just "people of Caucasian nationality." My friend Fedor Zavyalov, a correspondent for ITAR-TASS in Dagestan who is Russian with a Russian appearance but is registered in Dagestan, was detained by a police patrol in Moscow. They did not examine his documents, but brought him straight to the police station for an interrogation. There they searched him and took 1,000 rubles from his wallet. They held him overnight in the jail with vagrants and prostitutes and in the morning they made him sign a document stating that he had no grievances against the police.

Among the numerous problems the passport regime causes, I will mention just two. First, the mayor's directive does not achieve its goal of controlling those who come into the city, rather it serves to illegally increase the wealth of the police. Second, the Constitutional Court of the Russian Federation has officially abolished residence registration for Russian citizens. Nevertheless, Luzhkov continues to enforce it. As of late, Luzhkov is considered a top candidate for the Russian presidency, which causes one to think about whether a democratically elected president will violate the Constitution, regardless of the public reaction and the response of the other branches of power.

SUCCESS STORIES

IRKUTSK BAKER FINDS MANY BUYERS FOR TASTY CAKES

by Yekaterina Vyrupaeva, Teleinform

IRKUTSK -- The story of Svetlana is one of the rare examples of a successful entrepreneur of which there are unfortunately too few in Russia. I first learned of Svetlana when my colleagues gathered for a birthday party in our offices and someone produced an amazingly delicious cake. All the other food was tossed aside as the journalists quickly consumed the tasty confection. The person who brought the cake said

that one of her friends prepared it and that she was able to make a comfortable living by selling a wide variety of baked goods.

Even if you don't know exactly which apartment Svetlana lives in, it is not difficult to find her in her building. Just follow the wondrous scent of vanilla, freshly baked pies, and that indescribably sweet smell associated with childhood. Svetlana is a simple and nice woman who still has many girlish features.

Although she came from a good family and always lived in a comfortable apartment, her life was not easy. She married the father of her first child, not because she loved the man, but simply because she could not imagine raising a son without a father. Although she had a second son as well, her marriage was unhappy. Her husband worked as a driver and was home rarely. After a bitter fight, she ran out of her apartment and miraculously met a gentleman who helped her and with whom she fell in love. She divorced her husband and started a new life. Her older son decided to stay with his father, but the younger one came with her.

When her children were young, Svetlana worked in a nursery school to be near them. Later she worked in the office of a trading firm. But she could not stand the scornful attitude her employers took to her, and she often cried herself to sleep at night.

After her divorce, Svetlana started to work in a bar where her duties included preparing various pies, cakes, and blini. Luckily her mother was a good cook and Svetlana had always watched from nearby. The people who visited the bar liked her cooking very much and began to ask if she would bake something that they could take home with them. That was the beginning of her career as a baker.

When she first started out around 1990, Irkutsk shops did not sell a wide variety of kitchen utensils. She depended heavily on an imported mixer that her father had brought back from a trip abroad. To this day, she still makes all of her cakes in a standard domestic oven.

Gradually she began to develop a client base among the city's rich and powerful. Her fame spread by word of mouth, as her original customers told their friends about the wonderful cakes Sveta was baking. She began to bake cakes not only for private parties, but also for large public receptions. Once she baked a giant cake for a prominent firm that had high level dealings with the governor's administration. Some guests from Moscow who attended the reception pestered their hosts for a long time to reveal the name of the baker who had prepared such a delicious cake. But the firm was embarrassed to admit that the cake had been prepared by some unknown woman working in her own kitchen and hid the true origin of the sweet.

Svetlana never sought to live off of this kind of work, but now baking provides the main source of her income. Today she has enough money to hire help cleaning her apartment, feed and clothe herself and younger son well, and even employ a tutor to help him. She doesn't make enough to buy a car or a new apartment. Making that kind of money would

require expanding production, which of course requires capital. All the money she makes now goes for current expenses. She has plenty of orders though, especially before holidays and weekends. Sometimes she has to work around the clock just to keep up. In these cases, her mother helps in the kitchen and her younger son runs to the store for groceries.

"Maybe some people will think it strange that I consider myself a happy woman," Svetlana said. "Of course, I'm sad that my older son is not with me, but I believe that things will get better."

INTER-REGIONAL LINKS

LUZHKOVA HELPS CHELYABINSK. Moscow Mayor Yurii Luzhkov visited the closed city of Trekhgornyi in Chelyabinsk Oblast on 17 October. There he participated in the closing ceremony of a conference on closed cities controlled by the Ministry of Atomic Energy and the Defense Ministry.

During a meeting with the mayor, Chelyabinsk Deputy Governor Vladimir Utkin suggested that Luzhkov reexamine a recent decision made by the Russian Security Council which transfers a state order for producing ballistic sea-launched missiles from the Makeev Design Bureau, located in Miass, Chelyabinsk Oblast, to a Moscow firm. Utkin suggested that the rockets continue to be produced in the Urals. Luzhkov agreed to produce the missiles through the joint efforts of the Moscow and Chelyabinsk firms.

During the visit the Moscow Agency for Investment and Development proposed three projects to create jobs in the city. The projects include building a ski resort in the Zavyalikh Mountains, producing water supply equipment, and helping repair the Czech trolleys which are widely used in Moscow's public transportation system. Luzhkov said that he would favor a contract with a Chelyabinsk firm over similar offers from the Czech Republic because he knows "how professionally and reliably the defense enterprises work."

Luzhkov proposed holding an exhibition of the closed city's products in Moscow in conjunction with a conference. He also proposed developing inter-city and financial ties between Moscow and Trekhgornyi and offered to help the closed cities get their money out of failed banks. -- Igor Stepanov in Chelyabinsk

TVER WELCOMES GAZPROM. The Tver Oblast administration is seeking new ties with other regions to help mitigate the effects of the current crisis. Last week Governor Vladimir Platonov received a proposal from the leadership of the Siberian Trust Company to open a representative office in Tver. The Siberian Trust Company handles Gazprom's affairs and the relations of its branches with regions and enterprises. It is no secret that Russia's gas monopolist would like to move some of its employees from Russia's north, where living conditions are extremely harsh, to Tver Oblast. Therefore the oblast administration is interested in building residences in exchange for canceling the region's

debts for gas and oil products. With this idea in mind, Platov approved the arrival of Gazprom's representatives.

According to analysts in the Tver Oblast administration press-center, a solution to the non-payments crisis will entice many mayors and rural executives into cooperating with the company. Such cooperation could also generate new initiatives to supply the oblast with gas. -- Boris Goubman in Tver

ETHNIC CONFLICT AND REGIONAL SEPARATISM

TATARSTAN NATIONALISTS SPEAK OUT AGAIN. Known for its nationalist position, the All-Tatar Public Center (VTOTs) has just published a new program. VTOTs Political Council Chairman Gaial Murtazin made the document public. It includes such goals as attaining an independent Tatarstan in which Russian is not an official language and religion is freed from imperial dictate. The issue of merging regions, a popular topic of discussion in Moscow these days, was also discussed, but VTOTs plans to unite only within the framework of an independent Idel-Ural republic.

According to the newspaper *Vechernyaya Kazan*, VTOTs presidium member Ramai Iuldashev announced that it is no secret that the republic is ruled by a clan of 20-30 families. In his opinion, even where the republic has been successful, the money it earns is wasted on foreign cars and four or five story houses. Regarding the Tatarstan elections in 2000 for the republican and local legislatures, Iuldashev said that they will be conducted as usual, and the list of winners will be prepared in advance in the Kazan Kremlin. -- Midkhat Faroukshine in Kazan

SOCIAL ISSUES

SOCIAL UNREST GROWING IN KOMI-PERMYAK AUTONOMOUS OKRUG

by Yurii Shabaev, Komi Research Center

SYKTYVKAR -- During the 7 October nation-wide protest demonstration, between 800 and 1,000 people gathered in the central square of Komi-Permyak Autonomous Okrug's capital, Kudymkar. A rally of this size was a significant political event for the okrug, where political life is generally passive. In Kudymkar, members of the former Soviet nomenklatura hold all key political offices and strictly control all opposition activity. The last protest to take place in Kudymkar was in 1989, when people demonstrated against plans to build an atomic energy station. The 7 October demonstration, at which all of the okrug leaders were present, was even more important because the participants voted almost unanimously for the resignation of the okrug's governor, Nikolai Poluyanov. In his speech at the rally, Poluyanov announced that production in the okrug was up 102 percent this year in comparison with the same period last year. Several members of the crowd rejected this assertion, arguing that since only six of the sixteen agricultural enterprises surrounding Kudymkar were operating, it was impossible to speak of positive changes.

Although the next election for okrug governor will not take place until 2000, it is already obvious that the political crisis has provoked a crisis of confidence in the authorities that will deeply affect the provinces. Agricultural production has fallen into a depression and in one of the okrug's six districts, it has been two years since anything was planted. Collective farm employees have not received cash payments for their work for over four years. The timber industry used to serve as the base for the okrug's economy, but today many timber enterprises can barely keep themselves afloat and have nothing to give their workers or the okrug. Eighty-three percent of the okrug's budget comes from federal subsidies, but these are not always spent wisely. As a result, salary payment delays average 6-8 months and pensions are held up 2-4 months. Pensioners make up 21 percent of the okrug population, and 70 percent of the rural population. Thus in recent years, elderly pensioners have been the only source of monetary income for many families. No investment projects have been initiated in the okrug, and housing construction has ceased completely.

Given these conditions it is no surprise that the results of a survey conducted in Kudymkar in the beginning of October showed that the majority of respondents feel that the economic situation is worse in the okrug than in Russia as a whole. Many do not believe that it will change for the better. Incidents of suicide are increasingly common, particularly among young people. The official unemployment rate is 18 percent, but among young people it is considerably higher. In such dire conditions of poverty, the death rate has increased and birth rate decreased considerably. Even in the 1980s life expectancy was 10-11 years lower for the local population than for Russia as a whole. According to okrug statistics, for the first half of this year the mortality rate was one and a half times higher than the birth rate: 857 births to 1195 deaths in a population of 150,000. Only 141 couples have decided to marry. The health system in the okrug was already weak and has functioned even worse in recent years. Considering how the education level is considerably lower in the okrug than in surrounding regions, it is apparent that the okrug has little potential for developing and solving its social problems. Thus, it is obvious that the economic and power crises will become more intense. Analogous situations and problems are present in the majority of Russia's ten autonomous okrugs, although each has its own specific difficulties.

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BREAKING NEWS

POLITICS

KALININGRAD ELECTS SAVENKO MAYOR. On 25 October, Kaliningrad elected acting Mayor Yurii Savenko to a full term as the city leader. He won 62.6 percent of the vote. He said voters supported him because they want "stability" and that his first tasks would be preparing for winter and defining the 1999 budget. Savenko did not make any grand promises during the campaign; he has a reputation as a cautious administrator.

KIRPICHNIKOV DENOUNCES IDEA OF ENLARGING REGIONS. Newly appointed Minister of Regional Policy Valerii Kirpichnikov on 26 October rejected the idea of reducing the number of regions in Russia from 89 because he believes that doing so would lower the population's standard of living. (*Segodnya*, 27 October) The only correct regional policy would be to "give the regions freedom and let them make money on their own," he said in an interview with Ekho Moskv. Yet he repeated the common refrain of federal officials by denouncing attempts by regions to introduce their own citizenship, establish their own currency and limit the import and export of goods from their territory. Tatarstan is considering introducing its own citizenship, while Sverdlovsk Oblast has discussed its own currency. Numerous regions have imposed trade restrictions.

He stressed that the only way for Russia to survive the current crisis was to promote further integration among the regions. In the economic sphere, this means a unified energy, transport, communication and informational network. It also requires a single, unified legal framework. He believes that this would require harmonizing the existing bilateral treaties between the center and the regions and removing the contradictions between regional constitutions and federal legislation. He also said that Russia needs to do a better job in long-range planning issues such as developing the country's overall energy system. He believes that the country needs comprehensive programs that have the support of regional leaders and sectoral directors.

CRISIS THREATENS MEDIA. Russia's current financial crisis is having a highly negative impact on the national and regional media, according to a survey in *Itoji*. (26 October) Before the crisis, local TV stations earned 5 percent to 20 percent of their advertising revenue from placements by Moscow agencies but that source of income has now totally disappeared. Overall, the volume of advertising for local broadcasters has dropped 40 percent and income derived from ads has plunged 60 percent. The crisis has set the stations back several years because their income is now used for salaries rather than new programs or equipment. Between 20 percent and 25 percent of the personnel employed by the surveyed stations are now on unpaid leave.

Local newspapers were not as severely hurt by the reduction in advertising revenue since only 20 percent to 30 percent of their income came from ads. They are, however, greatly affected by the rising cost of paper and printers' services. Yet there are some interesting exceptions. Before the crisis, *Stavropolskie gubernskie novosti* opened a store to sell items

that it received in barter exchanges for ads. After the crisis began, demand for such goods increased and the newspaper now earns greater revenues than in the pre-crisis period.

ECONOMICS

MASLYUKOV VISITS NORILSK NIKEL. First Deputy Prime Minister Yurii Maslyukov visited Norilsk Nickel (in northern Krasnoyarsk Krai) on 23-24 October to determine if the metal plant could provide more income to the state budget. The factory produces about \$2 billion worth of metals a year, 90 percent of which are exported. However, even though the plant is producing more than it has in the past, its tax payments have decreased because the world price for its products has dropped. It pays about \$700 million in taxes annually. The plant is currently controlled by Vladimir Potanin's financial empire and, according to Maslyukov, working better now than four years ago when he last visited the site, which was then under state administration.

Because of the plant's generally positive situation, there was no talk of re-nationalizing Norilsk during Maslyukov's visit, but that threat remains. The plant agreed to continue paying 1 billion to 1.4 billion rubles to maintain the region's social sphere, although Maslyukov agreed to help transfer these costs to the taxpayers. Maslyukov also agreed to give a state guarantee for a \$500 million World Bank loan to move more than 40,000 residents from the arctic region where Norilsk is located to warmer parts of Russia. The plant currently owes \$2.5 billion to its creditors, but Maslyukov promised to defend the current owners against any attacks on their property. (*Kommersant Daily*, 27 October)

YAROSLAVL MARKET SELLERS DEMONSTRATE. About 250 traders in Yaroslavl's street markets and kiosks gathered in front of the oblast administration offices on 26 October to protest the Russian government's requirement that they use a cash register to record all sales beginning 15 November. The traders, many of whom have already been thrown out of their original jobs, claim that the requirement would shut down much of the city's trade and create mass unemployment. Buying a cash register and the license to use it would cost around 10,000 rubles, a sum most traders do not have. The machines won't work when the temperature is 10 below Centigrade, not uncommon in Russia. The demonstrators threatened to shut down all city markets on 15 November. Governor Anatolii Lisitsyn agreed to postpone the implementation of the decree in Yaroslavl until 1 January. The governor hopes to persuade the Russian government to retract the decree before the new year. (*Nezavisimaya gazeta*, 27 October)

SVERDLOVSK OBLAST LOOKS TO SMALL BUSINESS DURING CRISIS.

Sverdlovsk Oblast administration planners believe that to save the regional economy they will have to do more than support the local banking system and large enterprises. The oblast is thus offering state funds in 1999 to create 3,000 to 4,000 small businesses that are projected to employ 10,000 to 12,000 people. The oblast is also taking measures to boost food production to make up for the loss of imported food products due to the plunge in the ruble's value. The oblast is reducing and focusing its social support programs and seeking to cut energy use by

state agencies and the general population. To avoid exacerbating social tensions, apartment rents will reflect only 40 percent of the real cost until 2002. *Izvestiya* (27 October) points to the region's plans as an example of "decisiveness and pragmatism" that could help "Russia preserve its statehood."

AMERICAN FIRM TO EMPLOY ST. PETERSBURG PROGRAMMERS. The American firm Ectaco Inc. will use programmers from St. Petersburg's Tsentr perspektivnykh razrabotok "Estaco SPb" to develop software for its pocket electronic dictionaries, which sell under the brand name Language Teacher. Russian programmers earn between \$12,000 - \$18,000 a year, while their American counterparts earn more than \$75,000. (*Delovoi Peterburg*, 23 October)

MOSCOW STORES WORRY ABOUT SHORTAGES. Moscow retailers fear their stocks may be depleted by late November. The ruble's plunge has limited imports, placing about 40 percent of Moscow's 17,500 retail traders (including 4,700 food shops) on the verge of bankruptcy. Most shops have restocked after the panic buying that hit just after the crisis began in mid-August. Current supplies, accumulated over the summer, are expected to run out within a month or so. Many importers now demand prepayment for their goods, making it impossible for the retailers to restock.

The retail network employs 1.2 million people and provides 15 percent of the revenues for the city budget. The city has offered to save the retailers by setting up state-run holding companies that would include a medium-sized bank that survived the crisis, a large wholesaler and a network of shops. The city would acquire stakes in the participating firms and banks would provide interest-free loans. Some traders were unhappy with the suggested deal, however. One said this is just another chance for the city government to make money and complained that 29 city agencies already monitored his work and that he had to pay each of them. (*Moscow Times*, 23 October)

BUSINESS BRIEFS

-- **PIZZA HUT** closed one of its two **MOSCOW** restaurants on 1 August and will close the second one in December. Company officials noted that the restaurants' leases had expired. The Russian partners in the joint venture, the state enterprise **MOSRESTORANSERVIS**, claimed that the business was still profitable and did not know why Pizza Hut had decided to withdraw. (*Segodnya*, 27 October) The *Moscow Times*, also on 27 October, quoted a source who suggested that Pizza Hut left because of arguments with its Russian partners over the influence the Americans would have in the venture, the terms of the lease and profit sharing. The chain has no plans to close its restaurants in **ST. PETERSBURG**. Those outlets are franchises run by the New Jersey-based **BUSINESS DEVELOPMENT INTERNATIONAL, INC.**

-- Last week, **INDIA** announced its willingness to invest more than 1 billion dollars in Russia's oil and gas industry, particularly in **TATARSTAN**, **ASTRAKHAN** and **SAKHALIN**. The

Indian state oil company, ONGC Videsh Ltd., will represent the country in these deals. The Indians now have an opportunity to replace companies like Shell, British Petroleum and Elf Aquitaine, which were the main investors in the Russian energy sector before the crisis. (*Kommersant Daily*, 27 October)

-- **FIAT** plans to invest a total of \$980 million in its joint venture with **NIZHNI NOVGOROD'S GORKII AUTOMOBILE FACTORY (GAZ)**. Despite the crisis, the plant still hopes to produce 150,000 cars a year. (*Izvestiya*, 27 October) It is not clear, however, whether any Russians will be able to afford them.

-- **GAZ** has begun producing its new line of Sobol 10-seat minibuses. The factory has already sent dozens to St. Petersburg, Novosibirsk, Perm and other regions. The prices range from 60,000 to 90,000 rubles, depending on the features selected. The factory plans to make 1,000 Sobols by the end of the year. (*Segodnya*, 27 October) According to the journal *Poderzhannye avtomobili '99*, the Sobol minibuses fill an empty niche in Russia because similar vehicles produced by Latvia's RAF are out of date and now considered foreign on the Russian market.

-- **MOSCOW** offered the holders of 900 million rubles worth of nine-month papers issued by the city in January the opportunity to accept real estate instead of money in return for their original investment. Those who decide to accept the real estate offer may redeem their bonds in six months for one square meter of apartment or office space for each \$1,000 in bonds. On 23 October, investors agreed to take 597 million rubles in cash, 75 million in tax debt cancellations, and 228 million rubles in "real estate" paper. The city wants to pay off the bonds but has little cash on hand. It does have lots of unoccupied real estate, however. Moscow had derived considerable budget revenue from foreign firms based in the city, but many of those firms are now scaling back their activities or leaving the country. (*Moscow Times*, 27 October)

-- **NEVSKY HOTEL CO.** expects to sign a \$29 million deal in mid-November to start construction on a 164-room, four-star hotel that will open in June 2000 in **ST. PETERSBURG**. The project will build the first Russian hotel that is not at least partially owned by a regional government. The partners in the project are the Russian firm **MOSCOW-AMERICA, SAS RADISSON**, the Turkish construction firm **UCGEN** and the **US-RUSSIA INVESTMENT FUND**. The **EBRD** will provide a \$15 million loan. St. Petersburg currently has 13,500 hotel rooms, but only 1,020 meet western standards. Current demand could fill another 1,000 rooms. Radisson already operates hotels in Moscow and Sochi. (*Moscow Times*, 27 October)

-- A business center owned by the Italian developers **ERNESTO PREATONI AGENCY** will open shortly in **ST. PETERSBURG**. The overall cost of the project was \$10 million. The average rental rate is \$500/square meter and 80 percent of the space has been rented. (*Delovoi Peterburg*, 23 October)

PATTERNS OF REGIONAL DEVELOPMENT

VORONEZH GOVERNOR LOSING LOCAL SUPPORT

by Andrei Muchnik, Voronezh State University

VORONEZH -- Voronezh Oblast residents are losing faith in their regional leaders, particularly Governor Ivan Shabanov. Just two weeks ago, during the Oct. 7 nationwide protests, the governor and his team faced virtually no opposition. On that day about 25,000 people marched to Voronezh's Lenin Square and demanded Yeltsin's resignation in one of the country's largest rallies. The protestors were strongly supported by the oblast administration. Last week, however, a smaller group of people calling for the governor and other oblast officials to resign gathered on the same square. (*Novaya Gazeta v Voronezhe*, 20 October) And about 300 teachers who have been on strike in Novovoronezh for more than two weeks are expected to protest in Voronezh soon. (*Bereg*, 16 October).

There are many reasons why Voronezh Oblast residents are now directing their anger against the regional administration rather than the federal government. The governor's policies are riddled with inconsistencies. For instance, he is building an extremely expensive new orthodox cathedral even though June pensions have not been paid. Public hospitals lack food to feed their patients. The price controls imposed by the governor when the financial crisis began failed: they were quickly ignored and prices shot up. Export controls on local agricultural products also failed: despite the governor's assurances to the contrary, much of the region's agricultural produce is being sent across regional borders.

Voronezh Oblast's economy is in disarray. Enterprises crucial to the Oblast's budget - Voronezh-Shina (the Voronezh Tire Producing Plant) and Voronezhsintezkauchuk (the Voronezh Synthetic Rubber Plant) - are about to be declared bankrupt. The Moscow financial-industrial group Neftekhimprom, which has long sought to take over the plants, is now suing them. Shinotorg, a joint stock company that appears to be a part of the same Neftekhimprom, is also taking court action. An outside "crisis manager" has already taken charge of Voronezh-Shina.

Other firms are in trouble and their bankruptcy could deliver more serious blows to the oblast's already shattered economy. Mezhhregiongaz, the regional manager for Gazprom, filed a suit against Voronezhoblgaz and Voronezhenergo in the Voronezh Oblast arbitration court. Voronezhoblgaz is already under outside management. (*Bereg*, 16 October)

The Voronezh administration has received considerable bad press in the national media lately. The arrest of Deputy Governor Vadim Sukhoverhov on 25 September apparently marked the beginning of a power shift in the oblast. Another deputy governor, Viktor Sitnikov, was fired shortly after Sukhoverhov's arrest. On 7 October, following the anti-Yeltsin protest rally, local Federal Security Service (FSB) officials arrested Nikolai Oreshin, the head of the Voronezh Oblast Administration Business Affairs Department. He was charged with improper conduct and embezzlement but was released from custody by the end of that week

Oreshin is said to be a close associate of Shabanov who has traveled with the governor on all his trips abroad. Oreshin worked in the business affairs department of the CPSU Oblast Committee before 1991. After the dissolution of the CPSU, Oreshin started his own business, a company named Antique. Local newspapers have suggested that this business was run with Communist Party money. (*Bereg*, 9 October, *Voronezhskii Kuriyer*, 10 October).

At a press conference following his release, Oreshin said the investigators had no evidence against him. Before Oreshin's arrest, there was speculation that the administration would let the FSB arrest a non-party member like Sukhoverhov but never a prominent Communist like Oreshin. The FSB is a federal agency controlled by Moscow but its regional officers are often subject to local pressure. And the governor now appears to be putting a lot of pressure on the investigators. (*Novaya Gazeta v Voronezhe*, 20 October) Shabanov said that he was very happy about Oreshin's release and claimed that in Voronezh there are only "childlike pranks" while "the main criminal activity" is in Moscow. (*Bereg*, 9 October) Voronezh Oblast Procurator Aleksandr Frolov refused to disclose who would be arrested next. (*Voronezhskii Kuriyer*, 10 October).

The economic, political and social situation in the oblast is deteriorating and there are few prospects that the situation will improve soon. The governor's administration seems incapable of doing anything but making public statements denouncing the federal government's helplessness.

LEBED ARRESTS MORE ZUBOV AIDES

Pavel V. Avramov

KRASNOYARSK - In the midst of the country's economic crisis, criminal scandals involving leading individuals from former Krasnoyarsk Governor Valerii Zubov's administration are spreading throughout the krai. On Oct. 21 Valentina Cheresova, the former deputy governor responsible for economics, was arrested, as was Valerii Petrov, another leading figure from the Zubov era. Cheresova is one of a large group of individuals suspected of embezzling government funds. The procurator should produce the official charges by 31 October. Petrov was allegedly caught red handed taking a \$1,500 bribe.

The affair surrounding the arrest of Zubov's former First Deputy Vladimir Kuzmin, who has also been charged with embezzlement, continues to escalate (see *EWI Russian Regional Report*, 15 October). Not long ago, Kuzmin was taken by ambulance straight from the interrogation chamber to the hospital, where he underwent bladder surgery. Attempts by Kuzmin's lawyer to ease the conditions of his detainment have all failed.

Zubov has repeatedly appeared on television to publicly defend his former subordinates, although he appears increasingly uncertain about his defense. Zubov may fear he will be arrested in the near future, which is understandable given the number of heavily publicized arrests of former governors and their assistants across Russia.

Some observers believe the criminal deeds that have been "uncovered" by the krai procurator will not be prosecuted to their logical conclusion. Many of them can be traced back

to Governor Aleksandr Lebed's administration. Second, at the time of Kuzmin's arrest, 3 million new rubles had already been returned to the krai.

Nevertheless, there are also substantial reasons to believe that the prosecutions will continue. The krai's economy continues to stagnate and that will undoubtedly hurt Lebed's popularity as a contender for the presidency. That some of the krai's teachers walked to Krasnoyarsk to protest the state's failure to pay their salaries indicates the depth of the problems. Lebed tried to avoid meeting with them, but he ultimately could not avoid a face to face encounter. He told the teachers that the krai budget did not have sufficient funds to pay off all salary debts. The teachers were disruptive and sang revolutionary songs, which caused Lebed to lose his temper and yell at them.

The following day Lebed went to Norilsk, where he forced the giant metals plant, Norilsk Nickel, to issue a promissory note for 60 million rubles in tax payments. These funds will be used to pay some salary arrears. He then proceeded to Moscow, an act which observers say is linked to President Yeltsin's poor health.

Meanwhile, the new administration seems to have abandoned hopes of a blitzkrieg in the krai economy. The administration plans to adopt a "transparent" and deficit-free budget, which will sharply reduce social expenditures and bring an end to living on credits. Lebed's new economics deputies, Pavel Plishkin and Vladimir Kovalev, have placed much hope in transferring federal enterprises, such as plants owned by Russia's electricity monopoly Unified Energy System, Krasugol, and others, under krai control in exchange for canceling their tax debts to the krai.

But another conflict that looms on the horizon involves the Krasnoyarsk state television-radio company. Many regional broadcasters were recently united in one state holding company under Russian Television, yet Lebed has refused to transfer the krai company to the holding company. This dispute is the beginning of a battle between krai and federal authorities for control of the regional mass media on the eve of the Duma and presidential elections.

DESPITE CRISIS, KOMSOMOL MEMBERS CELEBRATE ANNIVERSARY IN ROSTOV OBLAST. Former Komsomol activists in Volgodonsk (Rostov Oblast) recently celebrated the 80th anniversary of the Soviet-era Communist Youth Organization. Nearly 400 Komsomol leaders from the 1950s to the early 1990s, the majority of whom hold high positions in the city today, were on hand for an entertainment program, reception, and banquet. Volgodonsk Mayor Sergei Gorbunov, the former first secretary of the city Komsomol committee, issued a special decree for this occasion.

The celebration was held even though public sector employees have not been paid their salaries for five months and the city has gone for four months without hot water or heat. The city is also adapting to the new sales tax, which was recently adopted by the oblast legislature and approved by Governor Vladimir Chub. The 5 percent sales tax is not resting well with those residents and consumers who are not pleased with the Komsomol celebration nor the fact that the list of goods subject to the oblast tax is longer than the list approved in the original federal legislation. - Milana Slinko in Volgodonsk

SUCCESS STORIES

NIZHNI NOVGOROD PASTA FACTORY WITHSTANDS CRISIS

by Yurii Rogydin

NIZHNI NOVGOROD -- The current crisis is not the first time Nizhnii Novgorod's pasta factory Vermani has experienced difficulties. The factory was under similar financial constraints in 1995-1996.

Commenting on the difficult situation the factory encountered in 1995-1996, Vermani Financial Director Oleg Bogdanov told the local weekly *Birzha* that pasta can be produced two different ways. Traditionally, pasta is made from special high-quality flour. A cheaper, lower-quality pasta is made from baking flour combined with egg powder and dye. This lower-quality product is being imported into Russia. It is brought in duty-free by organizations that have customs privileges. Many people prefer to buy the cheaper product. Nevertheless, the possibility of producing cheaper pasta from baking flour has never been considered at Vermani. Not even in 1995 when a crop failure destroyed the best varieties of wheat.

At that time the factory came to the conclusion that it could only rely on itself to ensure that it had grain. Thus, it began to look for safeguards. It took a huge loan from Sberbank and imported several types of grain from Hungary. The factory is buying a plot of land in Saratov Oblast and is investing in equipment, spare parts, and fertilizer. It is buying futures contracts for supplying grain and working directly with collective farms. Thus, the factory has not been left without grain after this year's poor harvest. The grain cost Vermani 15-20 percent less, which means the market price for its high-quality product is competitive with the lower-quality imports. This has allowed Vermani to branch out into markets in the North, Siberia, and other districts it had not reached before.

The price of imported pasta is rising and, according to Bogdanov, it is losing its competitiveness. Nevertheless, the situation is still difficult for his firm. Because some imported goods are used in the production of Vermani's pasta, prices have gone up about 10 percent. However, an even bigger problem is that because of the collapse of the ruble and the subsequent panic among consumers, merchants have raised their prices. If before the crisis, the mark-up for pasta products was 30-50 percent in markets and 50-100 percent in stores, now pasta is being sold for two or more times the factory price. There is no legal basis for holding mark-ups to 15-20 percent. This situation has complicated work for the factory. According to Bogdanov, Vermani plans to make a profit not from high prices, but from a high sales volume. Accordingly, the firm plans to open its own chain of stores to sell its products at lower prices. However, the main concern for Vermani is that merchants will try to pass off lower-quality goods as the product of the factory.

Bogdanov also offered his opinion on taxation, stating, "I don't agree with the argument that our problems in collecting taxes are due to the high rate of taxation. It is difficult to collect taxes because our economy is built on barter relations. Barter does not bring taxes to the federal budget. What is needed is real money, which has become extremely difficult to obtain. Paying taxes is not only difficult, it is embarrassing. Representatives from the military sector constantly come to me with requests for scraps. Without these the soldiers would die from

hunger. Children's homes, homes for the elderly, hospitals, etc. come to us for help. They should be helped with the money we have paid in taxes. Where the money has disappeared to, no one knows."

WATER PURIFICATION FACTORY OPENS IN PERM. On 21 October a new Russian-German factory making advanced water purification equipment opened in Perm. A delegation from the German firm Stockhausen (<http://www.stockhausen-inc.com>) and the Chairman of the Russian State Committee for Nature Preservation Viktor Danilov-Danilyants were all on hand for the event. The factory was developed by the Moscow- Stockhausen-Perm Company, which was founded by the German firm Stockhausen (which holds a controlling stake), the state enterprise Moscow Vodokanal (10 percent), and Perm's Kirov factory (39 percent).

The opening of the new factory signifies a huge leap forward. The technology is has yet to be exploited in any other country, including Germany. According to Danilov-Danilyants, cooperation with the German firm will help establish similar factories in other Russian regions.

General Director of the Moscow- Stockhausen-Perm Company Alvin Kozlov stated, "We are making a socially useful product. Regardless of the crisis, people will still buy clean drinking water. I think that Perm Vodokanal will be floating in money. The crisis will not last forever. We will broaden our domestic market and plan to head into the international market."

SOCIAL ISSUES

ELECTRICITY CUT IN ANADYR. Since 21 October electricity in Anadyr, the capital of Chukotka, has been shut off daily in four hour increments from either 9am-1pm, 2-6pm, or 6-10pm. Refrigerators are out of service during these time blocks, causing winter food stores to begin to melt. Since there is essentially no gas in Anadyr, the city depends entirely on electricity. But people are not complaining, since they know the situation in other regions is worse. A recent television report describing how teachers in one central province are receiving their salary in the form of coffins put things in perspective.

Plus, the city has coal, so it will not freeze. However, the administration has been unable to settle accounts with the workers who deliver coal to Anadyr. The city has no money, and none is expected. The city has proposed paying the workers in coal instead of money. Everyone knows that coal is better than coffins, and so the workers agreed to this arrangement.

There is hope that the city will eventually buy the coal to use for heating. Yet, the city administration is not naive. It understands that it does not need to pay for the coal because eventually the people will hand it over for free. For the time being, however, the people are guarding their coal and do not want to give up for nothing what legally belongs to them. Yet, these people are not strangers, but residents of Anadyr, and thus will hand over the coal when the situation becomes extreme. -- Varvara Litovka in Anadyr

SVERDLOVSK OBLAST GOVERNMENT LETS MARKET SET PRICES FOR MEDICINE. The government of Sverdlovsk Oblast has decided to let pharmacies sell medicine at market prices. This decision was prompted by the catastrophic situation for

pharmaceutical supplies in the region. Until the beginning of the crisis on 17 August, wholesalers supplied medicine for credit under guarantees provided by the oblast government. The credit limit was very high. One credit taken for purchasing imported medicines was nearly \$500,000 at the pre-crisis exchange rate of 6 rubles to \$1. Now, it is impossible to pay back this sum at the rate of 17 rubles to the dollar. The oblast government does not have that kind of money. It also lacks the means to finance a program that allows veterans, the handicapped, and children up to age 3 to receive medicine at discounted prices.

The territorial fund for medical insurance owes pharmacies 37 million rubles. Pharmacies do not have the money to purchase medical supplies, and all medicines disappeared from the shelves in the first few days of panic. The government decided to liberalize prices for medical goods in order to rectify the situation. The only products that will continue to have regulated prices are a list of 200 vital drugs, such as asthmatic and cardiac medications.

According to Yekaterinburg's leading pharmacist Sergei Sofronov, liberalizing prices does not necessarily signify a sharp and uncontrollable increase in prices. In several regions, such as Perm and Chelyabinsk oblasts, prices were liberalized long ago, but medical supplies are still less expensive than in Yekaterinburg. The market is what determines the increase in prices. The crisis has caused the prices for pharmaceutical supplies to soar so high that many have become practically inaccessible to the population. Thus, any further increase will only result in a decline in product demand.

However, it is also important to point out that if medicines don't bring in revenue to pharmacies, then the pharmacies will simply stop carrying them. In order to purchase medical products, particularly imports, it is necessary to settle accounts with suppliers, and these debts are enormous. Furthermore, many firms that sell medicines to Sverdlovsk pharmacies demand cash payments up front. Therefore, a vast improvement in the pharmaceutical situation in Yekaterinburg can not be expected in the near future.--Natalia Mints in Yekaterinburg

ECONOMIC ISSUES

PETERSBURG EXAMINES NEW CRISIS BUDGET. The St. Petersburg government has presented a new 1999 draft budget to the city legislature that takes into account the on-going crisis. The Legislative Assembly, which rejected the previous draft budget, will consider the new draft in late October or early November.

The new budget proposes to increase the city's income and expenditures by 35 percent, lifting them to about 25.5 billion rubles. The budget assumes that the ruble-dollar exchange rate will be 25.8 rubles for \$1, whereas the previous budget assumed a rate of 10.9 rubles per \$1. The budget assumes that the Gross Regional Product will drop by 3 percent. Inflation is expected to be 50 percent.

The overall expected tax income predicted in the budget is 22.9 billion rubles. The majority of tax income will come from:

Individual income tax, 4.8 billion rubles (21%)

Value added tax, 4 billion rubles (17.8%)

Profit tax, 3.4 billion rubles (14.9%)

Property tax, 2.6 billion rubles (11.6%)

Sales tax, 2 billion rubles (8.7%).

The draft assumes that 85 percent of the taxes will be collected, up from 80 percent in the earlier version. The revised budget also increased the income expected from stock dividends owned by St. Petersburg, from 1.5 to 2.6 billion rubles.

The major budget expenditures are:

Housing, 4.1 billion rubles (16.1%)

Education, 4 billion rubles (15.9%)

Health care and physical education, 2.9 billion rubles (11.6%)

Social policy, 2.7 billion rubles (10.6%)

Transportation, roads, communication, 2.5 billion rubles (10%)

Debt servicing and repayment, 2.169 billion rubles (8.5%).

Expenditures on servicing foreign debt increased 673 million rubles, while expenses on servicing domestic debt fell 493 million rubles. St. Petersburg does not plan to borrow from foreign sources during 1999 except for an EBRD credit to refinance the city GKO (Treasury bill) debt. The city should reduce its overall debt by 200 million rubles during 1999. -- Roman Zotov in St. Petersburg

BANKS CONTINUE TO PROVIDE EBRD LOANS TO SMALL BUSINESSES IN ST. PETERSBURG. The European Bank for Reconstruction and Development (EBRD) is continuing to support small business in Russia despite the economic crisis. After recovering from the initial shock, Petersburg banks in October resumed making loans to small businesses. Since 1994, three St. Petersburg banks and several local branches of Moscow banks have provided credits to small businesses (up to \$125,000) and microcredits (up to \$30,000) using money from the EBRD. St. Petersburg firms that employ no more than 100 people are eligible for the project. Additionally, they must not produce military goods, tobacco products, alcoholic beverages, trade in hard currency or stocks or work in the gaming industry.

Before the crisis one of the most active participants in the program, Petrovskii Bank, received \$12.5 million from the EBRD. It used \$10.25 million of this money. Since the original capital was not returned to the EBRD, the bank made overall loans of \$30 million.

The bank initially suffered losses from its participation in the project, according to Petrovskii Credit Department Director Semen Sadovskii. The activities became profitable only in 1997-1998.

In early September, the bank had agreements to lend \$3 million to small businesses but had not released the money. The bank took a two month break, noting that "we needed time to understand the situation on the market, develop new criteria of analysis, reexamine the conditions for making loans."

At the same time, about 25 percent of its clients decided they were no longer interested in taking a loan. And because of the crisis, the bank began making decisions in coordination with the EBRD.

Now, plenty of small businesses are seeking loans again and Petrovskii is examining proposals from new borrowers. Before the crisis the bank made ruble loans at a 60 percent to 65 percent annual interest rate, but now the rate has risen to 65 percent to 70 percent. For hard currency loans, small businesses must pay 18 percent annual interest, while firms accepting

microcredits must pay 20 percent to 22 percent annual interest rates. Ruble loans are sought mainly by enterprises that need working capital. Firms seeking to buy foreign equipment favor hard currency loans.

The St. Petersburg PromStroiBank ended its participation in the program in 1997 and its last loans will be paid off in 1999. The bank said that it no longer has clients interested in such loans. Overall the bank made 60 loans for \$1.9 million. The bank said its experience was successful because it found new customers and developed relations with old ones.

Today it is harder for small businesses to get loans than it was before the crisis. Firms seeking such loans must now submit to a closer financial analysis and offer more collateral. The changing situation has also made it more difficult to develop profitable projects.

There are also problems that do not stem from the crisis. Many city officials make it difficult for small businesses to get credits. The State Road Safety Inspectorate has stopped registering cars as collateral. In the past, cars had often been used to secure micro credits. Other state agencies have made it more difficult to use real estate as collateral. Officials at Petrovskii Bank believe such actions contradict the city's goal of supporting small business. -- Roman Zotov in St. Petersburg

DEFENSE ENTERPRISES WAIT FOR DOLLARS. Twelve St. Petersburg companies producing for the defense sector are waiting for more than \$60 million in payments for orders fulfilled in September and October. Igor Bakhmetev, the St. Petersburg representative of Russia's arms exporter, Rosvooruzhenie, said that the country's financial crisis had caused Moscow banks to freeze accounts, which threatened to disrupt deliveries of raw materials and damage the reputation of Russian enterprises. City enterprises currently have about 110 contracts worth \$2.9 billion to supply military equipment abroad. Since 17 August not a single new contract has been signed.

"It will take a concerted effort to solve this problem," Bakhmetev said. "Now other banks are being chosen to carry out deliveries." The city administration has introduced tax breaks for local producers. The federal budget owes Petersburg defense enterprises more than 1 billion rubles since 1996 as compensation for fulfilling defense orders.

Rosvooruzhenie's representative office opened in Petersburg in April. There are 199 enterprises that produce military technology in Petersburg, and nearly 1,200 enterprises in Russia's defense complex. -- Roman Zotov in St. Petersburg

REGIONAL PROFILE: ALTAI KRAI

Governor: Aleksandr Surikov

Aleksandr Surikov was elected governor on 1 December 1996, defeating the incumbent in a runoff by a narrow margin of 3 percent. His bid was supported by the opposition National Patriotic Union of Russia (NPSR).

Surikov, 58, has been involved in regional politics since 1985 when he was elected deputy chairman of the krai executive committee. In August 1991 he won the chairmanship of the regional legislature, a position he was reelected to in March 1994. In December 1993, he also

was elected to the upper house of the country's new parliament, the Federation Council. There, he served on the budget committee and was a member of the opposition deputies' group "Constructive cooperation." In the Federation Council of 1996, which he joined *ex officio* as the head of a regional legislature, Surikov was elected deputy chairman of the budget committee. He has criticized Speaker Yegor Stroeve and called for his resignation. Surikov suggested that the leadership of the chamber should rotate among the members. He is a consistent supporter of the opposition and has long been a critic of Boris Yeltsin. He has praised the Soviet regime for "achieving full industrialization and the institutionalization of a welfare state." As for the current situation, he blames the previous cabinets for the country's economic hardship and supports a reconsideration of privatization, taking into account the interest of working collectives, state support for industrial and agricultural enterprises, and compensation for the population's financial losses.

Other Local Leaders

Chairman of the Legislative Assembly – Aleksandr Nazarchuk, one of the leaders of the Agrarian Party of Russia, former agricultural minister of Russia (October 1994 – January 1996), was elected in December 1996.

Presidential representative – Vladimir Raifikesht, former regional administration head (1991-94), was appointed in December 1996

Brief Overview

Altai Krai is located in the south of Western Siberia in the basin of the upper Ob River, an area colonized by the Russians in the 18th century. It borders Novosibirsk and Kemerovo oblasts, Altai Republic, and Kazakhstan. Russians (90.5% of the population) are by far the region's largest ethnic group, with Germans (3.8%) a distant second.

The region's rolling plains and the foothills of the Altai Mountains, once covered by steppe, are almost entirely under cultivation, producing wheat, corn, oats, sunflower, and beets. However, soils in the region have suffered from nuclear tests at Semipalatinsk in adjacent Kazakhstan, the main nuclear test site for the former Soviet Union.

The region is quite rich in various mineral resources, mainly non-ferrous and precious metals. Chemicals, metal processing, and machine building industries play an important role in the regional economy. Over 60% of the region's 400 industrial enterprises are located in the cities of Barnaul, Biisk, and Rubtsovsk.

The region has attracted a lot of attention from foreign businesses. Last year, Hyundai decided to start assembling its Galloper, Lamatra, Accent, and the H-100 microbus in Altai. Early this year, Switzerland's Nestle bought a controlling stake in the krai's confectionery factory. The region has also won a \$3 million loan from Germany's WAQTI Interconsulting Co. and the US's Ezra Holding Co. for gas pipeline construction. Additionally, the regional capital Barnaul is participating in World Bank's housing project, receiving \$18 million for building cottages and town houses.

Basic Facts

Population (as of Jan. 1, 1997): 2,678,400 (1.82% of Russian total)
Urban population (1989 census): 52.1% (Russia overall: 73.0%)
Student population (1996): 158 per 10,000 (Russia overall: 171/10,000);
Pensioner population (1996): 25.52% (Russia overall: 25.78%)
Percent of population with higher education (1989 census): 8.2% (Russia overall: 11.3%)
Percent of population working in (1993): Industry: 27.8% (Russian average: 29.9%);
Agriculture: 24.0% (12.8%); Trade: 7.7% (9.1%); Culture: 11.6% (13.6%); Management:
2.5% (2.3%)
Average monthly personal income in 1996: 439,000 rubles (Russian average: 764,000
rubles)
Average monthly personal expenses in 1996: 361,000 rubles (Russian average: 753,000
rubles)
Average monthly subsistence requirement in 1996: 330,200 rubles (Russian average:
369,400 rubles)
Consumer price index (as of Dec. 1996): 98.44 (Russia overall = 100)
Industrial production as percentage of all Russian production (1996): 0.92%
Proportion of loss-making enterprises (1996): 68% (Russia overall: 56%)
Number of enterprises which have wage arrears (1996): 3,716 (9.73% of total number of
regional enterprises)
Agricultural production as percentage of all Russian production (1996): 2.56%
Number of private farms (as of Jan. 1, 1997): 6,328 (2.27% of Russian total)
Capital investment (1996): 2,795.6 billion rubles (Russia overall: 370 trillion rubles)
Sources of investment (1996): federal budget: 10.8% (Russian average: 9.2%); regional
budget: 5.7% (9.6%); enterprises: 56.0% (66.3%)
Number of joint ventures (as of Jan. 1, 1997): 94 (0.58% of Russian total)
Fixed capital investment in joint ventures and foreign companies (1995): 39,728 million
rubles
Number of small businesses (as of Jan. 1, 1997): 10,177 (1.21% of Russian total)
Number of enterprises privatized in 1996: 56 (1.12% of Russian total), including those
which used to be municipal property: 57.1% (Russian average: 67.1%); regional property:
17.9% (14.3%); federal property: 25.0% (18.6%)
Number of telephones per 100 families (1996): in cities: 44.6 (Russian average: 48.7); in
villages: 29.8 (19.7)

According to a 1998 survey by *Ekspert* magazine, the krai is ranked 24th among Russia's 89 regions in terms of investment potential. A 1998 survey by Bank Austria ranked the krai 44th in terms of investment climate.

Electoral History

1996 Gubernatorial Election

Surikov (NPSR): 46.92%/49.36% (first round/second round)
Korshunov (incumbent): 43.39%/46.14%
Akelkin: 3.18%
Turnout: 55.86% (second round)

1996 Presidential Election

Zyuganov: 41.97%/55.52% (first round/second round)
Yeltsin: 21.80%/38.56%
Lebed: 19.39%
Zhirinovskiy: 7.38%
Yavlinskii: 5.05%
Turnout: 70.67%/67.08% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Communist Party of the Russian Federation: 25.98%
Liberal Democratic Party of Russia: 15.59%
Agrarian Party of Russia: 12.38%
Our Home Is Russia: 4.96%
Communists -- Workers' Russia: 4.70%
Women of Russia: 4.48%
Yabloko: 3.58%
Party of Worker's Self-Government: 3.55%
Derzhava: 3.08%
In single-member districts: 2 Communist Party of the Russian Federation, 1 Agrarian Party of Russia, 1 independent
Turnout: 66.95% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 49.68% "No" -- 50.32%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 27.75%
Agrarian Party of Russia: 23.40%
Russia's Choice: 10.81%
Communist Party of the Russian Federation: 9.86%
Women of Russia: 8.58%
Party of Russian Unity and Concord: 5.47%
Democratic Party of Russia: 4.71%
Yabloko: 3.19%
In single-mandate districts: 1 Russian Movement for Democratic Reforms, 1 Russia's Choice, 1 Agrarian Party of Russia, 1 independent
From electoral associations: 1 Russia's Choice, 1 Agrarian Party of Russia
Turnout: 54.25% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 46.38%

Ryzhkov: 23.59%

Zhirinovskiy: 11.59%

Tuleev: 9.11%

Bakatin: 2.73%

Makashov: 2.45%

Turnout: 77.21% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; T. Matiyasevich, N. Mogel, S.A. Nagaev, M. Rossmann, L.I. Smirnych, and A. Woergoetter, *Russia: Regional Risk Rating*, Vienna: Bank Austria, 1998; *Ekspert*, 19 October 1998; *Roadmap to Russian Regions*, Salomon Brothers, 1997; *Goskomstat, Regiony Rossii* [Regions of Russia], Moscow, 1997; *Central Electoral Commission, Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii* [Elections of the top executives of the federation subjects of the Russian Federation], 1995-1997, Moscow: Ves mir, 1997.

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BREAKING NEWS

POLITICS

STROEV BACKS INDIRECT PRESIDENTIAL ELECTIONS. Federation Council Speaker Yegor Stroeve believes a Constitutional Assembly or Assembly of Voters should elect the president rather than holding direct popular elections. He believes that elections are too expensive and could lead Russia to a civil war, *Nezavisimaya gazeta* reported on 31 October. Duma Speaker Gennadii Seleznev also proposed electing the president indirectly through representatives of the regions, political parties and other groups that he did not specify. Ingushetiya President Ruslan Aushev suggests that the Federation Council serve as a filter by selecting two or three candidates from a pool of about 15 and then putting up the approved candidates for general elections (*Nezavisimaya gazeta*, 30 October).

LUZHKOV PUTS CAMPAIGN LEADER IN CHARGE OF HIS TV NETWORK. Moscow Mayor Yurii Luzhkov appointed Aleksandr Batanov, a member of both President Boris Yeltsin's and his own campaign staffs in 1996, as the director of political programming at his television network, TV-Tsentr, on 30 October, *Kommersant Daily* reported on 31 October. The appointment clearly indicates that Luzhkov is gearing up for the presidential campaign. At his first meeting with his staff, Batanov said they should work as "kommisars rather than journalists." Some of the staff are unhappy with the constraints on their work and have threatened to move to NTV. In an interview with *Kommersant*, Batanov complained that the station lacked the resources it needed to do a professional job. He also said he met with Yeltsin's influential daughter Tatyana Dyachenko once or twice a month.

Of the 299,253,000 rubles allocated to TV-Tsentr in the 1998 municipal budget, only 30 percent was actually paid out, according to the station director Boris Vishnyak. Before the crisis, the channel covered its costs with advertisements, but since 17 August its income only covers about 20 percent of expenses. Funding for 1999 is set at the same level as 1998. These funds will allow the station to continue broadcasting 17 hours a day, but may make it difficult to continue transmitting to the 200 Russian cities it currently serves. (*Segodnya*, 31 October)

In another personnel move, Luzhkov appointed former presidential spokesman Sergei Yastrzhembskii as the deputy prime minister for international and inter-regional ties in the capital's city government. He was fired from the presidential administration on 13 September for recommending that Yeltsin nominate Luzhkov as his prime minister after the Duma had twice rejected the Viktor Chernomyrdin. Yastrzhembskii is also likely to participate in Luzhkov's campaign. (*Kommersant Daily*, 30 October)

PRIMAKOV, MASKHADOV MEET. Prime Minister Yevgenii Primakov and embattled Chechen President Aslan Maskhadov met in Vladikavkaz on 29 October in a meeting organized by North Osetiya President Aleksandr Dzasokhov. Both sides agreed to work to overcome the consequences of the war in Chechnya. Such meetings are usually held in Ingushetiya's capital, Nazran, but this one may have been shifted to Vladikavkaz because Primakov and Dzasokhov are old friends. Maskhadov's enemies in Chechnya, Salman Raduev and Shamil Basaev, who are seeking the president's removal, denounced the meeting as further evidence that Maskhadov was caving in to Russia rather than asserting Chechen independence. While the discussions between the Russian and Chechen leaders were routine, Dzasokhov reaped more benefits because Russia reconfirmed that North Osetiya is its forepost in the region. During the second half of the 1980s, Dzasokhov served as Soviet ambassador to Syria, an area of prime interest to Primakov.

INGUSHETIYA OPENS NEW CAPITAL. Ingushetiya President Ruslan Aushev and Chechen President Maskhadov opened Ingushetiya's new capital of Magas on 31 October. Like St. Petersburg, the new capital was built on barren ground. The Turkish firm Entes has only completed the presidential palace thus far, but is working on buildings for the parliament and the government, *Kommersant Daily* reported on 3 November. Aushev told the newspaper that he built the new capital to demonstrate that he had no claims to North Osetian territory, particularly the right bank of Vladikavkaz. By his own account, he has spent 10 billion rubles on the project since 1995. The money came from the off-shore free trade zone that existed in Ingushetiya until 1997, various business centers, registration of off-shore businesses in the republic, and a four-year, \$80-million loan from Turkey. He claimed that he built himself a palace because "if the president does not build a palace for all the Ingush, what will become of the Ingush?"

REGIONS VIOLATE FEDERAL LAWS. Justice Minister Pavel Krashenninikov said that one-third of the laws adopted by Russian regions violate the Russian constitution or federal legislation. (*Segodnya*, 3 November)

GOVERNOR, MAYOR FIGHT OVER TAX REVENUE IN OMSK. Governors and mayors across Russia are battling because the mayors do not want tax revenue collected in their cities to support the rest of the oblast. Recent examples include conflicts in Nizhnii Novgorod Oblast, Sverdlovsk Oblast and Krasnodar Krai (see *EWI Russian Regional Report*, 29 October). The *Moscow Times* on 3 November described a similar battle in Omsk. Of Omsk's taxes, 92 percent are generated by the capital city. But the city has been getting less money recently from the oblast administration and adopted a 2 percent turnover tax that prompted about 30 businesses to reregister in the oblast rather than in the city (see *EWI Russian Regional Report*, 4 June). When Sibneft also reregistered, the city introduced a 35-ruble-per-ton tax that the oil company is now contesting in court. Beyond the court case, the mayor complains that all his measures to increase the city's revenue are ineffective because Governor Leonid Polezhaev simply cuts transfers from the regional budget by the amount Omsk earns.

Now the big battle is over the Omsk Oil Refinery. In 1995, the refinery paid about \$14 - \$16 million a month to the city in taxes. Since then, however, it was incorporated into Sibneft at Governor Polezhaev's urging and Boris Berezovskii bought Sibneft. Now it is planning to pay about \$715,000 in taxes to the city for the last six months of this year. Before it became part of Sibneft, the refinery would buy oil, process it, sell it and then pocket the profit. Now, Sibneft pays the plant a fee for processing oil, a system that is much less profitable for the refinery than when it was independent. The oblast's budget has also taken a huge hit, but the governor does not seem to mind much. The reason, the *Moscow Times* suggests, is that Runikom, a Sibneft intermediary that helps sell the firm's oil to the CIS, employs the governor's son, Alexei.

Many of the region's public sector employees are unpaid, and the governor and mayor are waging a vicious battle against each other through media they control in the region. Gubernatorial elections will be held next year.

PROCURATOR DECLARES KALMYKIYA'S ELECTIONS INVALID. Deputy Procurator General of the Russian Federation Vladimir Ustinov and Kalmykiya Procurator Yurii Dzhapov sent a declaration to Kalmykiya's Supreme Court asking it to declare the republic's 18 October legislative elections invalid. The procurators based their request on the claim that the republic lacks legitimate local government. Since the local government formed the electoral committees, the elections they held were likewise illegitimate. (*Izvestiya*, 30 October)

KARACHAEVO-CHERKESSIYA SETS PRESIDENTIAL ELECTIONS. The north Caucasus republic of Karachaevo-Cherkessiya will hold presidential elections on 11 April 1999. The region is the only one in Russia whose leader was appointed by Yeltsin rather than elected by popular vote. The current leader, Vladimir Khubiev, proposed the elections for that date because that is when his term expires according to the republican constitution. (*Segodnya*, 31 October)

KALININGRAD LEGISLATURE BATTLES GOVERNOR. The Kaliningrad Oblast Duma has asked the presidential administration for support in its battle against Governor Leonid Gorbenko. The legislature believes that Gorbenko is misusing budget funds and is trying to place the regional budget under its control. Deputy Chief of the Presidential Staff Oleg Sysuev is expected to visit the city soon. (*Segodnya*, 31 October)

Newly elected Kaliningrad Mayor Yurii Savenko and the Kaliningrad city council are working well together, but they have a mutual enemy in Governor Gorbenko. The governor wants to keep 50 percent of the income tax collected in the city of Kaliningrad for the oblast. In the past, the oblast only claimed 30 percent of this income. Mayor Savenko thinks even 30 percent is too much and has appealed to the oblast duma for support. (*Ekspert*, 2 November)

ECONOMICS

GOVERNORS SEEK TO CONTROL REGIONAL BANKS. The governors of St. Petersburg and Sverdlovsk are trying to nationalize major regional banks. On 26 October St. Petersburg Governor Vladimir Yakovlev issued an order that three major regional banks,

Promstroibank, BaltONEKSIMbank, and Petrovsky Bank, give the administration controlling interests (25 percent plus one share) to be held in trust in exchange for the right to continue working with city budget funds (and pension funds in the case of Petrovsky). In effect, the offer is a threat that the banks will lose their main business if they don't transfer effective ownership to the regional government. The deal would ensure that the state gains greater control over the banks while the banks gain stable access to state funds. Governor Eduard Rossel has decided to set up his own bank group under the control of the regional administration. It will include Uralpromstroibank, CSB-bank (a subsidiary of MENATEP) and Uralsibsotsbank. Other banks can join the group by giving the oblast government 50 percent of their stock. In return, they are given tax breaks and access to public funds. Moscow Mayor Yurii Luzhkov already controls the Bank of Moscow and Mosbiznesbank.

Given the collapse of the country's banking system, the governors have decided that "it is better to live separately than to die together," the weekly journal *Kommersant* (3 November) commented. Since it is not clear which of Russia's banks will survive, the governors have nowhere to put their money.

By saving several banks rather than just one to service accounts, the governors hope to put large parts of the banking system under their control, a step that would radically change Russia's banking system, *Kommersant* argued. Most banking power is currently concentrated in Moscow. The governors hope to divide that national system into groups of subsystems controlled by the regional elite.

Even with strong links to the regional administrations, the banks may have trouble surviving because the regional administrations would force them to make loans to prop up local industries. Since the industries are unlikely to become profitable quickly, they would be unable to repay the banks. That situation, *Kommersant* argues, could lead the regions to begin to issue their own currency surrogates, a step that could have catastrophic consequences for the Russian and regional economies.

SARATOV HOLDS LAND AUCTION IN MOSCOW. Saratov held its latest land auction in Moscow on 30 October, selling 33 of 41 available lots for a total price of 1.5 million rubles. The sale, the first to be held outside Saratov, was the most effective to date. It brought one-quarter of the income so far obtained from 70 auctions. Since March Saratov has sold 437 plots of land (including 54 designated for agricultural use) with a total area of 2,634 hectares for 4.315 million rubles. Of the 95 people participating in the 30 October auction, 62 were from Moscow. Many investors from outside the oblast were interested in the land because they consider it a stable investment.

The next auction will be held in February. In addition to selling off municipal land, private landowners will be able to sell plots. Samara and Tatarstan will also sell land and even Moscow may participate. Observers suggested, however, that the prices would be significantly higher at the next auction. Saratov adopted its land law on 12 November 1997. (*Kommersant Daily*, 31 October)

TATARSTAN'S CREDIT RATING DROPS. Standard & Poor's lowered Tatarstan's credit rating to CC and placed the republic on CreditWatch with negative implications. The

drop follows the Eurobond default by the oil company Tatneft, the republic's largest taxpayer and second-largest employer. The rating agency believes that it is unlikely that the republic will be able to repay outstanding payments on an unrated loan, which was due 23 October. The payment is currently within a 20-day grace period. Tatneft failed to make a \$13.5 million Eurobond payment, which was due on 29 October. Tatneft's oil export revenue may have been sufficient to meet the interest payment, but the government of Tatarstan, facing its own problems, is likely to interfere with Tatneft's currency flow (Standard & Poor's Press Release, 2 November). Of Russia's major oil companies, Tatneft produces the lowest-quality oil and depends on extensive tax breaks from the republic to be competitive.

FASTFOOD RESTAURANTS FACING TOUGH TIMES. Pizza Hut and Kentucky Fried Chicken have announced that they will close their Moscow outlets, but both decisions were made before the current crisis began. Other restaurants, such as the Starlight chain, say they will hold out. Such restaurants face severe problems because 90 percent of their food is imported and suppliers are having difficulty keeping them stocked. McDonald's is less dependent on imports and has only raised its prices 10 - 15 percent. It is not clear, however, if the chain will continue its plans for rapid growth throughout Russia, *Kommersant Daily* reported on 31 October.

Rosinter has just opened its fifth Moscow Patio Pizza. The nine-store chain also has one store each in St. Petersburg, Omsk, Novosibirsk and Minsk. (*NG Politekonomiya*, 3 November) Sales are down 30 percent at the chain, though the number of customers remains the same. Plans to open 15 new pizzerias have now been pruned back to four or five. Rosinter had planned to open 40 Rostik's restaurants in Moscow and the regions, but that number has dropped to 20. There are currently four Rostik's in Moscow, two in Omsk and one in Novosibirsk. Because ruble prices have risen 1.5 to 2 times, the chain has cut its reliance on imported products from 90 percent to 40 percent.

In St. Petersburg, where McDonald's, Carrols, Grillmaster, Koshkin dom and Laima operate, prices have gone up 15 percent to 40 percent while the number of patrons has dropped by half. Many of the chains have had to cut expansion plans. The Grillmaster and Rostik's in Novosibirsk are practically empty because higher prices reflect their reliance on imports.

FAR EAST IN TROUBLE. Magadan Oblast Governor Valentin Tsvetkov and Oblast Duma Chairman Vladimir Pekhtin sent a letter to Prime Minister Primakov warning that their region is on the verge of a social explosion, *Izvestiya* reported 4 October. Without outside help, they warn that Magadan will not be able to supply itself with food and fuel or provide for its poorest citizens. The regional leaders requested additional funding for buying fuel and 20,000 tons of food. Temperatures are freezing in Vladivostok but the city has turned off the heat. In Sakhalin, residential customers are limited to 10 hours of electricity daily because the region lacks enough fuel to generate sufficient supplies.

GOVERNMENT PRESERVES TOLLING OPERATIONS. First Deputy Prime Minister Yurii Maslyukov has ruled that Russian aluminum firms could engage in tolling operations in

1999. Last April, then acting Prime Minister Sergei Kirienko ordered an end to such operations effective 1 January 1999 (see *EWI Russian Regional Report*, 23 April). The government must now issue a decree following up on Maslyukov's decision, but this step is considered a formality, *Izvestiya* reported on 4 November. Tolling allows aluminum smelters to import raw materials, process them and export the resulting product without paying customs duties or value-added tax. Russian aluminum plants currently receive only one-third of their raw materials domestically. Tax collectors estimate that tolling operations cost the state \$300 million a year in lost revenue. According to tax officials under the Kirienko government, the aluminum industry pays 18 percent in taxes while other metal industries pay twice that. The aluminum factories in regions like Krasnoyarsk, Irkutsk and Khakasiya, however, claim that they would be unable to survive without tolling, and their directors were extremely happy about Maslyukov's ruling. The aluminum business has been extremely lucrative and rumors of corruption were widespread. Russia would like to develop domestic sources of raw materials for making aluminum, but currently lacks the capital to do so.

MOSCOW CITY INCOME DROPS. The city of Moscow's income for August and September is only about one-quarter of what it was last year during the same two months. During August-September 1997, Moscow collected 200 million to 220 million rubles, while this year the city earned only 40 million to 70 million rubles in the same period. The most difficult situation was with collecting land rents - the city garnered only 3.2 percent of what it was owed. One of the main problems for the city is the collapse of the banking system and the loss of funds intended for paying taxes. The city claims that up to 1 billion rubles of its money is frozen in banks that have either collapsed or are extremely fragile. In some cases, the city is now accepting cash from tax payers. The tax service has also asked tax payers to notify them the day after they pay their taxes so that the city can check the transfer of the money to the bank. (*Delovoi Ekspres*, 3 November)

To cope with the shortfall, the city has made cuts in health and education programs and is trying to get more money from firms that have not paid their taxes. (*Moscow Times*, 28 October). Luzhkov has also placed limits on vodka and wine retailers, enabling the city to better collect taxes on their sales. He hopes to generate 15 percent of the city's income from such sales, which currently provide less than 1 percent of the city's revenue. (*Segodnya*, 30 October) Luzhkov is struggling to meet the city's debt payments while preserving social programs. Defaulting or significantly cutting benefits could hurt the mayor's chances in the presidential race.

RUSSIAN STEEL MAKERS FACE ANTI-DUMPING SUIT IN USA. The US government has initiated an anti-dumping case against some of Russia's major hot-rolled steel producers. The factories made about \$1.5 billion from US sales in 1997, and this year they are selling an even larger quantity because the price of Russian steel is much lower than U.S. steel. The U.S. now buys about 70 percent of Russian steel. The main factories to be affected are Chelyabinsk Oblast's Magnitogorsk, Lipetsk Oblast's Novolipetsk and Vologda Oblast's Severstal. None of those plants have U.S. orders for hot-rolled steel for November. Vladimir Lisin, chairman of the board of directors of the Novolipetsk Metalurgical Combine, told

Kommersant Daily (30 October) that the main issue was not dumping but excluding Russia from the U.S. market. He called for retaliatory measures against the U.S.

NORTHERN RESIDENTS LACK FUEL. Many regions of the far north have not received enough fuel to make it through the winter. Kareliya has received only 11 percent of the coal it needs. The figure for Magadan is 15.8 percent, Arkhangelsk 20 percent, and Tyva and Koryak Autonomous Okrug 30 percent. The situation is similar with oil products. Murmansk, for example, has received only 4.7 percent of what it needs. Only Komi and parts of Krasnoyarsk, Tomsk and Yamal-Nenets have been fully supplied (*Segodnya*, 29 October). According to *Ekspert* (2 November), government bureaucrats have tried to give the impression that they have met the far north's food needs by sharply reducing what is considered the minimum amount of food necessary for a person to survive. A person's need for sugar, for example, was reduced from 66 grams to 30 grams a day. These lower allotments make the situation appear more manageable.

BUSINESS BRIEFS

Austria's **STEYER** and **NIZHNI NOVGOROD'S GORKY AUTOMOBILE FACTORY (GAZ)** last week signed a working agreement to produce Steyer diesel engines for GAZ's Volgas, Gazels and Sobols. Eventually, the new plant should produce 250,000 engines a year. (*Kommersant Daily*, 31 October)

ROSNEFT is dropping out of the **SAKHALIN-1** project and trying to sell its 49 percent stake because it can no longer finance its participation. Gazprom and LUKoil are apparently interested in the project to recover hydrocarbons off the coast of Sakhalin Island. Participants in the \$15 billion project claim reserves of 290 million tons of oil, 425 cubic meters of gas and 33 cubic meters of gas condensate (*Segodnya*, 3 November). The other members of the consortium are Exxon and Japan's Sakhalin Oil and Gas Development Company.

South Korea's **LG** has begun assembling refrigerators at the Rodina factory in Ussuriisk (**PRIMORSKII KRAI**). The project is being undertaken by the V-Lazer company with an investment of about \$120,000. Despite the current crisis, it is sensible to begin the project: salaries and fees for the services of natural monopolies have not gone up in Russia and it makes better economic sense to assemble goods in Russia than import finished products. In addition, altered market conditions have made more expensive refrigerators by Electrolux, Bosch and Philips inaccessible to Russian consumers. Assembling the LG products in Russia could lower their price by 15 percent. (*Kommersant Daily*, 28 October)

A representative of **PHILIP MORRIS**, in a letter to the editor of *Izvestiya* (29 October), said that its factories in **ST. PETERSBURG** and **KRASNODAR** were working at their normal level, all 17 representative offices in the country remained open and the firm was continuing to hire new staff members.

Despite the crash of the Russian stock market, **TEMPLETON** opened a new equity fund in Russia targeted at small domestic investors on 29 October. Fund managers say that now is a good time to buy since Russian stocks are selling very cheaply. The **U.S. WORLD FUND INC.** also started an investment fund in Russia earlier in October. The Russian stock market has risen 30 percent this month on very small volume. The fund is aimed at small Russian investors as well as large companies setting up investment funds for their staffs. (*Moscow Times*, 30 October)

The Moscow juice maker **VIMM-BILL-DANN** gained control of **NOVOSIBIRSK'S** Sibirskoe moloko last week. The company likely owns more than 75 percent of the Sibirskoe moloko's stock, *Ekspert* reported on 2 November. It has already invested 6.5 million rubles and is planning to invest an additional 1.5 million rubles and \$1.5 million. The investment will allow Vimm-Bill-Dann to produce long-life milk.

PATTERNS OF REGIONAL DEVELOPMENT

SVERDLOVSK TORN BY MAYOR-GOVERNOR FACE OFF

By Dmitrii Strovskii, Urals State University

YEKATERINBURG--The next gubernatorial elections in Sverdlovsk Oblast will take place in August 1999 and the two main contenders are incumbent Governor Eduard Rossel and Yekaterinburg Mayor Arkadii Chernetskii, according to a recent public opinion survey of city residents. The poll's results are quite sensational because for the first time in the last two years Rossel's political rating topped that of Chernetskii, even if only by a mere 1 percent. Previous polls showed a spread of 5-15 percent in the mayor's favor, so the governor is clearly improving his position. Either way, one cannot claim that Yekaterinburg is the mayor's comfortable home ground anymore. In the rest of the oblast Chernetskii never commanded much popularity and he is not likely to gain any before the elections.

The main reason for a surge in Rossel's popularity, experts agree, is his actions during the economic and government crises. Rossel was in the national media every day, making concrete proposals which appealed to many impoverished strata of the population. For instance, the governor's seemingly absurd idea of banning the use of U.S. dollars in Russia seemed attractive to the poor, who never lay their hands on hard currency and are susceptible to anti-Western Communist-style propaganda. Thus, some of Rossel's populist rhetoric fell on fertile ground.

In contrast, Chernetskii virtually disappeared from the public eye (and, rumor has it, from Yekaterinburg) in August-September 1998. He lacks a clear and well-articulated position, partially because the official line of the Russian government, with its emphasis on the revival of the productive sectors of the economy, coincide with what Rossel has been long advocating. Chernetskii's economic program, in turn, favors the development of the retail sector of the economy. To win back the hearts of the voters, the mayor and his movement Our Home-Our City began criticizing the oblast government's budget priorities, charging that the

oblast does not spend enough on the people's social needs. This tactic is likely to backfire, as it bears a striking resemblance to that of the State Duma Communists in their efforts to stall the passage of the budget. The public, however, always views budgetary squabbles as political games which expose politicians' disregard for people's interests. Thus, Chernetskii is ruining his reputation as a strong and pragmatic economic manager by positioning himself as an overly ambitious politician, whose self-serving tactics are not helping the oblast climb out of its crisis.

Pollsters found that many respondents cited irritation with Chernetskii as a reason for not voting for him in a hypothetical election. The mayor was also accused of being too obvious in his gubernatorial ambitions and blaming others for the crisis, while not being willing to take responsibility himself. Even the industrial elite, the mayor's traditional power base, has cooled in its support for Chernetskii, the poll suggests. Entrepreneurs are not happy about the way Our Home-Our City spends their donations. Additionally, heads of raion administrations are concerned about Chernetskii's choice of his successor as mayor.

Of course, public opinion polls do not always reveal how political preferences will evolve over time. Much depends on whose side the local media takes, and the mayor is adamant about attracting the media's support. For example, the regional newspaper *Uralskii rabochii* is becoming a battleground between Rossel and Chernetskii, even though the editor-in-chief, G. Kaeta, vows that the publication is not for sale. However, it will be hard for a cash-strapped newspaper to remain independent in the escalating political rivalry.

MEDIA SCANDAL SHAKES SVERDLOVSK OBLAST. About a year ago, Yekaterinburg gained a new TV station, Oblast Television, which was designated as a public broadcaster and funded entirely by the regional budget. When oblast legislators voted to give the station 2.5 million rubles last year, they hoped to gain easy access to air time. The station's management refused to allow the legislators to speak to their electorate on the air, however, claiming that the station is a commercial, not a public outfit. Furious at the rebuff, the deputies summoned Aleksandr Levin, the head of the information department in the oblast government, for a hearing. Levin frankly told them that the governor had created the TV station in order to assure appropriate coverage during the upcoming 1999 gubernatorial race.

The media is often used for narrow political propaganda purposes, yet such blatant abuse of public money and authority is unprecedented in the region. The very statement that one of the oblast's TV channels works "for the governor" is itself scandalous. And the fact that the station is financed with public money makes the situation even more perverse. This year's oblast budget saw a 503 percent increase in public media funding compared to last year, and all of it has been directed to the oblast television station. In contrast, public health and education programs have been significantly underfunded, receiving only 38 percent and 40 percent, respectively, of the money promised in last year's budget.

The executive branch effectively lied to the legislature when it presented a *de facto* commercial channel as a public TV station and then later freely admitted the deception. The legislators do not appreciate such honesty and are angry that they have been used. Severed relations with the deputies might cost the governor dearly in the gubernatorial elections, as the deputies can influence the voters in their districts. The governor's opponents are naturally more than happy to have the administration's shady dealings exposed to the public. There is also a

legal problem, because the oblast administration has broken the law by financing a private entity with public money. The prospect for court action are, however, slim. - Natalia Mints in Yekaterinburg

LEBED UNCOVERS MORE CORRUPTION IN PREDECESSOR'S TEAM. The main news in Krasnoyarsk Krai has been the escalating criminal case against Vladimir Kuzmin and Valentina Cherezovaya, two deputies of former Governor Valerii Zubov, and their business partner Vladimir Yegorov. Governor Aleksandr Lebed is personally pressuring investigators to carry on with their work.

All three have already been charged with embezzling public funds on a large scale. Some time ago, the federal government approved a special program called North-South, which was supposed to finance the resettlement of residents from the Far North in Siberia and the European part of Russia. The krai received federal support to move people from Norilsk and some other Arctic cities and settlements.

In 1996, then Deputy Governor Kuzmin contracted one of Yegorov's numerous Moscow-registered firms to build a residential high-rise building in Krasnoyarsk for the resettlement program. Kuzmin authorized a 27 million old ruble (2.7 million new ruble) transfer from government accounts to the firm, where the money promptly disappeared for a year. In mid-1997 18 billion rubles from the original sum was transferred to another construction company, also owned by Yegorov, but this time registered in Krasnoyarsk. It appears that 9 billion rubles simply vanished somewhere in Moscow. Investigators presume that the money was used for cash bribes of federal and regional officials who helped the perpetrators "privatize" public funds in such a fashion. Only three weeks ago, after both Kuzmin and Yegorov were arrested, did work finally begin on the construction of the long-awaited housing project. - Pavel Avramov in Krasnoyarsk

BEHIND THE SCENES TELECOM DEAL STOPPED IN TATARSTAN. The government of Tatarstan had wanted to sell 75 percent of the regional cellular phone service provider Tatinkom to TAIF, a firm that employs the son of Tatarstan President Mintimer Shaimiev (see *EWI Russian Regional Report*, 8 October). Tatinkom is a monopolist in the republican wireless communications market, serving 15,000 subscribers. It made over half a billion new rubles last year. As the newspaper *Vechernyaya Kazan* reported (21 October), Prime Minister Rustam Minnekhanov made the decision without any planning. A long-time friend of the president's son, he simply called the State Property Committee and ordered the transaction. However, in the process several laws were violated.

First, the deal was not authorized by the republican Securities Commission, nor by the appropriate government ministries. As a matter of fact, the chairman of Tatinkom's supervisory board and Deputy Prime Minister Ravil Muratov knew nothing about the deal. Even TAIF's own experts were surprised by the deal: its cellular phone division has been working with a different communications format from that of Tatinkom, so the merger seems inappropriate. Second, an open tender was not held, which means the price of \$40 million was probably too low, especially since there have been much higher previous offers. Third, the contract does not require TAIF to pay the republic the entire price in cash, which Tatarstan needs so badly to pay

back at least some of its debt to the Dutch bank ING. Most importantly, the sale of more than 25 percent of a company's stock to a single entity is illegal.

Additionally, TAIF is famous for the multi-million arrears it owes to oil producers, according to *Respublika Tatarstan* (22 October). Naturally, one wonders how TAIF managed to obtain the money for this purchase, if it cannot even service minimum payments on its outstanding debt? According to Tatinkom's General Director L. Shidullin, the company badly needs \$10 million in direct investment, which TAIF is in no position to provide. The newspaper speculates that TAIF wanted to buy Tatinkom simply to sell it for a higher price later, while pocketing the difference.

Under pressure from business leaders, the media and general public, President Shaimiev has annulled the deal. The republican State Property Committee publicized official tender rules, which still need much work and contradict legislation. Some businessmen have suggested that the tender, scheduled for 25 November, is being tailored with a concrete bidder in mind. The official starting price is \$40 million. - Midkhat Faroukshine in Kazan

ACTIVISTS, JOURNALISTS OPPOSE MAYORS IN ROSTOV OBLAST. On 30 October the Rostov Foundation for Glasnost and the Protection of Media Rights held a seminar on the topic of promoting cooperation between civil rights activists and journalists. Only fifty people were able to participate, while many more were deterred by the travel costs. Two of Volgodonsk's most prominent environmental activists, I. Reznikova and V. Shalimov, as well as the editor of the controversial opposition newspaper *Volgodonskaya nedelya* G. Zabolotskiy spoke at the seminar. The main theme of their presentation was the inevitable confrontation with the authorities, and the often grave consequences that follow. They also described violations of the public's constitutional rights, for example when it becomes impossible to recall a publicly elected mayor, despite the presence of legal norms allowing such a procedure.

The local electoral commission has twice refused activists' initiative to recall Volgodonsk Mayor S. Gorbunov. Although a city court has ruled in favor of the initiative, the Volgodonsk city Duma, the electoral commission and the procuracy have repeatedly appealed the decision, and the case is now pending in the oblast court. The roots of the anti-mayor campaign lie in Gorbunov's broken election promise not to allow the construction of the Rostov atomic power plant.

In the city of Azov local activists have launched a similar campaign to recall their own mayor because of his support for a methanol depository. The Azov group has been refused registration five times. However, unlike in Volgodonsk, Azov activists have united all party movements and the Cossacks against the environmental hazard. A similar situation is developing in the city of Shakhty, but this time the cause of public outrage is not ecology, but the mayor's criminal connections.

The Don river region activists, the most vocal of which are the Committee of Soldiers' Mothers, the Greens, and women's organizations, have agreed to cooperate and work through legal procedures. Representatives of the media have vowed to support all of their initiatives. It is possible that if in one city authorities lose out to the activist-media alliance, it will be a powerful enough precedent to influence the balance of power in the rest of the region. - Milana Slinko in Volgodonsk

KRASNODAR MAYOR TRIES TO REDEFINE REGIONAL POWER BALANCE.

At the initiative of Krasnodar Mayor Valerii Samoilenko, the Krasnodar Krai Duma discussed two major legislative initiatives, *Krasnodarskie izvestiya* (29 October) reported. The first one concerned the status of Krasnodar as the regional capital city. Samoilenko spoke at length to the Duma on the need to redistribute power from the federal and regional level to the local level. He heads a special task force dealing with this exact issue on the presidential Council on Local Government. Up until now the krai administration has been dragging its feet in passing the law. The majority of Duma deputies supported Samoilenko's proposal.

The mayor's second proposal was to institute a two-chamber legislature in Krasnodar Krai. The Duma would be the lower chamber of elected deputies with the Chamber of Mayors above it, comprised of heads of the krai's municipalities (cities and raions). Samoilenko envisions a supervisory role for the upper chamber, as it would be empowered to approve or reject laws passed by the Duma as well as treaties between the krai and other regions or the federal government. Additionally, it would be empowered to challenge in court decisions of local administrations: thus heads of municipalities would be policed by their own peers. The mayor believes that a two-chamber structure would make the legislature less politicized and more productive. As he said, "the closer a body of government is to the people, the less political it should be, the more concrete work it should do." After much heated debate the deputies decided to continue exploring the issue.

Speaking at a press-conference directly following the Duma debate, Samoilenko stressed that some municipalities in the krai, such as the city of Krasnodar, are net donors to the regional budget, while others depend on subsidies. He objects to the way some of the other districts use the money they receive from the oblast budget and believes that the creation of a bicameral legislature would impose more order on these fiscal flows. - Sergei Kuzmin in New York with reports from Krasnodar

DAGESTAN CONSIDERS BANNING FELONS FROM PARLIAMENT

by Nabi Abdullaev

MAKHACHKALA--The recently-launched campaign to eradicate crime in the ranks of Dagestan's republican government is taking a surprising and even controversial turn. Coming from the federal law-enforcement agencies, the initiative to purge Dagestan's elite of criminal elements now has been taken up by the very establishment it was targeting.

At the September session of the republic's legislature, the deputies discussed a draft law on legislative elections in the republic. According to the draft, no person with an outstanding criminal conviction or anybody convicted of a major, pre-meditated felony in the past could run for the legislature. The body also suggested that the Russian parliament adopt federal legislation along the same lines. Experts agree that the initiative is obviously a feeble attempt by the republican leadership to made itself look good in the eyes of Moscow, given the tough scrutiny of the republican government by federal law-enforcement officials.

The current parliament is supposed to serve until the spring of 1999. Last year Moscow enacted a new law on the electoral rights of Russian citizens, so now many Dagestani deputies feel it is time to amend the existing republican electoral law.

One major problem for the republic is that of the current 121 assembly members, 35 had prior convictions at the time of their election. Lately, the number of legislators being investigated has been rapidly increasing. The list of suspects includes Magomed Khachilaev, the leader of the Lak ethnic movement (see *EWI Russian Regional Report*, 1 October) and Magomed Shikhakhmedov, an assembly member and the chief executive of one of Dagestan's raions, accused of embezzling public funds. Even republican Justice Minister Tajudin Bizhamov was arrested on 2 November on charges of embezzling public funds and possessing arms. Additionally, the Russian Procurator General's office has issued orders for the arrest of several Dagestani officials, who also happen to serve in the Popular Assembly.

A scandal erupted at the October session of the Popular Assembly, during the final debates on the draft law. Deputy Prime Minister of Dagestan and member of the Assembly Gadzhi Makhachev vocally opposed passing the law, claiming that it contradicts federal legislation on voters' rights and international human rights standards. (Note that Makhachev in late 1970s had to serve an eight-year sentence for a felony he had committed.) He was supported by some deputies, while others sought to rescind a law passed at the last session, which stripped the members of parliamentary immunity. They also demanded an end to the "hunt for criminals among publicly elected officials." The assembly heard an opposing opinion from Surakat Asiyatlov, who heads the body's committee on public and religious organizations and from the Assembly chair Mukhu Aliev. The debate eventually deteriorated into bickering and mutual accusations of graft.

Obviously, the commotion created by the draft law's opponents is based in political, rather than practical concerns. For instance, warnings that human rights activists convicted for their political beliefs during the Soviet era would be barred from serving in parliament are groundless. The draft law clearly stipulates that only convictions of major felonies would prevent a person from running. Moreover, even a convicted felon who can prove that a court has removed his or her conviction would be eligible for election. Given the profound corruption of the judiciary, it should not be a problem to obtain such proof.

CENTER-PERIPHERY RELATIONS

NEMTSOV OFFERS NEW REFORM INITIATIVE AMIDST CORRUPTION ALLEGATIONS. Having spent a week in Nizhnii Novgorod, former oblast governor and deputy prime minister Boris Nemtsov shared with journalists his plans for the near future. His main goal is to develop small and medium-sized cities, specifically helping them battle the crisis. A typical municipal anti-crisis program would tackle the most down-to-earth issues, such as housing sector reform, creation of a favorable investment climate, support for small and medium enterprises, and training municipal civil servants. Composed of both Nizhnii and Moscow experts, the project's task force will be co-chaired by Nemtsov and Nizhnii Novgorod Mayor Yurii Lebedev. Even though the group will not be registered until mid-December, the city of Nizhnii Novgorod has already created a functioning anti-crisis committee. The young reformers

plan to propose the same program to ten more large Russian regions. Implementation of the program in Nizhnii alone will cost \$50,000-100,000, and Nemtsov has promised to raise the money himself. However, only local authorities will decide whether or not Nizhnii will become again a testing ground for reforms. So far, the mayor of Dzerzhinsk Sergei Trofimov and the head of Arzamas Raion Sergei Metla have agreed with Nemtsov to form similar task forces in their respective municipalities.

Most political parties and movements oppose Nemtsov's initiative in Nizhnii Novgorod. For example, State Duma Deputy Pavel Veselkin (Our Home is Russia) has publicized the official report of the Duma's audit committee, which had found improper dealings during Nemtsov's tenure as the Nizhnii Novgorod Oblast governor. According to the report, the oblast government misused federal funds during the period from 1995 to 1997. The report concludes with a detailed list of specific charges against Nemtsov. It claims that Nemtsov's team was guilty of incorrectly allocating federal money between the oblast and the city of Nizhnii Novgorod. Nemtsov's administration also allegedly violated tax laws by offering certain institutions, like select banks, inappropriate tax breaks, costing the oblast 1.57 billion rubles in tax revenues in the first half of 1997. In 1995 the oblast allegedly set aside restricted federal subsidies given for the purpose of resettling military personnel to earn interest in bank accounts, a direct violation of conditions that accompanied the restricted funding. By manipulating mutual arrears among the oblast, the federal Finance Ministry and the Novokuybyshev oil processing plant, the oblast again misused a portion (40 percent) of the money set aside toward housing for military officers. Additionally, public funds (7.5 billion rubles) from oblast accounts were transferred to individuals so they could purchase private apartments.

All the charges and supporting evidence made in the report have been submitted to the Procurator General's office. Former employees of the oblast's finance department are protesting the allegations, questioning the objectivity of the report's authors. For example, they claim that money deposited in the bank, and the interest it had earned, was eventually used to buy 20 additional apartments for military personnel. – Yurii Rodygin in Nizhnii Novgorod

SOCIAL ISSUES

KOMI ADOPTS SOCIAL POLICY. At the 13th session of the State Council (parliament) of the Komi Republic that took place on 30-31 October, the deputies discussed issues of social policy. They agreed that the republic's social policy must focus on increasing the standard of living and providing basic social services for the region's population (*Respublika*, 30 October). Even though the deputies adopted a declaration of intent along these lines, their next legislative action directly contradicted the spirit of the declaration. The problem at hand dates back to last summer.

On 31 July President Boris Yeltsin signed into law an amendment to the federal tax code which authorized regional authorities to levy a maximum 5 percent sales tax, which should be earmarked to support the poorest strata of the population. However, due to the economic crisis which engulfed Russia in late August, few regional governments dared introduce another tax. The Komi Republic was among the few that did. Because the republican law on the sales tax was published on 1 October, the day it went into force, retailers were confused and marked

up even goods that were excluded from the list of taxable items. In fact, the law was adopted in such a hurry that the parliament has not yet approved the procedures governing how retailers will pass the levied tax on to the regional budget.

The authorities claim that simultaneously with introducing the new sales tax, they will repeal twelve old taxes and that the recent price hike for foodstuffs is not a result of government actions, but rather stems from confusion on the part of retailers. However, the repealed taxes are so insignificant in volume that the new tax indeed does raise real prices for goods and products (*Molodezh severa*, 29 October). Because the higher prices for food, especially dairy products, have infuriated the public, one of the deputies has already proposed suspending the sales tax. - Yuri Shabaev in Syktyvkar

ECONOMIC ISSUES

GAZ RAISES PRICES AS PUGIN LAYS OUT ANTI-CRISIS PLAN. On 23 October, the Gorkii Auto Plant (GAZ) raised prices for its products, after prolonged, but unsuccessful negotiations with suppliers who refused to keep their own rates low. Some of GAZ's suppliers use imported products that now cost 1.5-2 times more than they did before the crisis began 17 August, according to GAZ President Nikolai Pugin. In order to avoid losses and insure a minimal profit, GAZ had to raise prices on average by 15 percent, and in some instances, 20 percent.

Speaking at the congress of the Russian Union of Industrialists and Entrepreneurs, Pugin made several suggestions. First, he called for the restoration of a functioning banking system. He also wants to set interest rates to make it possible for enterprises to obtain credits. Pugin stressed the importance of stabilizing the dollar-ruble exchange rate as soon as possible. The instability is causing Russian products to lose their competitiveness. Another danger is that enterprises which rely heavily on imported inputs will be forced to shut down. Additionally, Pugin called for tax reform and protection for companies that venture into new industries. Finally Pugin believes that the main problem that was inherited from the Soviet Union remains unresolved. A firm can only gain financing from its profits. Pugin believes that this approach limits innovation because in practice a company must first design and test new products, and only later count on profits from sales. - Yuri Rodygin in Nizhnii Novgorod

OCCIDENTAL PETROLEUM LEAVES KOMI REPUBLIC. The president of Occidental CIS Paul McInnes announced that the U.S.-based Occidental Petroleum will be pulling out of the joint venture Parmaneft in a 27 October meeting with Komi Republic's Chief Executive Yuri Spiridonov in Syktyvkar. The global economic crisis and the downward slide of oil prices has made American businessmen wary of many joint ventures in emerging markets. Occidental Petroleum is closing many of its European operations, including in Russia, and thus is leaving the Komi oil market. Parmaneft was jointly founded in August 1992 by Occidental of the Republic of Komi Inc. and Ukhtaneftgazgeologia. It won a drilling license in May 1993 in an open international tender. Occidental held 75 percent of Parmaneft's stock.

According to Spiridonov, the most important thing now is to ease the impact of the break-up on Parmaneft and its staff. The first step is to re-incorporate the enterprise as a fully

state-owned joint stock company (*Respublika*, 30 October). Parmaneft is the first enterprise in the republic to shut down due to the economic crisis. It is not among the largest oil joint ventures in Komi and drills oil from small and medium-sized fields. Additionally, the company began drilling only last April, which is why the U.S. partner was able to pull out with relatively limited losses. Other, larger joint ventures with British, Swiss and Austrian oil firms are not planning to exit the market and even want to expand their operations. - Yurii Shabaev in Syktyvkar

DE BEERS TIGHTENS GRIP IN ARCHANGELSK. Arkhangelsk's Severoalmaz diamond mining company is considering switching its strategic partner in a move that would give South Africa's DeBeers a much stronger hand in the region, according to Severoalmaz Acting Director V. F. Shalaev. The Moscow-based company Soglasie is the current strategic investor. The Soglasie-DeBeers Mining Investments joint venture would replace it. The main difference between the two entities is that DeBeers owns 50 percent of the new company, making it an equal partner with Soglasie (for more on Soglasie, see *EWI Russian Regional Report*, 26 March 1998 and 30 July 1998). This move would expand DeBeers' presence in the Russian north, giving it greater control over the Arkhangelsk diamond deposits. Shalaev said that the supervisory board welcomes the change and considers it timely and favorable for the impending exploration of the rich Lomonosov diamond field. With the board's preliminary approval in hand, the company must now gain the shareholders' formal approval. (*Pravda Severa*, 29 October) - Gleb Tiurin in Arkhangelsk

U.S. INVESTORS TAKE OVER ST. PETERSBURG PORCELAIN MAKER. The investment company Randevu, a western consortium spearheaded by the U.S.-Russia Investment Fund (TUSRIF), has completed its takeover of the Lomonosov Porcelain Plant (LFZ), the largest china producer in the region. Randevu bought shares from the company's employees and as a result gained a 64 percent stake in LFZ's stock. TUSRIF had promised the city administration to invest about \$5 million in the development of the plant, which is right now in a critical situation. According to General Director Yevgenii Barkov, there is another group of investors interested in developing the plant, and the two groups might begin negotiating in the near future. As TUSRIF's Senior Vice President and Chief Investment Office Boris Bakal said, if the interests of the two groups coincide, there will be room for a merger.

TUSRIF, a private investment firm, was founded to develop a free market economy in Russia. It was authorized to use \$440 million from the U.S. government to invest in and provide technical assistance to Russian companies. So far the fund has invested in 29 large and several thousand small Russian businesses. TUSRIF has also invested \$2.8 million in another St. Petersburg firm -- the Poligrafoformlenie printing company. The consortium of foreign investors and their respective shares in the LFZ include: Bountiville Investments Ltd. (14%), Parkins Investments Ltd. (11%), Leveric Investments Ltd. (11%), Wairdale Investments Ltd. (9%), Piersyde Investments Ltd. (9%), Dacom Ltd. (9%), and O&Y Investments Ltd. (1%). The company itself owns 1.6 percent, while the workers retained 34.4 percent of the shares. - Roman Zotov in St. Petersburg

ST. PETERSBURG PHONE GIANT TO PROVIDE INTERNET ACCESS. St. Petersburg Long Distance International Telephone (SPb MMT), one of Russia's largest telecom operators, plans to introduce a new service for the city: Internet access that does not require prepayment. For the first time in St. Petersburg, a natural monopolist is trying to expand into Internet operations and become a leading service provider. The company's rates for daytime usage reach 2 rubles a minute, while at night a user can dial in for the discount rate of 15 kopecks a minute. According to Yurii Kuzmin, deputy director of information technologies at SPb MMT, the new pricing policy is designed to discourage customers from using the phone lines during peak daytime hours and encourage them to use them at night, when the lines are virtually idle. Additionally, users will not have to make any prepayments, but will be billed by the company in the same way it bills subscribers for long distance telephone service. The company believes that most St. Petersburg users connect to the Internet late at night, so the new pricing scheme will be optimal for them. All they need is to be connected to the SPb MMT, own a computer and a modem, and install an Internet browser. This service will not be available to clients of PeterStar or any of the numerous cellular phone companies in the city.

Other Internet service providers are not enthusiastic about the entry of such a formidable competitor on the market. This Fall many of them have had to cut their prices by as much as 40 percent. At the same time, they completely rule out the possibility that one firm will monopolize the St. Petersburg Internet market. According to an executive of service provider Web Plus, market research shows that customers care not only about low prices, but also about the speed of their Internet connection and reliable technical support. Indeed, St. Petersburg Internet users have come to expect around-the-clock technical support from their providers. However, SPb MMT can now offer only daytime support, even though it plans to expand to nighttime as well. Andrei Sorokin of Peterlink claims that over half of their customers log on to the Internet during the day, so he is not concerned about losing customers to the monopolist. He does expect some changes, predicting that customers will use one provider during the day and another at night. In the near future SPb MMT plans to increase its connectivity speed as well as the number of dial-in ports available. - Yurii Bryukvin in St. Petersburg

FOREIGN TIES

TACIS CENTER TO HELP TVER FIRMS RESTRUCTURE. Soon a new center for assistance to enterprises, sponsored by the European Commission's TACIS program (Technical Assistance to CIS), will open its doors in Tver. It will be run by Clinvest consortium, composed of various consulting and investment firms from France, Germany and Holland. Clinvest won a competitive tender for the venture in Brussels last July. Recently, the company's management visited Tver to discuss with the head of the oblast's Economic Committee, Anatolii Kleimenov, concrete steps for realizing this project.

The project seeks to help approximately thirty leading local enterprises prepare investment solicitations, restructure production lines, and draft business-plans (*Tverskaya zhizn*, 29 October). While some enterprises might receive one-time consultations from Western experts in marketing, management and innovation policies, others will engage in long-term programs, which will include comprehensive evaluations, technical assistance and aid in forming

partnerships with Russian and Western companies. The center will be run by Dr. Marion Murava, a leading European Union specialist. Based on his extensive consulting experience in the Russian market, Murava believes that the center's services most in demand will be in the areas of marketing and restructuring consulting.

TACIS experts believe that a substantial budgetary burden for many enterprises comes from financing their employees' housing and other social expenses. Often social priorities limit management efficiency. Westerners hope to find a compromise formula to relieve this problem in close coordination with the regional administration.

Commenting on the talks, Kleimenov said that the center's proposed goals coincide with those of the oblast government, which is more than eager to cooperate. He said that the oblast plans to help the center set up its operations and later to identify potential target enterprises for its work. Additionally, the oblast will support all enterprises that choose to undergo restructuring and management reform with a variety of measures including tax breaks. The crisis has shown that Tver Oblast's industry must restructure its production and management if it is to survive. - Boris Goubman in Tver

REGIONAL PROFILE: MURMANSK OBLAST

Governor: Yurii Yevdokimov

Yurii Yevdokimov, 52, was elected Murmansk governor on 1 December 1996. He finished second in the first round of elections, with slightly over 20 percent of the vote and 10 points behind incumbent Yevgenii Komarov, but he beat the incumbent by 3 percent in the run-off. An endorsement by Aleksandr Lebed's Congress of Russian Communities (KRO) and Honor and Motherland movement as well as the support of the Communist-led National Patriotic Union of Russia (NPSR) made the victory possible.

Yevdokimov began working as a party and state functionary in the mid-1970's. From 1990-93 he headed the regional legislature, which was disbanded after Yeltsin's armed conflict with the Russian legislature in October 1993. He then directed a regional branch of the Sistema financial corporation and also headed the regional Union of Industrialists and Entrepreneurs.

Since becoming governor, Yevdokimov has been neither a vocal opponent nor active supporter of President Yeltsin. However, he, along with Saratov's Dmitrii Ayatskov and Arkhangelsk's Yurii Yefremov, accompanied Yeltsin to the G-8 conference in Birmingham, England, in May.

Other Local Leaders

Chairman of the Oblast Duma - Pavel Sazhinov, re-elected for a second term in December 1997.

Presidential representative - Ivan Menshikov, President Yeltsin's aide during the 1991 presidential campaign, supporter of Russia's Democratic Choice movement, appointed in September 1991.

Brief Overview

Murmansk Oblast occupies the Kola Peninsula, an extension of the Scandinavian Peninsula between the White Sea and the Barents Sea. It borders Norway and Finland to the west and Kareliya to the south.

Apart from swampy forests in the south, the severely cold climate allows only tundra vegetation. The ice-free Barents Sea (benefiting from the influence of the Gulf Stream) provides the country with its only unrestricted access to the Atlantic. The oblast's northern seaports, including that of the capital of Murmansk (founded in 1916) have considerable national importance. A large portion of Russia's navy (the Northern Fleet) and commercial fleet is based on the Kola Peninsula, including nuclear submarines and icebreakers.

Though there is fishing and some forestry, the oblast's most important wealth lies in the mineral deposits of the Khibiny mountains, with mining centers at Kirovsk and Apatity. Metallurgy is centered around Monchegorsk and Nikel, with its huge nickel smelters causing heavy air pollution.

According to a 1998 survey by *Ekspert* magazine, the oblast's investment potential has decreased by 5 points (the 19th greatest in the country), while investment risk has increased by 13 points (the 15th largest) over last year. However, several foreign businesses have made investments in the region. For instance, in February 1997 Pepsi-Cola General Bottlers chose the region as one of several locations for a \$165 million investment project within the next three years. Earlier this year, Gazprom, Norway's Statoil and Norsk Hydro signed an agreement for oil and gas exploration in the Barents Sea and the construction of new refineries in the area.

In April 1998, the regional administration announced that it would issue \$100 million of Eurobonds early next year, but the current financial crisis has indefinitely postponed these plans.

Basic Facts

Population (as of 1 Jan. 1997): 1,032,700 (0.70% of Russian total)

Urban population (1989 census): 92.4% (Russia overall: 73.0%)

Student population (1996): 84 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 21.34% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 13.9% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 32.4% (Russian average: 29.9%); Agriculture: 2.2% (12.8%); Trade: 10.9% (9.1%); Culture: 13.5% (13.6%); Management: 4.3% (2.3%)

Average monthly personal income in July 1998: 1,324.6 new rubles (Russian average: 891.7 new rubles)

Average monthly personal expenses in July 1998: 760.0 new rubles (Russian average: 684.9 new rubles)

Average monthly subsistence requirement in 1996: 592 new rubles (Russian average: 438 new rubles)

Consumer price index (as of July 1998): 124 (Russia overall = 100)

Industrial production as percentage of all Russian production (Jan. -Aug. 1998): 0.84%

Proportion of loss-making enterprises (as of July, 1998): 49% (Russia overall: 50.4%)

Number of enterprises which have wage arrears (as of 1 Sept. 1998): 439 (0.32% of Russian total)

Agricultural production as percentage of all Russian production (1996): 0.14%

Number of private farms (as of 1 Jan. 1997): 76 (0.03% of Russian total)

Capital investment (1996): 1,619.9 billion rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): federal budget: 15.8% (Russian average: 9.2%); regional budget: 7.8% (9.6%); enterprises: 73.0% (66.3%)

Number of joint ventures (as of 1 Jan. 1997): 140 (0.87% of Russian total)

Fixed capital investment in joint ventures and foreign companies (1995): 18,007 million rubles

Number of small businesses (as of 1 July 1998): 3,900 (0.45% of Russian total)

Number of enterprises privatized in 1996: 8 (0.16% of Russian total), including those which used to be municipal property: 75.0% (Russian average: 67.1%); regional property: 0% (14.3%); federal property: 25.0% (18.6%)

Number of telephones per 100 families (1996): in cities: 56.0 (Russian average: 48.7); in villages: 25.8 (19.7)

According to a 1998 survey by *Ekspert* magazine, the oblast is ranked 28th among Russia's 89 regions in terms of investment potential and 30th in terms of investment risks. A 1998 survey by Bank Austria ranked the oblast 31st in terms of investment climate.

Electoral History

1996 Gubernatorial Election

Yevdokimov (Lebed's Honor and Motherland movement): 20.10%/43.45% (first round/second round)

Komarov (incumbent, NDR): 31.09%/40.64%

Zub: 13.92%

Vorobev (LDPR): 10.15%

Kalaida: 7.14%

Lebedev (Yabloko): 4.93%

Myasnikov: 1.47%

Kirichenko: 0.91%

Turnout: 44.64% (second round)

1996 Presidential Election

Yeltsin: 40.62%/70.13% (first round/second round)

Zyuganov: 12.09%/21.88%

Lebed: 25.43%

Yavlinskii: 9.68%

Zhirinovskiy: 6.98%

Turnout: 59.59%/56.64% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Elections

Liberal Democratic Party of Russia: 12.37%

Communist Party of the Russian Federation: 10.96%

Our Home Is Russia: 10.83%

Yabloko: 10.63%

Women of Russia: 7.03%

Congress of Russian Communities: 6.02%

Party of Workers' Self-Government: 5.19%

Russia's Democratic Choice: 4.57%

In single-member districts: 1 Our Home Is Russia, 1 independent

Turnout: 60.94% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" – 68.07% "No" – 31.93%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 24.26%

Russia's Choice: 23.47%

Yabloko: 14.25%

Women of Russia: 7.82%

Democratic Party of Russia: 6.97%

Party of Russian Unity and Concord: 6.44%

Communist Party of the Russian Federation: 5.67%

Agrarian Party of Russia: 1.30%

In single-mandate districts: 2 Russia's Choice

Turnout: 50.96% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 55.95%

Ryzhkov: 17.69%

Zhirinovskiy: 9.0%⁴

Tuleev: 6.09%

Bakatin: 4.01%

Makashov: 2.06%

Turnout: 68.46% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; T. Matiyasevich, N. Mogel, S.A. Nagaev, M. Rossmann,

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BREAKING NEWS

POLITICS

RUSSIAN REGIONS MAY FORM ELECTORAL BLOC. The Russian Regions deputy group in the State Duma is considering the formation of an electoral bloc to participate in the 1999 Duma party-list elections, bloc leader Oleg Morozov announced 9 November. The bloc will also nominate candidates in single-member districts where it has strong candidates. The stated purpose of the bloc would be to balance the interests of the federal government and the regions. No other political group in Russia can claim to represent the interests of the regions, Morozov said (*Segodnya*, 10 November).

STATE DUMA TO INVESTIGATE KOMI PRIVATIZATION. The State Duma has decided to send a commission to the Komi Republic to look for corruption in the republic's government and investigate the legality of laws adopted by its Legislative Assembly. In particular, the federal legislators will investigate the privatization of Komineft and the transfer of the state share in Komineft to KomiTEK, a private commercial organization. The deputies will also examine how much these companies owe to the federal budget (*Segodnya*, 10 November). According to the journal *Ekspert's* list of Russia's 200 largest companies published on 12 October, KomiTEK is ranked 44.

DUMA BACKS FEDERATION COUNCIL IN LIMITING MEDIA BENEFITS. The State Duma reversed itself on 5 November and went along with the Federation Council in eliminating customs benefits for the Russian press. The Duma voted to extent the media's current exemption from paying profit and value added taxes, but refused to extend the customs benefits that allowed the media to print publications abroad cheaply. The Duma had initially approved these provisions, but then backtracked after Samara Governor Konstantin Titov complained in the Federation Council on 15 October that the customs benefits were helping foreign printing houses at the expense of their Russian counterparts. *Kommersant Daily* (6 November) called this move an attack on free speech in Russia because it will likely force the closure of publications printed abroad.

LEBEDEV HANGS KLIMENTEV'S PORTRAIT IN NIZHNII MAYOR'S OFFICE.

Newly-elected Nizhnii Novgorod Mayor Yurii Lebedev has hung a portrait of Andrei Klimentev in the gallery of mayors' portraits in the Nizhnii Kremlin, carrying out one of his campaign promises. Klimentev won the most votes in the 26 March elections, but the Kremlin canceled the results and Klimentev is now serving a six-year prison term. (*Kommersant Daily*, 6 November)

ECONOMICS

GAZPROM SEEKS TO INCREASE DOMESTIC SALES. Russia's natural gas monopoly, Gazprom, hosted a group of governors in its home base of the Yamal-Nenets Autonomous Okrug last week in order to try to increase its domestic sales. In principle, domestic sales are more profitable than exports because the company does not have to pay high transport fees. However, since many regions do not pay the monopolist for the gas they consume, the company's expansion plans are necessarily limited (*Nezavisimaya gazeta*, 10 November). Gazprom is already working in 62 Russian regions.

LEBED REVERSES VODKA RULING. Krasnoyarsk Governor Aleksandr Lebed reversed his recent order that would have prohibited the sale of vodka in small kiosks. Sales of strong drink support many local traders. The Union to Protect Small and Medium-Sized Enterprises won the reversal after sending a letter to the governor explaining that his move would have hurt small business. Lebed compromised and now the ban only covers the smallest kiosks. The Russian Trade Ministry is currently considering a similar measure at the federal level. The measures are intended to help the government increase its tax revenue. The ministry is also proposing that the government postpone until April the implementation of its 3 September decision that all traders use cash registers. (*Kommersant Daily*, 5 November)

KALMYKIYA APPOINTS LUZHKOV'S BROTHER-IN-LAW PRIME MINISTER.

The legislature of Kalmykiya appointed Viktor Baturin as the republic's new prime minister. Baturin is the brother-in-law of Moscow Mayor Yurii Luzhkov and the head of a construction company that built the republic's Chess City. Although Kalmykiya President Kirsan Ilyumzhinov suppresses local opposition in the region, many outsiders have criticized the construction of the city as an inappropriate and extravagant use of public funds. Ilyumzhinov expects the new prime minister to build an extensive amount of new housing in the republic and many members of the local legislature hope that the close ties to Luzhkov will prove financially advantageous. Luzhkov could also benefit from the deal because it would give his Central Fuel Company, which now only owns an oil processing plant and gas stations, access to Kalmykiya's currently untapped oil reserves. (*Kommersant Daily*, 4 December)

RUSSIA, BELARUS SEEK TO REVIVE DOMESTIC TELEVISION

PRODUCTION. The Union of Russia and Belarus is trying to revive domestic television set producers based in Novgorod (Kvant), Moscow (Rubin), and Minsk. Initially, the companies

will pool their parts orders and by 2000 they expect to produce identical models. The firms will have to import picture tubes since the VELT factory in Voronezh is not operating. Philips had been working there but has since given up on the project (see *EWI Russian Regional Report*, 30 July). Reviving the Voronezh plant would be expensive and is not planned to take place before 2001. In the 1980s, Russia produced 11 million TV sets a year, but by 1997, the number had dropped to 328,500. For two years, Moscow's Temp, St. Petersburg's Raduga, Voronezh's Elektrosignal, and Samara's Laime have not produced television sets. Russian consumers buy 5-7 million TV sets a year. Domestic sets currently make up only 5-7 percent of the market. (*Kommersant Daily*, 4 November)

BALTIC COUNTRIES SEEK JOINT ELECTRICITY PRODUCTION.

Representatives of 11 Baltic countries that are part of the Balt-Rel energy organization met in Kaliningrad 1-2 November to discuss the Baltic Energy Ring project. Unified Energy System (EES) Chairman Anatolii Chubais participated in the meeting since his firm would like to sell electricity abroad as a way to generate revenue. Kaliningrad is now building a \$680 million thermal-electric power station with the capacity to produce 900 megawatt-hours a year. The oblast only consumes 580 megawatt-hours a year, and will be able to export the additional 320 megawatt-hours. EES owns 65 percent of the new generator, Yantarengo, 20 percent, and the oblast administration, 15 percent. (*Nezavisimaya gazeta*, 6 November)

MEDICINE IN SHORT SUPPLY. Medical supplies are dwindling in many regions because hospitals can no longer afford to buy imported medicine, *Izvestiya* reported 5 November. In Volgograd, there are shortages of antibiotics and some heart medicine. In St. Petersburg, one doctor said that his pharmacy has only 10 percent of what is necessary. In September the city government authorized \$500,000 to buy imported medicines, but this is hardly enough to improve the situation. In Kazan, doctors had 80 percent of the needed medicines in September, but only 60 percent in October. In many cases, hospitals can obtain medications only if the patient promises to pay for it.

BUSINESS BRIEFS

-- **MOSCOW'S KRASNYYI OKTYABR** bought **ST. PETERSBURG'S PETROKONF** confectionery factory from Germany's **KRAFT JACOBS SOUCHARD**. The Moscow-based chocolate maker already owns six other plants in Kolomna, Ryazan, Tambov, Tula, Ioshkar-Ola, and Penza. The firm, which has now gained access to the country's second city, controls about 10 percent of the national market. The city of Moscow owns a 19.7 percent stake in the parent company while the rest is owned by small shareholders. The German firm made the decision to sell the plant at the beginning of the summer because it has changed its strategy in Russia. When it bought the cookie-producing plant, it wanted to improve its position on this market. Neither side would announce the price of the sale. The Germans will now sell exclusively imported products in Russia. (*Kommersant Daily*, 10 November)

-- **KALININGRAD'S KIA-BALTICA** plant is already restructuring its main production line to assemble BMWs, according to Director Vladimir Shcherbakov. Rumors about this deal have been circulating since spring (see *EWI Russian Regional Report*, 16 April). Following the bankruptcy of South Korea's Kia Motors and Hyundai's acquisition of the company, Kia-Baltika will only produce 10,000 Kias in 1999. BMW will use the idled space. BMW has yet to confirm the deal. (*Kommersant Daily*, 5 November)

PATTERNS OF REGIONAL DEVELOPMENT

LUZHKOV BUILDS REGIONAL POLITICAL BASE IN SAMARA. A new mass political organization called Fatherland (*Otechestvo*) will be created in Samara to support Yurii Luzhkov's presidential bid and to compete in the 1999 parliamentary elections. To win the presidency, Luzhkov needs the support of an organized political group. In late November Fatherland will hold its founding congress in Moscow, bringing together as allies such groups as the Union of Labor, the political wing of Mikhail Shmakov's Federation of Independent Trade Unions (a long-time Luzhkov supporter), and the Congress of Russian Communities (KRO), which supported Aleksandr Lebed in the 1995 Duma elections, but has since broken ties with him. Lebed is now Krasnoyarsk Krai governor and one of Luzhkov's main rivals for the presidency.

State Duma deputy Stepan Sulakshin is developing the new movement's ideology and rhetoric (see *EWI Russian Regional Report*, 15 October). He wants the movement to assume a centrist position on the political spectrum and have an ideology based on "state patriotism." Additionally, he wants to preserve the current goals of reform, but alter the means used to achieve them. Along these lines, he wants to punish those responsible for carrying out a "genocide against their own people," but is careful to say that this process must be implemented through the courts. Luzhkov is likely to share these beliefs.

Unlike many other political parties created recently, Fatherland has a reasonable chance of becoming a mass movement. It is being organized from the bottom up, by regional activists, not Moscow elites. The founding congress will bring together local branches which have already been established. The founding fathers of the movement in Samara are State Duma deputy Dmitrii Sivirkin, who heads the Samara Printing House, as well as several prominent journalists and businessmen. It has become clear that pro-Luzhkov candidates competing for seats in the State Duma will have good chances to win in Samara Oblast, since they are likely to enjoy the support of Governor Konstantin Titov. - Andrei Perla in Samara

LEBED FACES POWERFUL SHADOW CHALLENGER IN KRASNOYARSK.

Following Aleksandr Lebed's election as Krasnoyarsk Krai governor, a parallel power structure began to emerge in the region, headed by Legislative Assembly member Anatolii Bykov, the chairman of the board of the Krasnoyarsk Aluminum Plant (KrAZ). Bykov is a long-standing power-broker in regional politics and by now the shadow power structure under his leadership has taken firm shape. Part of the blame must be laid on the governor himself, since he has failed to forge a good team to address the problems facing the krai's economy and infrastructure.

Lebed's five months in office have shown him to be inconsistent and prone to rash pronouncements, poorly thought-out decisions and sudden reversals.

For example, when the current economic crisis dawned, Lebed announced with pomp that he would freeze prices for essential consumer goods, and thus scared even those who know little about economics. Even though later he quietly abandoned this policy, Krasnoyarsk food processing enterprises lost money, as did the oblast budget, while the population still had to endure high prices for essential goods. It was the same story with Lebed's prohibition on selling vodka from kiosks and pavilions (see **Breaking News** for more details).

In contrast, after tenaciously climbing to his current power position, Anatolii Bykov is pedantically consistent, taking away spheres of influence from Lebed one by one. Sometimes he does not need to make much of an effort since the krai administration has managed to lose much of its influence on its own. It is clear that Bykov's business empire and sports hobbies are too small for his ambitions, and he has been working hard to distance himself from his reputation as someone with close connections to the criminal world. He loves public politics and yearns to engage in an open dialog with the population. On the other hand, Lebed is having increasing difficulty finding common language with the people. He has, furthermore, made a strategic mistake by entrusting the Moscow media with forging his image while completely neglecting the local press. Bykov took the opposite route and now controls a whole host of influential press and broadcasters in the region.

Thus, Krasnoyarsk Krai finds itself in a paradoxical predicament. On the one hand, the popularly elected governor with national political standing is rapidly losing his popularity. On the other hand, he is opposed by a businessman and legislator with a bad reputation, but with substantial resources and extensive ambitions, who is rapidly gaining influence. While Lebed and Bykov give the public appearance that their relations are still friendly, people close to both camps claim that the real situation is quite different. Bykov seems more and more comfortable in public. For example, when asked at a press-conference for a boxing tournament if he wished to join in, Bykov said, "Only against the governor." So, who is really running the krai? - Pavel Avramov in Krasnoyarsk

SVERDLOVSK OBLAST BUREAUCRATS RAISE THEIR OWN SALARIES. In accordance with a presidential decree signed a long time ago, the government of Sverdlovsk Oblast doubled the salaries of its employees last month and is now beginning to enforce the decision. The timing could not have been worse. The oblast owes 450 million rubles to public sector employees and is unlikely to pay any time soon. The oblast's budget faces a staggering 60 percent deficit.

From now on, the governor will be making 5,400 rubles a month and the oblast's prime minister -- 4,600 rubles. The average income in the region in July was 746.90 rubles, according to Goskomstat. Incomes of all other inhabitants of Sverdlovsk's White House will also jump 100 percent. None of the beneficiaries of the new change were available to comment on this sensitive topic.

Judging by the 1998 budget projections, even before this raise, oblast bureaucrats were not doing too badly. The oblast paid out 140 percent of the funds set aside for the maintenance of various government buildings while the governor's office received 80 percent of what the

budget had allocated. At the same time, healthcare in the oblast received only 40 percent of what it was due and children's benefits -- 26 percent. Looking on the bright side, however, now that oblast officials have taken care of their own interests, maybe they will be inclined to address public business. So, it is quite possible that the salaries of public sector employees will be indexed next year. - Natalia Mints in Yekaterinburg

NIZHNI AUTHORITIES CRACK DOWN ON MEDIA CRITICISM. Recently, a popular weekly TV program "Marker" disappeared from the schedule of the local public TV station "Nizhnii Novgorod." The program used to provide a weekly summary of the local press on political topics. Viewers loved the program's independent stance. Several weeks ago "Marker" prepared a report describing how reporters from a private TV station, "Seti NN," were barred from entering the municipal building during the mayoral elections campaign. Pavel Akkuratov, who anchors "Marker," said that his superiors in the station had asked the program's producers not to mention the "Seti NN" incident on the air. Threatened with the closure of their program, the producers pulled the material.

The following week "Marker" found itself in the midst of another controversy. The oblast had introduced an accreditation procedure for journalists, effectively denying reporting licenses to journalists critical of the authorities. Again, the station's management demanded that "Marker" announce on the air that the new procedure is the authorities' response to the inappropriate actions of the "Seti NN" reporters. Because Akkuratov refused to comply, the station suspended "Marker" altogether. Right now the management is looking for more agreeable reporters to staff the program.

The station's policies have become much more repressive since Mikhail Gorshev took over as director. Previously, he ran the culture department in the oblast administration, obediently serving Governor Ivan Sklyarov. After he began running the station, criticism of city or oblast authorities has all but disappeared from the station's programming. Being a private company, "Seti NN" can maintain its independence from the authorities and is suing the oblast for the actions against its reporters. - Yurii Rodygin in Nizhnii Novgorod

STAVROPOL DUMA CONSIDERS CHARTER AMENDMENTS, BLASTS GOVERNOR. The 5 November meeting of the Stavropol Krai Duma was marked by sharp antagonism between the executive and the legislative branches of the regional government. Governor Aleksandr Chernogorov opposed the legislature's proposed amendments to the krai's charter on the grounds that they would severely cut his executive power. He also criticized the draft law on the krai's governance structure, again accusing legislators of trying to infringe upon his authority. Chernogorov felt that because the federal government has not passed any legislation defining the executive branch, any attempt to devise a local scheme would only destabilize the political situation in the krai.

Legislators fired back at the governor, openly irritated about his unfulfilled promises of two years ago to define in law a regional government structure. Chernogorov had already removed the draft law from the Duma's agenda once, so this time deputies badly wanted to discuss the question. In the end the two sides decided to create a joint commission to study the proposed amendments to the charter

The legislators then considered the budget report from the krai government for the first nine months of 1998. Although they were cognizant of the challenges facing the region, including the country-wide financial crisis and the absence of a federal government for almost half a year, the deputies blasted the administration for lacking any coherent anti-crisis action plan for the last quarter. The main blame should be laid on the governor, Duma members felt, but one of the speakers, representing the krai's war veterans movement, demanded the resignation of the krai prime minister, S. Ilyasov. Ilyasov was offended by what he felt were such unjust demands and stated that the attacks show that he has been targeted by some forces in the region who resent his staunch position on such controversial issues as improving regulatory oversight of the alcoholic beverages market. It is because of his staunch position, he concluded, that the Stavropol Krai government can claim any success at all. - Irina Morozova in Pyatigorsk

KARELIYA'S LEADER SCOUTS RUSSIA, EUROPE FOR INVESTMENTS.

Speaking at a 6 November press conference, Kareliya Prime Minister Sergei Katanandov told reporters about his recent trips to Moscow, St. Petersburg and Italy. In Moscow Katanandov met with new cabinet officials, but failed to see a clear action program. However, he is sure that the new government will be more proactive in moving Russia out of its current crisis and will work closely with the regions.

Kareliya's prime minister also met with Moscow Mayor Yurii Luzhkov to discuss possible cooperation between the two regions, specifically on the construction of the Chupinsk ore enrichment plant and aid to the Kondopoga Combine. Luzhkov will visit Kareliya on 4-5 December.

Katanandov was sorry that he could not attend the Federation Council meeting where the upper chamber of the parliament considered the law on mass media, which he wholeheartedly supports (see *EWI Russian Regional Report*, 22 October). He has petitioned both Federation Council Chairman Yegor Stroev and Prime Minister Yevgenii Primakov to support Kareliyan television, but never received any response. Unlike the Duma Communists, Katanandov feels that the mass media should have state support, regardless of its critical attitude toward the authorities.

When asked about Grigori Yavlinskii's recent accusations of high level corruption in the Russian government, Katanandov announced that he knows very well about corruption in the upper echelons of the state and that Kareliya is no exception. Recently a senior law enforcement official was arrested for corruption, and even the tax police in the republic is under scrutiny. However, Katanandov rejected the tone of Yavlinskii's statement, which smacks of "witch hunts," he said.

During his trip to Italy as part of a Federation Council delegation, Katanandov had little time to enjoy the Mediterranean climate. One of the successes of the trip was a commitment by an Italian refrigerator company to open production facilities in Russia. Additionally, the trip was good for establishing relations with fellow members of the Federation Council, Katanandov said.

In St. Petersburg, the prime minister spent most of his time trying to secure more investments in the region. He is hoping to attract resources for several projects, including a new plant in Medvezhyegorsk, an airport and a network of gas stations. Katanandov signed an

agreement with Lentransgaz to make sure that Petrozavodsk has sufficient heat supplies during the winter.

The prime minister hopes to revive construction across the republic, focusing on building schools and hospitals with public funds. He sees his role as solicitor of investments for the republic. Thus, he will spend less time touring Kareliya's raions and more time lobbying for funds in Moscow. Commenting on the recent decision of the federal Anti-Monopoly Committee, which allowed the local telephone service provider to charge for local calls (see *EWI Russian Regional Report*, 15 October), Katanandov threatened to appeal the ruling in court. Although he does not oppose charging for phone usage by the minute, the prime minister wants to put off introducing the new rates until after wages and pensions have been indexed. He also fears that higher telephone rates will translate into higher prices for other goods and services in the republic. - Boris Matveev in Petrozavodsk

KOMI STRUGGLES WITH REDISTRICTING BEFORE ELECTIONS. At the 30-31 October session of the State Council (parliament), Komi Republic's legislators officially set the next parliamentary elections in the republic for 7 February. The nomination process will start in early December. However, it is far from clear how the boundaries of the new electoral districts will be drawn. The law stipulates that each deputy must be elected from districts roughly equal in size, and that deviation from the average size cannot exceed 10 percent. According to the previous electoral law, however, some electoral districts were defined according to administrative-territorial divisions--one deputy from one city or raion. In other words, the city of Vorkuta, with a population of 200,000, had the same representation from these districts as Koigorod Raion, home to only 14,000.

To establish district boundaries that comply with the change in the election rules, the republic will have to merge some smaller districts together. Heads of local administrations do not like this idea, since most of them won their State Council seats thanks to the old system which allowed them to use their disproportionate influence in their respective jurisdictions. By law, the State Council must put in place the new electoral district scheme no later than 70 days prior to the vote. This means the body must meet by late November, which is unlikely. Thus, given the likely failure to adopt the new scheme in time, the electoral commission will be forced to revert to the old system, which is allowed by the law. Thus, holding the elections while using the old districts does not so much violate the new law as subvert its intentions (*Molodezh severa*, 5 November). It seems that the republican "party of power" wants exactly that in order to secure once again its control over the parliament. - Yurii Shabaev in Syktyvkar

TVER CITY DUMA PARALYZED AFTER ELECTIONS. Elections for twenty of the forty seats in the Tver city Duma that took place on 1 November have effectively rendered the body powerless. Deputies serve in the Duma for four years, but half of the house must stand for elections every two years. Right now thirteen deputies who were elected from odd-numbered districts in 1996 are serving out four-year terms that will last until 2000. This year twenty even-numbered districts were supposed to elect new deputies, but the elections in most districts were invalid due to low turnout and only four new delegates managed to win seats in the city Duma. In the rest of the districts, less than the mandatory 25 percent of the electorate participated in

the polls. The average turnout in districts across the city was 12-17 percent (*Vechernyaya Tver*, 3-4 November).

The city spent 615,000 rubles on the failed elections, but the real impact is the *de facto* paralysis of the city's legislature. According to Article 39 of the city charter, the Duma requires a quorum of 22 deputies to conduct legislative business (*Tverskie gubernskie izvestiya*, 4-10 November). A new round of elections must be held no later than four months after the invalid elections, and this is likely to happen soon. Indeed, an incomplete Duma cannot adopt the municipal budget for 1999, endorse the administration's borrowing plans, or approve any other projects.

Deputy chairman of the Duma Valerii Minevich expressed his disappointment in the outcome and said he wants to ask the oblast assembly to lift the 25 percent turnout requirement for local elections. The 1 November results show, in his opinion, the absence of a developed party system in the city, an important element of civil society (*Veche Tveri*, 3 November).

Tver Mayor Aleksandr Belousov sees what happened as testimony to the crisis of power. "The people do not trust authorities on any level, from federal to local," he said. "In Tver people are tired of elections. We have not had a single year without elections lately. We are electing people all the time, but nothing changes for the better" (*Veche Tveri*, 3 November). Additionally, he noted, people might be confused by the complex rotation system and had the elections been held in all the districts, the turnout might have been different. The mayor optimistically claims that nothing dramatic has taken place and Tver will not suffer a paralysis of power. - Boris Goubman in Tver

CENTER-PERIPHERY RELATIONS

SAMARA TO ACQUIRE FEDERAL SHARES IN LOCAL INDUSTRY. In an effort to make the federal government pay what it owes to Samara Oblast, Governor Konstantin Titov has been trying to swap Moscow's debt to the regional budget for federal shares in local companies. In the last year Titov has failed to achieve any substantial gains for the oblast, until now. The Russian Finance Ministry has acknowledged that the center owes Samara 75 million rubles in unfulfilled federal development programs. However, other federal agencies have long resisted transferring ownership of local companies to Titov's administration to cover debt payments.

Samara suffered a setback with the sacking of former Prime Minister Sergei Kirienko and the arrival of new ministers under Yevgenii Primakov because Samara's lobbyists had to obtain signatures from the new ministers to realize their plans. In the end, the two sides decided to divide the 51 percent state stake in Samara Airport into two portfolios, one worth 25.5 million rubles and the other worth 23.5 million rubles. The center now can transfer either of these two packages of stock to Samara, but first President Boris Yeltsin and Prime Minister Primakov must approve the deal. Primakov is expected to endorse the transaction in the near future. If the Samara Airport scheme works, the oblast administration plans to lobby the federal government to pay the rest of its debts to the region in a similar fashion. For example, the oblast would like to gain control of the federal shares in such companies as Giprovostokneft, Aviagregat and Dvigateli. - Andrei Perla in Samara

FEDS, KOMI CLASH OVER FOREIGN ECONOMIC ACTIVITIES. At the initiative of the republican procurator, the Supreme Court of the Komi Republic examined Komi's law on foreign economic activities, *Respublika* reported on 5 November. The procurator charged that the law contradicted federal statutes. As a federal employee, the republican procurator seeks to ensure the constitutionality of regional laws. The court ruled that the law does not contradict either the Russian Constitution or federal legislation on foreign economic relations.

In particular, the procurator contested the right of the Komi Republic to use budgetary funds as collateral for foreign borrowing and open representative offices abroad. Komi's chief executive and the State Council (parliament) were cheered by the decision. According to both the national and the republican constitutions, foreign economic relations fall under the joint jurisdiction of federal and regional authorities. Federal law and the power sharing agreement between Komi and Moscow stipulate the same. Based on these documents, the court ruled against the procurator. - Yuri Shabaev in Syktyvkar

SPECIAL RESEARCH REPORT

SOME LOCAL EXECUTIVE AND LEGISLATIVE LEADERS WORK TOGETHER TO SURVIVE

by Alfred Evans, California State University, Fresno

The Russian Constitution of December 1993 assigns authority at the national and regional levels to organs of "state power," while at the district (*raiony*) and city levels power theoretically is in the hands of organs of "local self-government" (*mestnoe samoupravlenie*). The Law on Local Self-Government passed by the Duma and signed by President Boris Yeltsin in August 1995 reinforced that distinction. However, the consensus among Russian and Western scholars is that in practice local governments in Russia achieved little independence in the years immediately following the disintegration of the Soviet Union.

Regional governments took on much of the work in determining how local governments would operate. Since the governors generally sought to centralize power within their regions, they largely deprived local governments of the autonomy that had been promised by the Constitution. After Yeltsin abolished the soviets on all levels in October 1993, he began strengthening the vertical hierarchy of executive authority from top to bottom. The president appointed governors, and each governor appointed the head of administration (*glava administratsii*) for every district in his region. Thus the chief executive of a district owed his office to the patronage of the governor, not to the support of local voters. The lack of financial autonomy also compromised the independence of local government. The revenues from local taxes were insufficient to cover the expenses of district governments, so each district was dependent on assistance from the regional level for a large proportion of its budget.

Examples of the effects of those factors can be found in Semenov district in Nizhnii Novgorod Oblast. During 1994 and 1995 one of the main responsibilities of the head of the local administration was to ask the regional governor for crucial financial assistance on a case-

by-case basis. Without such assistance, it would have been difficult for the local government to guarantee heat for Semenov's homes or fuel for tractors and trucks during the fall harvest on the district's collective farms. The chief executive dominated the district government, just as the top executive leaders held most of the power at the regional and national levels in Russia at the time. The role of the district's head of administration in frequently petitioning the regional authorities for assistance enhanced the importance of that chief executive within the district government: others depended on him to bring home the bacon. The local legislature (called the *Zemskoe Sobranie* in the Semenov district) played a peripheral role, since it had little control over the income of the local government and was often bypassed in the legislative process because the head of administration frequently announced decrees which had the force of law.

The way the district was run changed after the end of 1995, according to accounts published in the local newspaper, *Semenovskii vestnik*, in 1996 and 1997. Tensions increased in the vertical relationship between the head of the district's administration and the governor of Nizhnii Novgorod Oblast, while cooperation was strengthened in the horizontal relationship between the executive and legislative leadership within Semenov district.

Nikolai Anatolevich Krasnov, Semenov's new head of administration, was elected by the district's legislature rather than appointed by the governor. Like his predecessor, he spent a great deal of time in Nizhnii Novgorod, the oblast center, seeking financial assistance from the regional government. When his predecessor had engaged in that activity, it was understood throughout Russia that a lower-level executive had to ask or beg (*prosit*) for help from the higher level of authority. However, in 1997, Krasnov said he went to Nizhnii Novgorod to "beat out" or dislodge (*vybit*) money. He reported that when he succeeded in eking out any assistance, it consisted only of "crumbs." The regional government consistently delivered only about half of the financial transfers promised by the district budget. Krasnov complained that the governor of the region expected the district governments to take the blame for problems resulting from a scarcity of financial resources. In his account, the departments of the oblast government lumped "all the blame" on the heads of district administrations, using those local executives as "a buffer" between the population and the governor. Though it was still unfathomable that a district government could get by without help from the regional level, it was apparent that the adversarial aspect of the relationship between the district and regional executive leaders was coming increasingly to the fore.

While the relationship between Semenov's leader and the Nizhnii Novgorod Oblast governor showed evidence of increasing tension, the relationship between Semenov's executive and legislative branches had become much more cooperative. The *Zemskoe Sobranie* had taken on a larger share of visible decision-making authority. In the December 1996 elections, voters turned out most of the incumbents, replacing most of the administrative officials in the local legislature, electing more entrepreneurs, and choosing representatives who on the average were younger. The *Zemskoe Sobranie* became a body that included more outsiders and more independent-minded members. Legislative decisions (*postanovleniia*) began to replace the administration's executive orders (*rasporiazheniia*) in addressing major issues of public policy. The *Zemskoe Sobranie* also began to play a larger role in adopting and monitoring the district's annual budgets.

Since the head of administration was elected by the *Zemskoe Sobranie*, he had a greater incentive to share power with that body. Legislation approved by the Nizhnii Novgorod authorities set up that procedure. In most other regions in Russia, local heads of administration are elected directly by the voters, which may encourage a different relationship between the executive and legislative branches of the local government.

Another factor encouraging cooperation appeared to be District Head Krasnov's desire to share responsibility with the legislative assembly when facing citizens who were increasingly indignant over the consequences of the district's chronic financial famine. School teachers, medical personnel and other government employees were furious because they had received no wages over long stretches of time. *Zemskoe Sobranie* Chair B. A. Liashkov explained his willingness to work with Krasnov by noting that "without coordinated actions, the two branches cannot use even those small possibilities which are present in order to improve people's life."

In the face of intensifying pressure from below, exerted by angry local constituents, and the lack of adequate assistance from above, as the regional government consistently under-fulfilled its promises for financial subsidies, the Semenov political elite decided to share responsibility for decision-making as a measure of mutual protection. Further study of trends in other districts in various regions of Russia will be necessary to reveal whether a similar strategy has been adopted elsewhere.

SOCIAL ISSUES

BREAD PRICES RISE IN NIZHNI DUE TO POOR HARVEST. The Nizhnii Novgorod Oblast administration officially decided to raise prices for bread by 25 percent on 3 November. The decision only went into effect after the oblast had marked the November holidays. Until now the oblast had managed to keep bread prices at pre-crisis levels. As the oblast's economic experts note, however, this is only an apparent increase: the real prices will actually come back to the October 1997 levels. However, oblast consumers can expect another price hike after New Year's, caused primarily by the poor harvest in the region. Nizhnii Novgorod farmers harvested only 12 percent of the necessary amount, the worst record since World War II. The oblast will make up the difference through purchases outside the oblast, but producers are already hiking their prices.

Traders have realized that the 20 million tons of surplus grain that Russia put into storage last year have disappeared, according to one regional legislator. So, the grain from this year's poor harvest alone will not be able to feed the country. The economic crisis has exacerbated the situation, as prices for such basic commodities as sugar, salt, yeast and vegetable oil are going up. These price hikes raised the costs of production for bakers because these commodities are necessary ingredients for making bread.

Prices were supposed to climb up two months ago, but apparently the oblast decided to hold off the increase until after 7 November, the anniversary of the 1917 October Revolution. Communist leaders had always sought to provide citizens with cheap bread. Oblast officials denied the connection with the holiday. Besides, Nizhnii's mayoral campaign was underway last month. The only remaining hope is that banks will grant the bread making industry low-interest

credits, which will give producers enough breathing room not to raise prices for bread by very much. - Yuri Rodygin in Nizhnii Novgorod

VORONEZH ENVIRONMENTALISTS SEEK TO BLOCK REVIVED NUCLEAR STATION. On 28 October a reanimated Economic Initiative Movement (DEI) held a congress in Voronezh. DEI first appeared in the early 1990s to counter the efforts of the oblast administration to build the Voronezh Thermal Nuclear Power Station (VAST). VAST was considered to be an experimental project as there was no similar thermal power station anywhere in the world. In 1990 DEI initiated a referendum and 96 percent of electorate voted to abandon the VAST project. The voters then backed reconstructing existing boiler-plants and thermal electric power stations (*Voronezhskiy Kurier*, 31 October).

But despite the referendum results, work at VAST continued until the end of 1992. Even when construction finally stopped, oblast officials did not want to give up on the project. As early as 1993 then Governor Aleksandr Kovalyov tried to convince Voronezh residents that VAST was crucially important to the oblast's economy. He said that regional industries would not be able to develop without the power station. Later the Moscow-based concern ROSENERGOATOM (which handles the economic activities of the Ministry of Atomic Energy) told the Voronezh administration that it was willing to cover the expenses required to complete the two blocs at the power station. ROSENERGOATOM also promised to subsidize construction of new boiler plants, while rebuilding old boilers and power stations. Observers believe that ROSENERGOATOM was interested in VAST mainly because it needed an operating thermal nuclear power station to strike a deal with the Chinese for producing nuclear reactors for such stations. (*Itogi*, 11 August)

After pursuing a persistent lobbying campaign, ROSENERGOATOM General Director Yevgeniy Ignatenko signed a cooperation agreement with Voronezh Governor Ivan Shabanov on 27 May. Voronezh Mayor Aleksandr Tsapin promised Ignatenko that he would settle all legal issues so that construction could resume as soon as possible.

The public remains opposed to reviving this project. According to a poll conducted by the local QUALITAS, 64 percent oppose using nuclear power to generate heat (*Itogi*, 11 August). It is also highly unlikely that ROSENERGOATOM will have the funds to continue with the \$250 million project during Russia's current financial crisis. One must also take into account the costs associated with processing the nuclear waste generated by the plant, installing expensive new equipment, and other costs. As a result, some experts believe that large boiler plants burning conventional fuel are more profitable than nuclear power stations (*Voronezhskiy Vestnik*, 30 October).

Today DEI is ready to go to court to block the reanimation of the station. It is also considering plans to start collecting signatures in support of another referendum. - Andrei Muchnik in Voronezh

ECONOMIC ISSUES

NAZDRATENKO PLANS TO MERGE TWO LARGEST REGIONAL BANKS. Last week Primorskii Krai Governor Yevgenii Nazdratenko's administration announced that it wants

to create a united regional bank by merging the two largest banks in the region: Dalrybbank and Far Eastern Bank. Nazdratenko reportedly has discussed this idea with the chairman of Russia's Central Bank Viktor Gerashchenko, who has approved the plan. The news provoked a loud reaction, especially among the clients of Far Eastern Bank, which has fared comparatively well in the financial crisis. Dalrybbank, by contrast, lost its number one position in the Far East as a result of the crisis. Aleksei Kulakov, the vice president of Far Eastern Bank, said that the governor's statement in the press was misleading, since mergers should be decided by the shareholders.

Most observers agree that the merger is unlikely, because as a result, Far Eastern Bank (which has just won a 10 billion ruble stabilization credit from the Central Bank) would gain nothing but debts and unnecessary real estate. Additionally, some fear that a united regional bank would turn into a monopolistic monster on the Far Eastern financial market, and the quality of its services would decline in a competition-free environment. Moreover, as the brainchild of the regional authorities, such an entity would be vulnerable to their political pressure. Even before the crisis, the regional authorities forced many independent commercial banks to loan them money, which the banks now have to reclaim through the courts, the weekly *Zolotoy Rog* reported.

Before the crisis, both Dalrybbank and Far Eastern Bank figured prominently among the top 100 largest Russian banks. They serviced the region's main industries (fishing and sea shipping), worked with foreign partners, and participated in various World Bank programs. - Yevgenii Popravko in Vladivostok

OBLAST AND CITY CLASH OVER INVESTMENT PROJECTS IN NIZHNI. The conflict over the construction of a new hotel on the former site of the Hotel Moskva in Nizhnii Novgorod is intensifying (see *EWI Russian Regional Report*, 22 October). Last month, newly elected Mayor Yurii Lebedev gave the construction a green light, as promised to the project's backers, Spring Investments. However, construction has been delayed for more than a year as the governor and religious leaders blocked the new hotel when an ancient graveyard was found on the site. Last week the Community Chamber recommended that the oblast legislature not erect any further obstacles to the project while suggesting a thorough archaeological exploration of the site. However, the oblast administration's foreign economic relations department is still opposed to the project, and is even willing to use the police if necessary to halt construction. The department has also asked the oblast procurator to determine whether Lebedev's policies violate the law. Oblast officials claim that they simply want to help the new mayor avoid making legal mistakes while executing well-informed policies.

What could be at the root of the oblast's obstinacy, however? After all, while investors have put their own money on the line, the oblast administration has also spent a lot of time and money defending its position. It negotiated with potential investors for an entire month, and two different commissions studied the question for 2.5 months. The oblast sought expensive legal counsel from the Moscow-based Grishin & Partners law firm. In other words, the oblast does not want to lose the fight after it has sunk so many resources into it.

Also, why is the foreign economic relations department so adamant about halting the project? In the spring, there was some talk of another potential investor, who promised to build

both the hotel and a church on the site to sanctify the remains from the burial ground. At that time, the department was developing another project, in competition with the hotel--one backed by U.S. businessmen Andrew Summers, to build a \$50 million hotel complex on a different site in the city. Summers is expected to visit the city in early December. By then oblast Procurator Aleksandr Fedotov had been expected to have ruled on the legality of the mayor's actions. However, he has decided to stay away from the oblast-city rivalry and has passed the case on to the city procurator. - Yuri Rodygin in Nizhnii Novgorod

KOMI BAUXITE EXTRACTION REGULATIONS ENACTED. The federal government is pushing forward with plans to develop the Middle Timan bauxite deposits in the Komi Republic. The bauxite will provide raw materials for the aluminum processing industry of Sverdlovsk Oblast. Prime Minister Yevgenii Primakov has signed a decree to this end, requiring the governments of the Komi Republic and Sverdlovsk Oblast to present background materials supporting the project to the cabinet of ministers by the end of the year.

This decision is a true landmark for Russia's aluminum industry because it provides for the development of a domestic source of raw material. Before its collapse the Soviet Union invested heavily in bauxite imports from Greece and Guinea, shipping them via Ukraine all the way to the Urals aluminum smelters. Today this scheme is not viable. In the recent years virtually all aluminum smelters have been receiving raw materials from abroad through the so-called tolling procedure, by which foreign firms pay the Russian plants a fee for smelting their raw materials. Although tolling keeps the plants alive, foreigners pocket the profits from buying and selling the raw materials and the finished product. As a result, the Russian industry remains in a state of crisis and continues to be dependent on imported bauxite. Under the tolling system foreign importers did not invest in Russian production facilities or pay taxes.

Recently the Russian government decided to extend tolling through 1999, because the Russian aluminum industry has no resource base of its own (see *EWI Russian Regional Report*, 5 November). According to First Deputy Prime Minister Yuri Maslyukov, the development of the Timan bauxite deposit "will enable us to move away from tolling and use domestic inputs." When that happens, the government will end tax breaks granted to the industry under tolling schemes (*Respublika*, 5 November).

The government's decision implies that some major construction will have to take place. So far, builders have erected a settlement in the Middle Timan and laid railroad links between Syktyvkar and Perm, while the Ural and Bogoslov aluminum smelters have expanded their processing capacities. However, this is only the first step. The next step is to make Timan the raw material base for aluminum smelters in other parts of Russia. - Yuri Shabaev in Syktyvkar

LEXEL TO ASSEMBLE ELECTRIC EQUIPMENT IN ST. PETERSBURG. The Denmark-based Lexel will soon begin assembling consumer electronics in St. Petersburg. Lexel was founded in 1995 by the Danish NKT and Finnish Ahlstrom. In 1997 Lexel bought ten plants in Europe, among which 4 are in Poland. Lexel decided to move into Russia in June 1997. In the Fall of 1998 Lexel's Russian distributor Lexel Elektromaterialy (SPb) began producing its own products, electric switchers and sockets. Lexel has committed \$3 million for construction, repairs and equipment installation, and to date \$2 million has already been

invested. The assembly line will be housed in a building rented from one of the city's defense enterprises. Retailers judge Lexel's products to be more expensive compared to those of its competitors. However, even at a higher price, Lexel's products can successfully compete because they are of high quality. The company's main competitor on the Russian market is the French company Legrand, whose subsidiary Leten works in the city of Dubna, Moscow Oblast. - Roman Zotov in St. Petersburg

DAGESTAN PRIVATIZES STRATEGIC ENTERPRISES. Dagestan's Ministry of State Property has made public the list of enterprises to be privatized by the end of the year. Both the composition of the list and the prices for each enterprise have raised a host of questions, none of which were answered by Usman Usmanov who heads the ministry. The list contains nine large state enterprises in spheres ranging from timber processing to food industries. One of the most successful companies on the list is the yeast plant in Makhachkala, which has boosted its usually profitable operations even further during the crisis, when many of the competing imported products dropped out of the market. The plant is to be privatized for 14.5 million rubles (\$900,000), or the price of 4-5 private houses in Makhachkala. Not counting the value of the land on which the plant stands, the worth of its buildings and equipment exceed the asking price by several dozen times.

The ministry has also prepared a list of joint stock companies with partial state ownership. The government's shares in these companies, mostly in the high tech areas of former defense industry, will be privatized by the end of 1999. About 720 enterprises currently under construction will also be sold off. The republic plans to raise 45 million rubles (\$2.9 million) in budget revenues from privatization and channel these funds toward social needs. However, this revenue will be but a drop in the bucket: pension arrears for July 1998 alone amount to 130 million rubles (\$8.4 million). Therefore, many question the need to privatize at all.

The government is trying to increase its revenue in other ways as well. Currently many companies are renting state property for low prices and then subletting the land to someone else at relatively high prices while pocketing the difference. The government will now try to crack down on this practice. Additionally, some personnel changes are in store for government representatives on the boards of various companies. In some cases, the government owns more than 50 percent of a company's stock, but has not seen any dividend profits for a long time. This leads the government to believe that its representatives are abusing their authority. Finally, the ministry also plans to draft a law on the sale of land under privatized enterprises. - Nabi Abdullaev in Makhachkala

FOREIGN TIES

U.S. CITIZEN KIDNAPPED IN DAGESTAN. On 11 November, Herbert Gregg, a U.S. citizen, who has been living in Dagestan together with his wife Linda, was kidnapped in Makhachkala. According to Akhberdilav Akilov, who heads the anti-kidnapping task force in the North Caucasus directorate for combatting organized crime, Gregg was kidnapped in the middle of a street at 5:30 PM. He was on his way home from one of the city's boarding schools where he is coaching a basketball team when a car pulled up and four assailants forced Gregg

into the vehicle. The only witness to the crime was a 13-year old boy, whose testimony the police are using in their investigation. On 12 November, the U.S. embassy in Moscow contacted Dagestan's police and inquired about the course of the investigation.

Herbert and Linda Gregg have lived for four years in Dagestan, where they are involved in missionary work and teaching English at the local pedagogical university. Additionally, Herbert Gregg organized a basketball club and bought sport uniforms for the kids with his own money. During their time in Dagestan, the Greggs have made many friends. They are renting a small private house in the center of Makhachkala. According to Linda Gregg, the couple never received any threats during their time in the republic. She considers the incident a cruel mistake, because if her husband was kidnapped for ransom (as is very likely), the couple simply has no money to offer his captors. - Nabi Abdullaev in Makhachkala

REGIONAL PROFILE: KURGAN OBLAST

Governor: Oleg Bogomolov

Oleg Bogomolov was elected Kurgan Oblast governor on 8 December 1996. He received over 40 percent of the vote in the election's first round and two thirds of the vote in the run-off where he ran unopposed because Anatolii Koltashev, who had come in second, withdrew from the race. Bogomolov had the backing of a wide range of opposition organizations led by the National Patriotic Union of Russia (NPSR).

Bogomolov, 48, became a mid-level Communist party functionary in 1981. In October 1991, he was appointed deputy governor in charge of municipal property management. In February 1992 he won the chairmanship of the regional legislature and in December 1993, a seat in the Federation Council with Communist and Agrarian party backing. In the upper chamber, he served as a member of the Committee on CIS Affairs and worked with the opposition deputies' group "Constructive cooperation." In 1994, Bogomolov was reelected chairman of the Oblast Duma and *ex officio* became a member of the Federation Council in January 1996, where he continues to head the CIS committee.

Bogomolov enthusiastically supported the September appointment of Yurii Maslyukov and Viktor Gerashchenko as first deputy prime minister and chairman of the Central Bank, respectively, earlier this fall. Although he has always been loyal to and cooperative with Boris Yeltsin's regime, he does not support all of its policies. For instance, he is a consistent opponent of land sales, especially to foreigners, and advocates significant state involvement in the regulation of the economy, though "within the framework of a free market." In reality though, his policies have not always respected the market. Last year, for example, he issued a decree limiting sales of locally grown grain outside the oblast. The decree was overruled by a local court, but only after hurting many local farmers.

Other Local Leaders

Chairman of the Oblast Duma – Lev Efremov, elected in December 1996.

Presidential representative – Anatolii Zhigachev, appointed in April 1997.

Brief Overview

Kurgan Oblast is located in the southern part of the West Siberian Plain in the Tobol River basin, bordering Chelyabinsk, Sverdlovsk, and Tyumen oblasts, and Kazakhstan. The oblast's capital Kurgansk is linked to Yekaterinburg, Omsk, and Chelyabinsk by the Transsiberian railway, as well as to the shipping routes of the Ob-Irtys system by the navigable Tobol River. The region lies on the route of major oil and gas pipelines connecting West Siberia to the European part of the country. Kurgan Oblast is not rich in mineral resources, though it has some reserves of iron ores and oil and gas.

Once covered with steppe vegetation, most of the oblast is now used for agriculture. The main crop is spring wheat, but rye, oats, corn, and vegetables are also grown. Due to its traditional specialization in agriculture, the region has a strong food processing industry.

Despite the agricultural focus, most of today's regional output comes from industry – mining, machine building, chemical and petrochemical industries, and production of construction materials, mostly concentrated in the cities of Kurgansk and Shadrinsk. Parts of the oblast have suffered from radioactive contamination caused by nuclear accidents in adjacent Chelyabinsk Oblast.

Basic Facts

Population (as of Jan. 1, 1997): 1,106,800 (0.75% of Russian total)

Urban population (1989 census): 54.8% (Russia overall: 73.0%)

Student population (1996): 123 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 25.99% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 7.2% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 25.6% (Russian average: 29.9%);

Agriculture: 24.0% (12.8%); Trade: 8.2% (9.1%); Culture: 11.5% (13.6%); Management: 2.4% (2.3%)

Average monthly personal income in July 1998: 438.1 new rubles (Russian average: 891.7 new rubles)

Average monthly personal expenses in July 1998: 330.1 new rubles (Russian average: 684.9 new rubles)

Average monthly subsistence requirement in 1996: 328 new rubles (Russian average: 438 new rubles)

Consumer price index (as of July 1998): 88 (Russia overall = 100)

Industrial production as percentage of all Russian production (Jan.-Aug. 1998): 0.37%

Proportion of loss-making enterprises (as of July, 1998): 56.5% (Russia overall: 50.4%)

Number of enterprises which have wage arrears (as of Sept. 1, 1998): 2,829 (2.09% of Russian total)

Agricultural production as percentage of all Russian production (1996): 1.34%

Number of private farms (as of Jan. 1, 1997): 4,728 (1.70 % of Russian total)

Capital investment (1996): 1,200.1 billion rubles (Russia overall: 370 trillion rubles)
Sources of investment (1996): federal budget: 7.8% (Russian average: 9.2%); regional budget: 13.5% (9.6%); enterprises: 68.7% (66.3%)
Number of joint ventures (as of Jan. 1, 1997): 24 (0.15% of Russian total)
Fixed capital investment in joint ventures and foreign companies (1995): 457 million rubles
Number of small businesses (as of July 1, 1998): 3,700 (0.43% of Russian total)
Number of enterprises privatized in 1996: 14 (0.28% of Russian total), including those which used to be municipal property: 100 % (Russian average: 67.1%); regional property: 0% (14.3%); federal property: 0% (18.6%)
Number of telephones per 100 families (1996): in cities: 33.2 (Russian average: 48.7); in villages: 25.6 (19.7)

According to a 1998 survey by *Ekspert* magazine, the oblast is ranked 62nd among Russia's 89 regions in terms of investment potential and 65th in terms of investment risks. A 1998 survey by Bank Austria ranked the oblast 60th in terms of investment climate.

Electoral History

1996 Gubernatorial Election

Bogomolov (NPSR): 40.87%/66.29% (first round/second round)
Koltashev: 33.14%
Sobolev (incumbent): 12.92%
Turnout: 43.56% (second round)

1996 Presidential Election

Zyuganov: 37.53%/50.52% (first round/second round)
Yeltsin: 29.25%/43.41%
Lebed: 11.14%
Zhirinovskiy: 9.99%
Yavlinskii: 6.61%
Turnout: 74.02%/72.08% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Communist Party of the Russian Federation: 22.20%
Liberal Democratic Party of Russia: 19.59%
Agrarian Party of Russia: 8.14%
Our Home Is Russia: 6.94%
Communists -- Workers' Russia: 6.31%
Women of Russia: 3.55%
Party of Workers' Self-Government: 3.49%
Yabloko: 3.16%
In a single-member district: 1 independent
Turnout: 69.60% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" – 56.12% "No" – 43.88%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 23.72%

Women of Russia: 15.53%

Communist Party of the Russian Federation: 12.62%

Russia's Choice: 11.60%

Agrarian Party of Russia: 11.39%

Democratic Party of Russia: 7.35%

Party of Russian Unity and Concord: 5.58%

Yabloko: 4.00%

In single-mandate districts: 2 independent

From electoral associations: 1 Communist Party of the Russian Federation

Turnout: 61.21% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 52.26%

Ryzhkov: 25.07%

Zhirinovskiy: 7.71%

Tuleev: 4.08%

Makashov: 3.26%

Bakatin: 2.38%

Turnout: 81.73% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; T. Matiyasevich, N. Mogel, S.A. Nagaev, M. Rossmann, L.I. Smirnych, and A. Woergoetter, *Russia: Regional Risk Rating*, Vienna: Bank Austria, 1998; *Ekspert*, 19 October 1998; *Roadmap to Russian Regions*, Salomon Brothers, 1997; *Goskomstat, Regiony Rossii* [Regions of Russia], Moscow, 1997; *Central Electoral Commission, Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii* [Elections of the top executives of the federation subjects of the Russian Federation], 1995-1997, Moscow: Ves mir, 1997; *Goskomstat, Sotsialno-ekonomicheskoe polozhenie Rossii: janvar-avgust 1998 goda* [Socio-economic situation in Russia: January-August 1998], Moscow 1998.

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BREAKING NEWS

POLITICS

LEBED CALLS FOR DICTATORSHIP. At a forum entitled Peace in the North Caucasus through Economic Means, held in Pyatigorsk, Krasnoyarsk Krai Governor Aleksandr Lebed backed dictatorship for Russia. "What happened on 22 August 1991 was stupid," he said. "The construction of democracy was declared without realistic pre-conditions. They announced, 'Democracy. Everyone celebrate. From 9 to 6, taking a break for lunch. Expect the market, it will arrive like Santa Claus.' This is the ranting of an insane person." (*Kommersant Daily*, 17 November)

NORTH OSETIYA PRESIDENT TAKES RIGHT TO APPOINT MAYORS. The usually compliant North Osetiya has adopted a law on local government that allows republican President Aleksandr Dzasokhov to appoint the republic's mayors. This law violates federal legislation mandating that mayors must be elected. Although the presidential administration protested the law, neither the Ministry on Regional Affairs nor the procurator general would take any action, claiming they had no evidence that Dzasokhov had actually signed the law. Dzasokhov said that he had signed the law in late October when Prime Minister Yevgenii Primakov was in town to meet with Chechen President Aslan Maskhadov. The federal agencies may have assumed that Primakov approved the move by his old friend Dzasokhov and therefore decided not to take any action, *Kommersant Daily* (12 November) argued. The incident is significant because it provides further evidence that the presidential administration is losing control over regional policy (see also *EWI Russian Regional Report*, 15 October). By placing the mayors under his direct control, Dzasokhov will be able to regulate the flow of money between the cities and the rural areas.

Dzasokhov said the measure conformed to federal legislation because he would chose the mayor from the elected members of local councils. Such systems are already in place in Tatarstan and Kabardino-Balkariya. (*Izvestiya*, 13 November) Additionally, he argued that the move fulfilled Primakov's goal of strengthening the vertical executive chain of command.

FORMER VLADIMIR GOVERNOR ARRESTED. Former Vladimir Oblast Governor Yurii Vlasov was arrested on 13 November following an audit of his administration, *Izvestiya* reported on 14 November. The authorities have accused him of misusing state property. President Boris Yeltsin appointed Vlasov governor on 25 September 1991, but he lost the 8 December 1996 election. He had supported Yegor Gaidar's Russia's Choice party. When Vlasov (born in 1961) took over the oblast in 1991, he was the youngest governor in the country (see *Russian Regional Report*, 11 December 1996). He lost to Communist Party member Nikolai Vinogradov, the former chairman of the Vladimir Oblast Legislative Assembly, by a 62%-21% margin. The former governors

of Tula and Vologda oblasts are also currently on trial for crimes committed during their tenure.

SIBERIAN, FAR EASTERN GOVERNORS DENOUNCE GOVERNORS'

"TOTALITARIANISM." An extraordinary meeting of the Association of Siberian and Far Eastern Cities held in Novosibirsk during the first week of November denounced the "local totalitarianism" of the governors, in the words of association Vice President Roald Babun. Financial issues were the top concern and the mayors cited examples where the governors had intercepted federal subsidies for the cities and used the funds for other purposes. The mayors issued resolutions warning that by adopting anti-crisis measures, the governors were also trying to take greater control of the cities' finances. *Nezavisimaya gazeta* (11 November) described the meeting as the first time the mayors spoke out against the governors so openly and directly. Head of the presidential administration's Local Government Department Boris Mints said that he supported the mayors and that many of their demands had been included in a draft presidential decree. The association elected Novosibirsk Mayor Viktor Tolokonskii as its new president.

ECONOMICS

NIZHNII FIAT PROJECT POSTPONED. Fiat and Nizhnii Novgorod's Gorkii Automobile Factory (GAZ) will postpone the launch of their joint venture, to assemble three models of the Italian cars, until the first quarter of 1999. The project was originally scheduled to begin in October or early November. The partners do not plan to reduce the overall scale of the project, but will carry out their plans more slowly because of Russia's economic crisis. The production of 150,000 cars annually remains as the project's long-range goal. But the date for reaching that target will now be significantly later than 2004 - 2005, as was called for in the initial plans. (*Segodnya*, 17 November)

AVTOVAZ REDUCES OUTPUT. Samara Oblast's giant AvtoVAZ carmaker will produce only 650,000 cars this year instead of the planned 747,000. Demand for the plant's cars increased dramatically after 17 August as Russians tried to get rid of their quickly devaluing rubles, but now demand has leveled off. Although AvtoVAZ benefits from being a domestic producer, it imports about 30 percent of its parts and has thus been hurt by the financial crisis. (*Moscow Times*, 12 November)

CRISIS HALTS TELEPHONE INSTALLATION... The financial crisis will soon halt the installation of telephones in Moscow Oblast cities such as Noginsk, Ozera, Voskresensk, Ramenskoe, Serpukhov, and Kolomna, according to Elektrosvyaz President Yurii Argunov. Elektrosvyaz is the telephone installation monopolist in the region. The cities are in outlying areas where telephone installation is more expensive than in more centrally located cities because of the distances covered. The oblast government denied rumors that plans to install phones are stalled. During the last four years, 300,000 lines were installed, and another 250,000 should be installed by 2002. (*Segodnya*, 14 November)

... CUTS NUMBER OF MOSCOW RESTAURANTS IN HALF. Of the 1,600 Moscow restaurants in business when the financial crisis began on 17 August, only 800 are now operating, according to Deputy Head of the Moscow City Consumers' Market Department Valentin Vorfolomeev. In 1990, there were only 100 restaurants. The city government plans to alter the tax system to enable restaurants to direct the majority of their profits into expanding their networks. (*Segodnya*, 4 November)

DIOXIN DISCOVERED IN LAKE BAIKAL. Researchers from the Republic of Buryatiya have discovered dioxin in the fish, plankton, and bird eggs in and around Lake Baikal. The likely sources of the pollutants are the Baikal Cellulose and Paper plant, located on the lake's southern shore, and the nearby Selengin Cellulose and Paper plant. Many residents of Buryatiya which borders Baikal consume food from the lake's waters. (*Nezavisimaya gazeta*, 17 November)

SAKHALIN SEEKS INVESTORS. Sakhalin Governor Igor Farkhutdinov has traveled to London and Beijing in recent weeks to seek investors for oil and gas exploration off the coast of the island. Investors are worried, however, about the lack of a law on production sharing that would provide reasonable guarantees that their investments would be profitable. The Duma rejected 10 oil exploration production-sharing agreements on 4 November.

Nezavisimaya gazeta (14 November) argues that China could become a large market for the region's natural gas. The first Chinese terminal for receiving Russian gas, to be located in the region of Kwangtung, is scheduled for completion by 2005. Australia also hopes to supply China with gas. To ensure its energy security, China will likely develop a variety of fuel sources.

PETERSBURG WANTS FEDERAL MONEY FOR DAM. St. Petersburg Governor Vladimir Yakovlev wants the federal government to provide 1 billion rubles for the city to complete construction of a dam in the Bay of Finland. Otherwise, he warns, a large flood could significantly damage the city in 2000. The cost of finishing the dam is estimated at \$500 million. (*Kommersant Daily*, 11 November)

BUSINESS BRIEFS

-- **AMOCO** intends to sell its 16 percent share of the **TIMAN PECHORA COMPANY**, which has the right to work in the potentially lucrative, but inhospitable, part of the northern **NENETS AUTONOMOUS OKRUG**. Other shareholders include Exxon, Texaco, Norsk Hydro, and Rosneft. LUKoil, which already operates in the region, may be interested in buying the stake. (*Kommersant Daily*, 13 November)

-- **MOSCOW** has signed an agreement with **GENERAL MOTORS** to produce taxis at the Tushino Automobile Factory. The American Eximbank will provide financing. (*Segodnya*, 13 November)

PATTERNS OF REGIONAL DEVELOPMENT

ULYANOVSK GOVERNOR FORMS NEW LEFTIST BLOC

by Sergei Gogin, *Simbirskii Kurier*

ULYANOVSK--With Governor Yurii Goryachev as its leader, the newly created Ulyanovsk Patriotic Union (USP) is positioning itself to become the dominant force on the left side of the oblast's political spectrum. The Union's proclaimed goal is restoring Russian spirituality and morality, as well as strengthening the country's economy and building a socially just society. However, the party's official ideology is only a facade since the USP is at heart a political machine created to influence voters. According to announcements at the party's founding congress, over the last two months the movement gained 300 local and 26 raion-level organizations, uniting over 5,000 members. USP's prototype was the so-called Congress of Patriots for Social Justice, whose Russian acronym KPSS matches that of the former Communist Party of the Soviet Union. The Ulyanovsk KPSS was originally set up by regional authorities, and the USP's founding conference was an official event.

USP members elected a 58-person coordinating council, composed largely of heads of local governments, chairmen of farming collectives, oblast bureaucrats, and local USP leaders. The party's leadership is thus tightly controlled by the oblast administration. The token voice of dissent in the body is State Duma deputy Oleg Kazarov.

Very few young people are among the party's ranks: the USP's target audience is retirees, who are especially sensitive to economic hardships and nostalgic for the stability of the Soviet past. Most speeches at the conference, including that by the governor, lauded the accomplishments of the Soviet system and praised Lenin's genius. Given the oblast population's traditional propensity to support the Communists, these tactics will doubtlessly fall on fertile grounds.

The USP, in fact, will, over time, likely replace the local Communist Party as the dominant and consolidating force of the left. Led by Communist State Duma deputy Aleksandr Kruglikov, the oblast Communist organization was left out of the USP alliance, its representatives barred from participating in the founding congress. Some Communist party activists have defected to the USP, whose leaders have been working to come across as the true voice of the left who also have a realistic chance of getting things done.

The creation of the USP leaves the governor in an ambiguous situation. He is still a member of the political council of Our Home is Russia (NDR), Viktor Chernomyrdin's right-of-center movement, formerly known as the "party of power." Goryachev also backed Yeltsin's 1996 reelection bid, which caused many Communists to accuse him of selling out. The governor publicly denies any notion of "selling out," stressing that his main job is to manage the affairs of the region, entrusted to him by its 1.5 million residents. This only shows that Goryachev wants to promote an image of an impartial economic manager. His leadership of the left-wing USP, however, makes it difficult for him to remain politically neutral.

Goryachev now has a powerful political machine, modeled in many ways on the Soviet-era Communist Party structure. Many have cried foul, including Kruglikov, who told *Simbirskii Kurier* (10 November) that the USP was created in violation of the

federal law, which bans government agencies from setting up political movements. Indeed, for the first two months after the USP initiative was announced, Deputy Speaker Tatyana Sergeeva of the oblast legislature was in charge of organizing the USP, aided by various raion leaders and the governor's own analytical center. Kazarov, the token voice of dissent in the USP, proposed amending the movement's charter at the founding congress. His amendments would have prohibited the use of public money to finance the party and donations from companies with tax and salary arrears. The delegates overwhelmingly rejected his proposal. Kruglikov has threatened to ask law-enforcement agencies to investigate the legality of the USP's founding and financing.

CANDIDATE NAZDRATENKO DEFENDS THE KURILS. Primorskii Krai Governor Yegvenii Nazdratenko continues to bolster his patriotic credentials in his reelection bid. He is positioning himself as the defender of Russia's border in the Far East. Recently, he accompanied Prime Minister Yevgenii Primakov to the Asian Economic Forum in Malaysia. The governor's spokesperson said that while Primakov's objective was to study Malaysia's experience in rebelling against the International Monetary Fund, the governor's main goal was to again raise the question of the Northern Territories (as the Kuril islands are known in Japan, which claims their ownership from Russia). Nazdratenko accused the "young reformers" (meaning Anatolii Chubais and Boris Nemtsov) of betraying Russia's national interests by allowing Japanese fishermen into Russia's territorial waters without conditions or limitations. "The islands still belong to Russia, but in reality another country is operating in our territorial waters," he proclaimed. "What we did not allow in Hasan [a reference to a 1938 border conflict between the USSR and Japan] has taken place in the Kurils. My position is simple: the Kurils are Russian soil!" Nazdratenko concluded. - Yevgenii Popravko in Vladivostok

VORONEZH GOVERNOR SEEKS TO PASS BLAME, SAVE JOB

by Andrei Muchnik, Voronezh State University

VORONEZH - Voronezh Governor Ivan Shabanov wants to restructure his oblast administration in order to create a regional government. The move is clearly intended to help the governor ensure his own job security while passing the blame for the oblast's increasingly severe economic problems to others.

Implementing such a reform during the current financial crisis would cost oblast taxpayers dearly. Although Shabanov claimed that the reorganization would reduce the number of bureaucrats, the evidence would suggest otherwise. The size of the oblast bureaucracy has grown since the collapse of the Soviet Union, and it is hard to imagine that a regional minister's office would demand fewer staff than that of a deputy governor.

Shabanov is willing to spend the oblast's scarce financial reserves on this seemingly needless reform for several reasons. He claims that replacing his administration with a government will ensure the "concentration of power and a more clear-cut division of personal responsibilities." (*Voronezhskiy Kurier*, 6 November) Under the new scheme, the governor (who is officially the head of oblast administration) would be called the "head of oblast" and the first deputy governor would become the

"head of government." Thus Shabanov could blame ineffective policies and official corruption on the head of government.

Shabanov has also proposed reforming the Oblast Duma by renaming it as the Council of People's Deputies and transforming it into a bicameral legislature like the Federal Assembly. The lower chamber would be a directly elected legislative body and the upper chamber would be a representative advisory body made up of local government executives (mayors and raion heads) from Voronezh Oblast.

In addition, Shabanov wants to change the procedure for installing mayors. Local government executives are currently elected directly by the population. Shabanov says they should be elected by the deputies of local legislatures or appointed by the oblast government. He also suggested that the upper chamber of the proposed Council of People's Deputies could elect the governor. An upper chamber in the direct employ of the regional government would obviously be under the governor's control, and Shabanov would have a good chance of winning reelection in the next elections in 2000. Given the difficult situation in the oblast, his chances of winning direct, free elections are much smaller.

The governor also criticized the oblast procurator's office for arresting several high-ranking administration officials on charges of corruption (see *EWI Russian Regional Report*, 29 October). Federal authorities in Moscow currently appoint the procurator. The governor suggested that the heads of oblast law enforcement agencies (procurator, police chief, etc.) instead be nominated by the oblast administration and approved by the Oblast Duma.

Shabanov probably realizes that with the oblast's economy in disarray, living standards plunging, and administration officials being arrested by the Federal Security Service, he has a very slim chance of being elected governor for a second term. Thus, he is trying either to eliminate or undermine the existing institutions of direct election and governmental checks and balances. If implemented, his proposals would significantly reduce the level of democracy in the region.

LUZHKOV'S PARTY SPREADS INFLUENCE IN ROSTOV OBLAST. A new political movement, the Luzhkov Party, an offshoot of the Rostov party branch, has been created in Volgodonsk, *Volgodonskaya nedelya* reported on 13 November. M. Vinogradov will lead the party's Volgodonsk operations. He is former deputy mayor in the previous administration and a well-known local politician. The Luzhkov Party is built around three key concepts: work, usefulness, and concern (*rabota, polza, zabota*). Its underlying ideology is faith in Russia's greatness.

Vinogradov believes that Luzhkov stands for positive and sober pragmatism. He believes most Russians associate Luzhkov's name with the concepts of "builder" and "creator" and see him as somebody who is welcome after many years of "destruction" in their country. Given this image, Luzhkov seems to be in a rush to create a network of political organizations in the regions before the ongoing economic crisis seriously damages the Moscow economy. - Milana Slinko in Volgodonsk

CENTER-PERIPHERY RELATIONS

KOMI CHIEF SPEAKS OUT ON RUSSIAN CRISIS, CRITIQUES

GOVERNMENT. Shortly after celebrating his 60th birthday, Yurii Spiridonov, the chief executive of the Komi Republic, gave a long interview to the newspaper *Molodezh Severa* (12 November). Commenting on Prime Minister Yevgenii Primakov's government, Spiridonov said that he is glad to see somebody who can be trusted by the entire nation as the leader. At the same time, he is disappointed in the lack of cohesion in Primakov's cabinet. While Spiridonov holds Minister of Railroads Nikolai Aksenenko in high esteem, he is not impressed by Minister of Finance Mikhail Zadornov. Spiridonov was especially critical of the government's proposed anti-crisis program, calling it a "good-looking document" that nobody can really understand. He resents the Cabinet's unsubstantiated promises to make life easier for Russians very soon, because the regional governors will have to bear the brunt of public disappointment when these promises are not fulfilled.

Komi's chief executive said he wants to invite key ministers to visit the republic and see for themselves the problems of the far North. Unified Energy System Chairman Anatolii Chubais is also due to visit the Komi Republic soon. Spiridonov considers Chubais a truly great man, the like of which is nowhere to be found in the current Cabinet.

When asked to comment on Yurii Luzhkov's likely presidential bid in 2000, Spiridonov said Moscow is an oasis of reforms. Should Luzhkov succeed, it would be a shame for the city to lose such a leader, whereas it is not clear what kind of president Russia as a whole would gain. Of course, right now Moscow captures 80 percent of all financial investments channeled to Russia, Spiridonov acknowledged, but the way for regions to deal with this problem is not to complain but to establish their own ties to Moscow and use them to get some of the money.

Spiridonov also criticized the State Duma, which, unlike the Federation Council, represents the interests of political parties, not the regions. While the Duma actually has the authority to enact change, unfortunately it is stuffed with politicians with an overly inflated sense of their own importance, which stifles action.

Spiridonov maintains good relations with Our Home is Russia (NDR), former Prime Minister Viktor Chernomyrdin's political movement. Some prominent governors have recently quit NDR's ranks, among them Dmitrii Ayatskov of Saratov and Konstantin Titov of Samara. Spiridonov's stance toward the movement remains unchanged, however. If anything, he considers Ayatskov an ordinary regional leader, no better than most. Ayatskov might have gained prominence with his controversial statements about legalizing prostitution, Spiridonov said, but this does not improve the living standards for people in his region. NDR is indeed better off, having rid itself of such characters, and can now become a fully functioning political organization, Komi's chief concluded. - Yurii Shabaev in Syktyvkar

TVER'S LOCAL TV STATION ACQUIRED BY RUSSIAN TELEVISION. On 11 November the Russian State Radio-Television Company (VGTRK) Rossiya (the Channel Two broadcaster) purchased its first regional subsidiary in Central Russia, the local broadcasting company Tver. The tri-partite agreement was signed by Tver Oblast Governor Vladimir Platov, Tver head Gennadii Lagutin, and Rossiya Chairman Mikhail Shvydkoi. (*Tverskaya zhizn*, 12 November) The purchase is an example of how

Moscow-based media companies are trying to gain control over provincial broadcasters. They see this not only as a way to boost their revenues, but also as a key to their political influence. With parliamentary and presidential elections on the horizon, control over information is becoming increasingly important. Many governors face reelection and would not mind the cooperation of Moscow-based media.

The agreement is not a mere formality, Shvydkoi said. Both companies will soon begin detailed discussions on how best to merge their activities. (*Vechernyaya Tver*, 12 November) The agreement will enable the local broadcaster to air its programs during the day rather than only in the evenings. Viewers will be offered new programs and Tver might even obtain its own channel. Furthermore, the subsidiary will represent the interests of the parent company in the region.

This merger is not the first or only form of integration between Tver and central media. Tver Oblast signed a cooperation agreement with the city of Moscow on 24 September, and six weeks later, on 6 November, it signed a special treaty on media cooperation. The agreement involves information exchange among newspapers along with collaboration in TV and radio broadcasting. For instance, several satellite-bridge programs will feature Moscow Mayor Yurii Luzhkov and Governor Platov. (*Vechernyaya Tver*, 12 November) Luzhkov is obviously courting the Tver voters for the upcoming presidential elections in 2000. Tver's governor, his mind on his upcoming bid for reelection, is trying to cultivate his image as an influential politician in the oblast by rubbing shoulders with a powerful presidential candidate. Moscow-based media will undoubtedly continue to acquire regional counterparts throughout Russia. - Boris Goubman in Tver

SOCIAL ISSUES

RICH SET UP CHARITIES FOR POOR IN TOGLIATTI. One of the most luxurious restaurants in the city of Togliatti, "U Lyudviga," is opening its doors to the underprivileged and the poor. For two months 150 impoverished senior citizens from the city will dine free of charge. The man behind this charitable idea is Igor Zinkovskii, director of Lada-Makom company and an owner of "U Lyudviga." Speaking to the press, Zinkovskii said "I hear and see that today old people cannot live on their pensions. I cannot fathom how one can survive on 200-300 rubles a month. As the ruble is plummeting and prices for food go up, I decided to help out the old, even if only with food." The organizers of this effort also have asked all the rich of the city to help their fellow citizens who might be in need. Some have already joined the initiative. (*Tolyatinskoe obozrenie*, 11 November) - Gennadii Lipunov in Togliatti

FOOD PRICES RISE IN NIZHNII NOVGOROD. In terms of rising prices for consumer goods, Nizhnii Novgorod Oblast is quickly catching up with Moscow and St. Petersburg. The change is most evident in the prices of basic dairy and meat products. According to the oblast government, between 23-26 October, butter prices rose by 10 percent, sour cream prices by 17 percent, and milk prices by 40 percent. Butter now costs 50 rubles a kilo, which is much closer to the prices in the capital cities than in the neighboring regions of Tatarstan, Kirov, and Marii El, where butter still sells for 27-30 rubles a kilo. These regions took care to ensure that an affordable supply of food is

available at their local markets and do not want to send produce to Nizhnii Novgorod Oblast, despite the demand. Butter is expensive because wholesale prices for milk have risen. Some local dairy producers have begun exporting to the more expensive Moscow market and adjusting their prices in Nizhnii accordingly.

The oblast administration is trying to let market mechanisms set appropriate prices while also attempting to protect consumers by controlling dramatic price hikes and exports of products outside the oblast. Another approach to the situation would be signing price-fixing agreements with producers, as a local egg factory has done. That approach has its limitations, however, as many industries do not control wholesale prices on the regional level: about 60 percent of all wholesale operations are managed from Moscow. The alternative is to force local merchants to fix prices below their wholesale levels, but that method is likely to backfire. - Yuri Rodygin in Nizhnii Novgorod

RED CROSS HELPS IRKUTSK POOR THROUGH TOUGH WINTER. The latest Red Cross shipment of donated used clothing has arrived in Irkutsk from Sweden. Regional Red Cross officials are now negotiating with the railroad administration to waive charges and fines for the shipment. This winter the Red Cross will deliver \$1.1 million worth of humanitarian aid to Irkutsk Oblast, benefiting over 250,000 residents throughout the region. In September the head of the Irkutsk branch of the Red Cross, Anna Zagainov, fought a tough battle to convince the organization's international board to include Irkutsk on its list of the ten poorest Russian regions to be targeted for aid.

The latest shipment is a part of the Winter 1998-1999 humanitarian aid action program sponsored by the Red Cross. It is financed by donor countries, such as the Netherlands, Canada, United States, Sweden, Germany, Japan, and others. The Irkutsk Oblast administration has made its own small contribution of 80,000 rubles (\$5,300) to the cause. The program will end in May 1999 and its results will be evaluated the following month. The Red Cross has subcontracted raion and city administrations to handle the actual distribution of aid packages. Each municipality will set up a special commission with representatives from non-governmental organizations to supervise distribution of the aid. Over 20,000 food packages will be handed out in December, and each will contain 4 kilograms of flour, 1 liter of vegetable oil, 2 cans of condensed milk, 4 cans of canned beef, 40 grams of yeast, 2 kilograms of macaroni, and 200 grams of tea. Additionally, special hygienic and medical packages, complete with soap and detergent, will be distributed to Irkutsk's poor in February. There are also plans to offer free hot meals to the homeless. - Sergei Safronov (Teleinform) in Irkutsk

TEACHERS STRIKE ACROSS SVERDLOVSK OBLAST. In at least five raions of Sverdlovsk Oblast strikes by teachers have kept schools closed after the autumn recess, which ended on 9 November. Some schools have not paid salaries for half a year, and talks with the local authorities have not helped. Teachers are striking both in urban centers, like Nizhnii Tagil, the second largest city in the oblast, and small rural villages. In one raion, teachers had planned to quit their jobs *en masse*. They then changed their minds, but refused to return to work. They were paid last in the summer.

This is not the first wave of teachers' strikes to sweep across the oblast. Every now and then protests and occasional hunger strikes are held in schools around the region. The most teachers have ever accomplished is payment of their salaries for one or

two months. According to Russian law, municipalities must finance secondary education, but most lack the necessary funds. Only six cities in Sverdlovsk Oblast do not require subsidies from Yekaterinburg. And only 40 percent of the oblast's 1998 program for financing secondary schools has been fulfilled. The financial crisis, has caused the oblast to slash expenditures in all areas, so the teachers have little hope for rapid improvement. - Natalia Mints in Yekaterinburg

ECONOMIC ISSUES

SAMARA OBLAST BATTLES OIL GIANT FOR REVENUE. One of Russia's largest oil producers, Yukos, owes Samara Oblast over 300 million rubles (\$20 million) in back taxes and the oblast wants the company to pay up. The struggle between the oblast and the company could lead to the expropriation of some of Yukos' drilling sites and the formation of a new oil company. The actual debtor to the oblast budget is Samaraneftgaz, a Yukos subsidiary. Some of Yukos' smaller subsidiary companies also owe back taxes to Samara, but on a much smaller scale. The Syzran and the Kuybyshev oil-processing plants, for instance, owe Samara Oblast 10.5 million rubles and 17.5 million rubles, respectively. Last week the oblast gave Yukos another ultimatum: to avoid confiscation of its property, the company must immediately begin transferring what it currently owes to the oblast in cash, which amounts to 26 million rubles a month. Even if Samaraneftgaz fulfills this demand, Yukos will not be any closer to paying off its total debt.

Therefore, the oblast government wants the company to turn over 30 of its loss-making drilling sites. With these sites in hand, the oblast could create a fully state-owned oil company. There are already detailed plans for such a company. Governor Konstantin Titov has said that he does not expect the new company to make much money for the oblast. Because the company is not likely to extract much oil from the sites in question, it will not harm its private sector competition, including Yukos. The new company would, however, create several thousand new jobs, somewhat easing social pressures in the oblast. Unemployment in Samara Oblast now fluctuates at around 3.5 percent, and in some cities it is as high as 10 percent of the employable population. - Andrei Perla in Samara

MILITARY TO AUCTION OFF SHIPS, HELICOPTERS IN LENINGRAD OBLAST. The government of Leningrad Oblast has announced an auction of obsolete military machinery. At the first sale, the oblast property fund will put old military ships and helicopters on the block. The idea came from local military leaders who obtained the approval of the Ministry of Defense and the Ministry of State Property to privatize some of their outdated equipment as scrap metal. The north-western border-guard district, for example, offered 14 of its ships and cutters. The 1971 ship *Gangut*, which is still operational, will be among the items. Border guards estimate its value at 2.4 million rubles (\$160,000) because its hull and equipment contain over 3,600 tons of ferrous metal and 476 tons of non-ferrous metals. The prices for the cutters range from 7,204 rubles to 54,500 rubles. The Leningrad Military District is also participating in the sale, offering tons of non-ferrous metal alloys from its retired helicopters.

The auction is scheduled for 10 December and will be open to both domestic and foreign bidders. Russian participants must prove that they are fully private with no state ownership. The highest bidder will win and can take possession of the purchased items within three days. The buyer is responsible for transportation and processing of the metals, which must be done inside Russia. Over the summer, the oblast tried to sell three military-owned parcels of rural real estate, but there were no interested bidders, probably due to the crisis. - Roman Zotov in St. Petersburg

EUROPEAN TELECOM GIANT ENTERS RUSSIAN MARKET. The French-German joint venture Quante Pouyet Group is opening its first Russian representative office in St. Petersburg. The Quante family owns 51 percent of the group, while 49 percent is held by the Dusseldorf Stock Exchange. The joint venture was formed this year after a merger of Quante AG and Pouyet S.A., which have been operating for 100 and 60 years, respectively. Quante Pouyet Group develops, produces, and sells communication networks and their components. Its products include mechanical communications devices and copper and fiberoptic lines for electronic communications networks. According to Stanislav Kodryanskii, the company's regional sales manager, Quante Pouyet Group wants to use the new office to expand its distribution network in Russia. He expects the company's sales to rise to over DM 1 million in the near future. The company's management has stated that the Russian telecom market is rapidly developing and is ripe for investment. In 1997 alone foreigners invested \$870 million in Russian telecom projects. - Roman Zotov in St. Petersburg

FOREIGN TIES

CHELYABINSK CONCERNED OVER U.S. ANTI-DUMPING MEASURES. Prime Minister Yevgenii Primakov met with Chelyabinsk Oblast Governor Petr Sumin in Moscow on 13 November, the governor's press-service reported. They met to discuss the anti-dumping debate raging in the United States against Russian metallurgical enterprises. The governor informed the prime minister about the Russian metallurgical industry's reaction to U.S. plans to introduce anti-dumping measures against Russian importers. Domestic producers make close to \$1 billion annually by exporting steel, and Chelyabinsk Oblast relies heavily on those revenues, as half of its GDP comes from steel mills based on its territory. Governor Sumin asked Primakov to raise this issue with the American leadership. The two also discussed measures that must be taken to make Russian steel-makers more competitive than their Ukrainian counterparts, which enjoy much better export tariff benefits. - Igor Stepanov in Chelyabinsk

REGIONAL PROFILE: SAMARA OBLAST

Governor: Konstantin Titov

Konstantin Titov is one of the most prominent regional leaders in the country. Unlike many of Yeltsin's other appointees from 1991, he has always enjoyed wide popularity among his constituency. His commitment to turning Samara into "Chicago-on-Volga" has boosted Titov's worldwide fame and enabled him to attract investors with little effort. A

devoted market reformer, the governor nonetheless defines his management style as authoritarian.

Titov won the gubernatorial election on 1 December 1996 by a large margin. He defeated local Communist Party leader and State Duma Deputy Valentin Romanov by a 2-1. In the months preceding the election, he assured his popularity by paying pensions on time and increasing state employees' salaries by 30 percent.

Titov is a faithful supporter of President Yeltsin, which provides him with excellent connections in the capital. Notably, he has always belonged to a "party of power." He joined Yegor Gaidar's Russia's Choice after it won the largest number of seats in the 1993 State Duma. In June 1995, on Gaidar's advice, he joined then Prime Minister Viktor Chernomyrdin's Our Home Is Russia (NDR) movement. Within this movement he served as NDR deputy chairman and the head of the Samara regional branch. That did not prevent him from repeatedly criticizing Chernomyrdin's policies as the prime minister and opposing the latter's re-nomination as premier in August. On several occasions he has suggested that the movement nominate a candidate other than Chernomyrdin for the 2000 presidential race.

In the past, Titov has praised Governor Aleksandr Lebed. He is also very supportive of Moscow Mayor Yurii Luzhkov and Federation Council Speaker and Orel Governor Yegor Stroev. It is unclear whom Titov might support during the next presidential race. All three men are often named as potential candidates, although recent reports from Samara suggest that Titov is leaning toward Luzhkov. It is uncertain whether Titov will seek the presidency himself: while he has been invited to join the federal government several times, he has rejected all invitations and declared his intention to continue working in his home region.

Other Local Leaders

Chairman of the Oblast Duma – Leon Kovalskii, reelected for the second term on Titov's recommendation in December 1997.

Presidential representative – Yurii Borodulin, former deputy governor, appointed in January 1994.

Brief Overview

Samara Oblast, located in the lower Volga River area, covers a largely level plain on the Volga left bank and a small part of the hilly right bank. Samara borders Orenburg, Saratov, and Ulyanovsk oblasts, and the Republic of Tatarstan. The administrative center, Samara (named Kuibyshev between 1935 and 1991), was founded in 1586 as a fortress and is situated at the confluence of the Samara and Volga rivers. It has excellent communications with European Russia and Siberia by train and along the Volga by ship.

The nearby natural oak woodlands and steppe have been plowed since the 18th century, leaving rich black soils that suffer severely from erosion. The oblast has some reserves of oil, gas, limestone, schist, and other raw materials. The region, one of about 10 net donors to the federal budget, is also one of the most industrialized in the country. It is ranked first in machinery production – 70 percent of all the country's automobiles are

produced by the Togliatti-based AvtoVAZ company, which is also the largest tax debtor in the country. Samara is home to Russia's largest aluminum processing plant SAMEKO (Samara Metallurgical Plant). Other industries include chemicals and petrochemicals, non-ferrous metallurgy, metal processing, and defense production. The huge Zhiguli hydroelectric power station provides energy.

The oblast has adopted investment legislation that, along with the governor's policies, makes it very attractive for investment. *Ekspert's* 1998 regional survey ranked Samara 4th according to direct foreign investment -- 62.1 million dollars in 1997 (1.59% of the country's total) -- and 10th according to capital investment -- 8,511 billion old rubles in 1997 (2.47%). Pepsi International Bottlers, General Motors, Switzerland's Nestle, France's Danone, and other multinational companies have invested in the region. The oblast has recently adopted a land code that, though prohibiting foreigners from buying land, allows them to enter into long-term leases. The governor had wanted to give foreigners the right to purchase land outright.

Basic Facts

Population (as of 1 Jan. 1997): 3,310,400 (2.24% of Russian total)

Urban population (1989 census): 80.4% (Russia overall: 73.0%)

Student population (1996): 204 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 25.42% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 11.2% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 35.6% (Russian average: 29.9%); Agriculture: 9.6% (12.8%); Trade: 9.5% (9.1%); Culture: 11.0% (13.6%); Management: 1.8% (2.3%)

Average monthly personal income in July 1998: 945.5 new rubles (Russian average: 891.7 new rubles)

Average monthly personal expenses in July 1998: 1,008.6 new rubles (Russian average: 684.9 new rubles)

Average monthly subsistence requirement in 1996: 406 new rubles (Russian average: 438 new rubles)

Consumer price index (as of July 1998): 107 (Russia overall = 100)

Industrial production as percentage of all Russian production (Jan.-Aug. 1998): 3.25%

Proportion of loss-making enterprises (as of July, 1998): 39.7% (Russia overall: 50.4%)

Number of enterprises which have wage arrears (as of 1 Sept. 1998): 1,005 (0.74% of Russian total)

Agricultural production as percentage of all Russian production (1996): 1.94%

Number of private farms (as of 1 Jan. 1997): 4,172 (1.50% of Russian total)

Capital investment (1996): 7,745.1 billion rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): federal budget: 3.2% (Russian average: 9.2%); regional budget: 7.6% (9.6%); enterprises: 71.3% (66.3%)

Number of joint ventures (as of 1 Jan. 1997): 122 (0.76% of Russian total)

Fixed capital investment in joint ventures and foreign companies (1995): 196,521 million rubles

Number of small businesses (as of 1 July 1998): 21,700 (2.50% of Russian total)

Number of enterprises privatized in 1996: 76 (1.52% of Russian total), including those which used to be municipal property: 56.6% (Russian average: 67.1%); regional property: 36.8% (14.3%); federal property: 6.6% (18.6%)

Number of telephones per 100 families (1996): in cities: 35.7 (Russian average: 48.7); in villages: 23.0 (19.7)

According to a 1998 survey by *Ekspert* magazine, the oblast ranks 7th among Russia's 89 regions in terms of investment potential and 10th in terms of investment risks. A 1998 survey by Bank Austria ranks the oblast 5th in terms of investment climate.

Electoral History

1996 Gubernatorial Election

Titov (incumbent): 63.39%

Romanov (KPRF): 29.86%

Chupshev: 1.50%

Turnout: 50.73%

1996 Presidential Election

Yeltsin: 36.13%/51.95% (first round/second round)

Zyuganov: 35.17%/42.69%

Lebed: 11.65%

Yavlinskii: 6.16%

Zhirinovskiy: 5.55%

Turnout: 69.85%/71.35% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Elections

Communist Party of the Russian Federation: 22.27%

Liberal Democratic Party of Russia: 12.26%

Our Home Is Russia: 11.94%

Yabloko: 5.05%

Congress of Russian Communities: 4.37%

Women of Russia: 3.99%

Communists -- Workers' Russia: 3.91%

Party of Workers' Self-Government: 3.61%

Forward, Russia!: 3.24%

In single-member districts: 2 Communist Party of the Russian Federation, 2 Our Home Is Russia, 1 Agrarian Party of Russia

Turnout: 63.57% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 56.87% "No" -- 43.13%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 19.67%
Communist Party of the Russian Federation: 16.44%
Russia's Choice: 16.29%
Women of Russia: 10.09%
Yabloko: 8.75%
Democratic Party of Russia: 6.74%
Agrarian Party of Russia: 6.33%
Party of Russian Unity and Concord: 5.74%
In single-mandate districts: 1 Women of Russia, 4 independent
From electoral associations: 1 Russia's Choice, 1 Liberal Democratic Party of Russia, 1
Democratic Party of Russia
Turnout: 53.39% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 63.98%
Ryzhkov: 13.62%
Tuleev: 4.70%
Makashov: 4.49%
Zhirinovskiy: 3.78%
Bakatin: 2.11%
Turnout: 85.43% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; T. Matiyasevich, N. Mogel, S.A. Nagaev, M. Rossmann, L.I. Smirnych, and A. Woergoetter, *Russia: Regional Risk Rating*, Vienna: Bank Austria, 1998; *Ekspert*, 19 October 1998; *Roadmap to Russian Regions*, Salomon Brothers, 1997; *Goskomstat, Regiony Rossii* [Regions of Russia], Moscow, 1997; *Central Electoral Commission, Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii* [Elections of the top executives of the federation subjects of the Russian Federation], 1995-1997, Moscow: Ves mir, 1997; *Goskomstat, Sotsialno-ekonomicheskoe polozhenie Rossii: janvar-avgust 1998 goda* [Socio-economic situation in Russia: January-August 1998], Moscow 1998.

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BREAKING NEWS

POLITICS

ILUMZHINOV QUICKLY WITHDRAWS THREAT TO SECEDE. Kalmykia

President Kirsan Ilyumzhinov drew everyone's attention last week by provocatively announcing that Kalmykia could change its status that of a constituent part of the Russian Federation to an associated member. That declaration is considered the first serious threat to state cohesion since the Chechen war. Traditionally loyal to Moscow, Ilyumzhinov decided to break links with the center on the grounds that the federal government is not meeting its financial obligations and has imposed an economic blockade against the republic. Ilyumzhinov charged that the center's action gave him grounds to stop all payments to the federal budget.

Ilyumzhinov's statement acted as a catalyst to unify diverse political forces in the center against him, although the federal politicians acted with different degrees of intensity. President Boris Yeltsin ordered the Security Council to consider the issue. State Duma Speaker Gennadii Seleznev went the farthest, demanding that Ilyumzhinov be questioned in a Moscow prison. Against this background the reaction of the Ministry of Justice was more cautious. While describing Ilyumzhinov's statement as anti-constitutional, it also put off any legal action until the event could be studied more carefully. (*Nezavisimaya Gazeta*, 20 November)

Ilyumzhinov's declaration that his republic would become independent seemed to defy logic. Kalmykia is one of Russia's most heavily subsidized regions. Until recently, 90-93 kopeks of every ruble in the republican budget came from federal coffers. (*Segodnya*, 19 November) Moreover, the alleged economic blockade of the republic is more a myth than reality. According to a recent audit, during just four months of 1998, the republic received 114,842,000 rubles from the federal budget. The same audit found that not all of the money was used for its intended purpose. (*Nezavisimaya Gazeta*, 20 November)

Ilyumzhinov's demarche was not followed by any public actions against Kalmykia's president. After Ilyumzhinov publicly apologized at the 21 November meeting of the Security Council, the Kalmykia incident was essentially over. However, the incident demonstrated that the center should pay more attention to federal issues, especially because Moscow has little political leverage to prevent similar actions in the future. Given that his republic is small and deeply dependent on subsidies from Moscow, Ilyumzhinov's statement looks farcical. But if leaders of larger, more powerful regions

make similar statements, the consequences could be different. There is thus a possibility that Moscow's policy towards the regions will be reconsidered.

Russian Prime Minister Yevgenii Primakov said in Khabarovsk that all republics and regions must be held to the same standards. Changing federal policy would mainly affect republics that currently have more privileges than ordinary oblasts. Concern about reducing such privileges explains the support Ilumzhinov won from Tatarstan President Mintimer Shaimiev, who, foreseeing the direction of change, declared that unilaterally abrogating the existing power-sharing treaties between the center and republics could lead to unpredictable consequences and even "to the destabilization of the social and political situation in Russia." (*Vremya MN*, 20 November) (For more details on Tatarstan's response, see below.)

SYSUEV DENOUNCES POWER-SHARING AGREEMENTS, CALLS FOR UNIFIED APPROACH TO THE REGIONS. Deputy Presidential Chief of Staff Oleg Sysuev said that he considered it a mistake to sign power-sharing treaties that differed from each other between Moscow and the regions. (*Segodnya*, 20 November) "If we want a unified state, we need to have a unified approach for relations between the center and the regions," he added. *Izvestiya* (21 November) described the statement as marking the beginning of a new stage in center-periphery relations. However, sources in the presidential administration said that Sysuev's statement reflected only his personal views. Sysuev said that all agreements that have been signed would be carried out, making it unclear whether his statement reflects a real intention to change anything. The regions would certainly reject any attempt to rewrite the agreements in the federal government's favor. Clearly, the presidential administration is seeking ways to keep the country unified. Those concerns have also given rise to considerable talk about the president again taking the right to appoint the governors rather than allowing the population to elect them. Such ideas currently exist only on paper and no one has advanced a plausible way of implementing them.

LUZHKOVA FOUNDS POLITICAL MOVEMENT. Moscow Mayor Yurii Luzhkov took another step in his presidential campaign by holding a closed-door meeting of the organizational committee of his own political movement, Otechestvo (Fatherland), on 19 November in Moscow. Luzhkov believes he needs some sort of party organization to win the country's highest office. Ultimately, however, he may decide to run on his image, as President Boris Yeltsin has done before him. Many of the delegates pointed out the weakness of the new party's organization and program and the fact that other groups, usually extreme nationalists, are already using the name "Otechestvo."

Numerous governors attended the event, including Saratov's Dmitrii Ayatskov, Novosibirsk's Viatalii Mukha, Yaroslavl's Anatolii Lisitsin, Nizhnii Novgorod's Ivan Sklyarov, Murmansk's Yurii Yevdokimov, Komi's Yurii Spiridonov, Kareliya's Sergei Katanandov, Mordoviya's Nikolai Merkushin, and Arkhangelsk's Anatolii Yefremov. (*Kommersant Daily* and *Segodnya*, 20 November, and *Itogi*, 23 November) About 20 governors were invited. (*Nezavisimaya gazeta*, 20 November) (For details on why Samara Governor Konstantin Titov did not join the new party, see below.)

The key men behind the party are Congress of Russian Communities' leader Dmitrii Rogozin and Duma member Stepan Sulakshin, who came up with the idea that

Luzhkov should define himself as part of the "left-center." Behind them is Vladimir Yevtushenkov, the head of the Moscow Sistema Corporation, a holding company that controls the Moscow city government's share in dozens of companies and which is supposed to have survived the crisis in relatively good shape.

The platform of the party will support a market economy, but with a strong role for the state. It will seek to address social problems while respecting individual freedom and freedom of speech. (*Nezavisimaya gazeta*, 19 November) Luzhkov claims it will take the best from the left and the right. Critics point out that Luzhkov has yet to assemble a strong team of economists to support his work. Additionally they worry that he has recently advocated putting the young reformers on trial and allows police brutality in the capital. Nevertheless, the platform will necessarily be vague to appeal to as wide an audience as possible.

Otechestvo remains organizationally weak, like most of Russia's 95 officially registered parties and 154 political movements. (*Nezavisimaya gazeta*, 20 November) In addition to a handful of governors, Luzhkov allies include such well-known public figures as Russian Union of Industrialists and Entrepreneurs Chairman Arkadii Volskii, Duma member Iosif Kobzon, former Minister of Internal Affairs Anatolii Kulikov, former presidential Press Secretary Sergei Yastrzhembskii, and former Security Council Chairman Andrei Kokoshin.

Several small political parties also actively back Luzhkov: the Federation of Independent Trade Union's Union of Labor (headed by Andrei Isaev), Congress of Russian Communities (which backed Aleksandr Lebed in the 1995 Duma elections), Derzhava (the former party of Kursk Governor Aleksandr Rutskoi now led by Luzhkov advisor Konstantin Zatulin), and Women of Russia. Luzhkov did not invite Andrei Nikolaev and his Union of Popular Power and Labor to join Otechestvo. It remains unclear if Luzhkov will be able to convince this collection of small parties to work together effectively.

There are also potential alliances between Luzhkov and some of the parties that crossed the 5 percent barrier in the last Duma elections. He has considered working with the Communists, although they have decided to campaign alone in the December 1999 Duma elections. More moderate elements within the National-Patriotic Union, such as Aleksei Podberezkin's Spiritual Heritage, are more likely partners since they are leaning strongly toward an alliance with Luzhkov. (*Nezavisimaya gazeta*, 20 November)

More importantly, a large faction within former Prime Minister Viktor Chernomyrdin's Our Home is Russia (NDR) wants to ally with the mayor. NDR Duma faction leader Aleksandr Shokhin is leading this group. Some NDR activists claim that Otechestvo already occupies NDR's niche because it often has the support of the local authorities. (*Kommersant Daily*, 19 November) *Itogi* (23 November) describes Otechestvo as a new type of "party of power" because it brings together governors and economic managers rather than federal ministers and bureaucrats. If Luzhkov wins the presidency, he would bring new leaders into the Kremlin rather than defending the old ones.

Chernomyrdin's party may not be able to win the 5 percent required to enter the Duma in 1999, so it makes sense for party activists to find powerful new patrons early in the election cycle. The Russian Regions deputy bloc in the State Duma has also

announced its willingness to work with Luzhkov's party and will determine details of the arrangement in December.

Luzhkov's chances depend on the timing of the elections. If the presidential elections are held before the current economic crisis significantly tarnishes the capital's image, Luzhkov is likely to do better than if they are held later.

LEBED SEEKS BALANCED REGIONAL BUDGET. Krasnoyarsk Krai Governor Aleksandr Lebed has produced a draft budget on time for the first time in the krai's recent history. While some may praise his punctuality, Lebed is also seeking to produce a balanced budget, a task that will not please many people. The krai plans to spend no more than its projected income of 5.5 billion rubles during 1999. A further constraint is that 7 percent of the income must cover debts incurred by the previous administration.

The current budget shows that 5.5 billion rubles will not cover necessary social expenditures. If the legislature ultimately approves the budget in its current form, some social programs will have to be eliminated or postponed. Such cuts contradict Lebed's election promises. The governor now stresses the need to "optimize budget expenditures." One possible solution is to combine schools, nursery schools and other similar institutions into one system, thereby saving on administrative costs. With the presidential elections firmly in mind, Lebed clearly hopes to present himself as a politician who can deliver deficit-free budgets for both his region and the country as a whole. (*Vremya MN*, 20 November)

SYSUEV FAILS TO RESOLVE CONFLICT IN KALININGRAD OBLAST. Ever since Leonid Gorbenko was elected governor of Kaliningrad Oblast, he has been at war with the oblast legislature, the majority of which is filled with supporters of former Governor Yurii Matochki, whom Gorbenko defeated in the 1996 gubernatorial elections. Gorbenko has made clear that he would like to have one of his allies as the speaker of the legislature. Recently, the battle has become so intense that the governor's representative has stopped attending the legislature's sessions and the oblast administration has cut off the payment of the deputies' salaries. Deputy Presidential Chief of Staff Oleg Sysuev visited the region on 18 November but could not bring the two sides to agreement, and they failed to join him for a press conference at the conclusion of his visit. Sysuev, who threatened to use various means to bring the oblast leaders to agreement, must move carefully to avoid exacerbating separatist tendencies in the region. (*Kommersant Daily*, 20 November)

SCANDALOUS LENINSK-KUZNETS MAYOR AVOIDS JAIL TERM. After legal proceedings that lasted more than a year, Leninsk-Kuznets Mayor Gennadii Konyakhin was set free on 18 November with a suspended sentence of four years. The mayor gained national notoriety last year after *Izvestiya* published a series of articles detailing corruption under his administration in the Kemerovo Oblast city (see *EWI Russian Regional Report*, 25 September 1997). At the time President Yeltsin personally intervened, ordering Konyakhin's arrest. Konyakhin is no longer mayor, as the court has forbidden him from holding public office for three years. Konyakhin plans to resume his business activities and seek his full rehabilitation. He has been in jail since last October and was not allowed to see his wife during that time. (*Kommersant Daily*, 19 November)

The outcome is a blow to the federal government's widely publicized campaign to crack down on corruption.

ARRESTS CONTINUE IN VORONEZH. The federal authorities arrested former Voronezh Deputy Governor Viktor Sitnikov and his subordinate Tatyana Puzakova on 18 November. They allegedly stole public funds. The arrests follow the earlier arrest of Deputy Governor Vadim Sukhoverkhov in September (see *EWI Russian Regional Report*, 1 October). Additionally, the authorities had arrested the oblast administration's business director, Nikolai Oreshin, a close friend of Governor Ivan Shabunin, but released him after three days for lack of evidence (see *EWI Russian Regional Report*, 29 October). Shabunin is one of Russia's most opposition-minded governors and Voronezh is one of the few regions where the federal authorities seem capable of taking decisive action against a political opponent.

NORTH CAUCASUS REGIONS VIOLATE FEDERAL LAW. A recent study conducted by the procurator general found that the charters of all 10 regions in the North Caucasus (Adygeya, Dagestan, Ingushetiya, Karbardino-Balkariya, Kalmykiya, Karachay-Cherkessiya, North Osetiya, Krasnodar, Stavropol, and Rostov) violate federal legislation, *Izvestiya* reported on 21 November. Chechnya has long since dropped out of the Russian legal system. The violations include regions taking on attributes of independent countries, usurping powers that belong to the federal government, and reducing the rights and freedoms of citizens. Ingushetiya has the most violations, giving its president the right to direct foreign policy and introduce states of emergency, both prerogatives of the federal government. Its constitution declares that republican laws take precedence over federal laws. Other regional basic laws try to take federal power by controlling the courts or arrogating the right to name the regional representative of the Central Bank. Many regions also give themselves the right to define taxes, which is forbidden under federal legislation.

ISHAEV BLASTS GOVERNMENT FOR NOT FULFILLING FAR EAST PROGRAM. Khabarovsk Governor Viktor Ishaev blasted the Russian government for not fulfilling the president's program for developing the Far East at a 19 November meeting of the Far East and Trans-Baikal interregional association attended by Prime Minister Yevgenii Primakov on his way back from the Asian Economic Forum in Malaysia. Ishaev said that the federal government had provided only 3 percent of the funds needed for the program in 1998. He warned that the Far East can not survive without large state subsidies and that if a new program is not developed, the region would be depopulated and its territory divided among other countries. Ishaev called for organizing a wholesale electricity market; reducing railroad tariffs; giving the regions portions of revenues from the value added tax, equity stake income, and customs duties; and reducing the number of federal offices in the regions. The governor complained about the high cost of supporting the various federal committees working locally. (*Segodnya*, 20 November)

ECONOMICS

GOVERNMENT BACKS OFF ON REQUIRING CASH REGISTERS. Deputy Head of the State Tax Service Sergei Shulygin signed an order on 10 November to postpone the implementation of a decree that required kiosk traders to use cash registers from 15 November to 1 January. The government is likely to soon abandon the effort altogether, *Kommersant Daily* reported on 18 November. The measure would require Russia's estimated 20 million traders to use the receipt-producing apparatuses to improve the state's tax collection abilities. However, kiosk traders across the country have protested that the machines are too expensive and would not work in the cold temperatures of Russia's outdoor markets. After numerous demonstrations, many governors also sought to annul the law.

KRASNOYARSK HALTS NUCLEAR WASTE SHIPMENTS. Krasnoyarsk Governor Aleksandr Lebed has halted the flow of nuclear waste to the closed city of Zheleznogorsk (Krasnoyarsk-26), demanding that the nuclear plants producing the waste pay \$800-\$1,000 per kilogram of waste rather than the current price of \$275/kg. The storage facility is the only one in the world accepting waste from RBMK-1000 plants operating in St. Petersburg, Balakova, Tver, Kursk, Smolensk, and the Ukrainian city of Zaporozhe. The governor will not allow deliveries to resume until the Ministry of Atomic Energy signs a contract raising the price to world levels and an ecological team confirms that there is still additional space to store the waste. The nuclear stations are in a panic because they now have no place to send their waste. Locals in Zheleznogorsk are also concerned because the waste provides one of their only sources of income. (*Kommersant Daily*, 18 November)

SINO-RUSSIAN BORDER RIVER DESERVES ATTENTION. The Amur river, which with its tributaries make up much of the border between China and Russia, is becoming increasingly polluted. *Nezavisimaya gazeta* (21 November) argues that Russia and China need to combine efforts to improve the situation. The river flows past several major Russian cities including Chita, Blagoveshchensk, Birobidzhan, Khabarovsk, and Komsomolsk-na-Amur. In Khabarovsk the pollution has led the authorities to advise residents to use bottled water to ensure their safety. The water contains several bacteria, including Hepatitis A, because many towns on the river lack proper sewer systems. The increase of industry, agriculture, and transportation around the river has also contributed to the problems. As a result, the river has dangerous concentrations of copper and zinc. The Khabarovsk legislature had held a hearing on the issue and is seeking joint action with other regions in the area through the Far East and Trans-Baikal interregional association. Russian-Chinese treaties express concern about the region's ecological situation, but it remains unclear when concrete steps will be taken.

MANY WESTERN OIL COMPANIES CUTTING ACTIVITIES IN RUSSIA. Western oil companies are pulling out of Russia because of high production costs and the Russian parliament's unwillingness to pass production-sharing agreements. They are moving to more lucrative areas in the Middle East (particularly Saudi Arabia) and Latin America. LukArco will lay off half of its 40-person staff and send all expatriates home by the end of the month. Australia's BHP has stopped financing a joint venture with Gazprom to search for new deposits in the Barents Sea. Occidental and Elf Aquitaine

have exited projects in the far north. Amoco is selling its stake in the Timan Pechora Company because of difficulties negotiating with Nenets Autonomous Okrug Governor Vladimir Butov. Since last October, Amoco has reduced its staff in Moscow from 40 to 15. In contrast, Royal Dutch/Shell and British Petroleum say that they have no plans to scale back their activities. (*Moscow Times*, 18 November)

BUSINESS BRIEFS

-- The Swedish firm **PLM** opened a \$125 million plant to produce aluminum cans in **MOSCOW OBLAST** on 17 November. PLM provided half of the financing, while the rest came from the US's Ball Corp., Swedfund International, the Danish Central and East European investment fund, MFK bank and the EBRD. The plant has the capacity to produce 1.75 billion cans a year. The company already imports cans for bottlers like Coca-Cola and Schweppes. Because of the crisis, the plant plans to produce only 500,000 cans next year. (*Finansovie izvestiya*, 19 November)

PATTERNS OF REGIONAL DEVELOPMENT

TITOV REMAINS OUTSIDE OF LUZHKOVA'S OTECHESTVO

by Andrei Perla

SAMARA - Samara Governor Konstantin Titov made the surprising announcement that he will not join Moscow Mayor Yurii Luzhkov's new Otechestvo movement, aimed at unifying the "left-center". Instead, Titov will seek allies in the "right-center."

Titov met with Luzhkov last week to discuss the future of Otechestvo, Titov said at a press conference. The two agreed that Titov does not have the image of a politician from either the left-wing or center. "If I entered an electoral bloc with Luzhkov, it would drive away many members of the left," Titov said. "On the other hand, many politicians from the right would not follow me into such an alliance."

Thus while Luzhkov establishes a party for the "left-center," Titov with "several other party leaders" will establish an organization of the "right-center." The governor, however, did not name his new allies. There are only a few politicians on the right - Yegor Gaidar, Grigorii Yavlinskii, Boris Nemtsov, Sergei Kirienko - and it is hard to classify most of them in the center because of their radical views.

Perhaps Titov did not join Otechestvo because of recent announcements made by the leaders of Our Home is Russia (NDR). Titov had expressed his support for Luzhkov after breaking his ties with NDR leader Viktor Chernomyrdin. Many observers thought Titov would leave NDR last August. However, Titov sees things differently. He has good relations with NDR Duma faction leader Aleksandr Shokhin and several other NDR leaders. Several days ago he discussed with them the reorganization of the party, including removing Chernomyrdin from the leadership. And Chernomyrdin himself has even announced that he sees no reason why he cannot back Luzhkov in the next presidential elections. Such a Luzhkov-Chernomyrdin alliance might not leave room for Titov, so he wants to announce in advance that he will not join Otechestvo.

Well-placed sources in NDR suggest a different scenario. They claim that Titov did not join Otechestvo because NDR leaders are considering creating the position of NDR co-chairman, who would have equal status with Chernomyrdin. Titov would be a likely candidate for this post.

The second chairman, who is in opposition to the first, could be useful to NDR if it did conclude an alliance with Otechestvo. His job would be to convince members of the party who think that Luzhkov is too "left" not to leave its ranks. He would serve as a link between the future right-wing State Duma deputies and those in the hypothetical pro-Luzhkov faction. In this sense, Titov may not have joined Otechestvo because he hopes to lead NDR.

Titov's announcement could be as important for Samara Oblast as it is for the country. Until now, Samara residents had no reason to doubt that Titov and Luzhkov were allies. Otechestvo has been growing quickly in the oblast and many well-known politicians, journalists, and even professors have announced their support for it. Now many of those people could turn away from Luzhkov because the governor's backing is much more important in the region than good Moscow connections.

LUZHKOVS MEDIA EMPIRE EXTENDS TO NIZHNIIL. In early November Moscow Mayor Yurii Luzhkov and Nizhnii Novgorod Oblast Governor Ivan Sklyarov signed several important cooperation agreements. One of them provides for the Luzhkov-controlled TV-Tsentr company to begin broadcasting in Nizhnii Novgorod in the near future. TV-Tsentr promised to air locally produced commercial advertising and programming. TV-Tsentr's view of local politics will no doubt coincide with that of the regional administration. Broadcasting will begin in December-January, although the original plans called for cooperative projects to begin in September. The country's economic crisis delayed the launch.

As TV-Tsentr's General Director Boris Vishnyak noted, the company would like to acquire one of the more accessible broadcast frequencies in the city, although they are currently in use. The best option is to gain channel 6, but reception on that channel will likely be substandard. There are rumors that the license for the channel 9 frequency, which now airs NTV, will be up for grabs again. However, Vishnyak resolutely rejected the idea of his company pushing NTV out of the market. Instead, TV-Tsentr will seek out other options.

Moscow-based TV-Tsentr also recently began a campaign to extend its correspondent network in the regions. It plans to have 30 full-time regional bureaus and stringers in small cities. Nizhnii Novgorod is one of the top five most important regions in the TV-Tsentr network, surpassing even St. Petersburg. The two capital cities are very competitive with each other and do not like to see the other encroach on their turf. - Yurii Rodygin in Nizhnii Novgorod

SVERDLOVSK OBLAST CONSIDERS RESTRICTIVE MEDIA LAW. At its 18 November meeting, the Sverdlovsk Oblast Duma for the first time considered the question of state financing for the regional media. The time is ripe to tackle that issue, as many publications cannot survive current market conditions, particularly as the effects of the economic crisis become harsher. Quite a few newspapers, including small, scholarly and raion-level publications, have had to close down for lack of state support.

The state has two options in aiding the media. One is to help all the media, as the federal government did with its 1995 law. Another way is to channel aid to select publications, as some regions have done.

Both approaches are problematic. In the first case, money goes to those who really need it as well as to those who could do without. In the second, aid recipients tend to turn into lackeys of their government sponsors. Sverdlovsk legislators dislike both methods, so they reached a compromise. All the registered media organizations in the oblast must apply to a special commission for funding. The commission will consider each case individually.

Local journalists have anticipated this law with understandable interest, not so much because they expect huge subsidies but to see how important the media are to the authorities and whether they will choose to support a few large entities or extend their help to smaller publications as well.

Everyone was left speechless by the draft law, however, largely because the new measures will not make life easier for anyone. First of all, media enterprises can count on government subsidies only if they are at least partially state-owned. The rest must be satisfied with non-monetary benefits that they have already been granted by the federal media law, effective through 2002. They will also enjoy some technical and consulting support. If they do want government financing, they will have to sell part of their stock to the state. Second, the media outlets that do qualify for government financing can only receive funding upon proving their "usefulness" and "necessity."

There are even two criteria in the draft law that delineate which publications would be considered harmful and thus obviously "not useful": if information deemed as "anti-social propaganda" takes up over 10 percent of the publication; and, more troubling, if over 5 percent of the publication is devoted to "anti-state propaganda in time of military conflict."

Quantification of "propaganda" by the law seems ridiculous, to say the least: would merely 9 percent of anti-social propaganda be less damaging to the state than the threshold 10 percent? More importantly, introducing the notion of "anti-social propaganda" into legislative discourse is loaded with dangerous ambiguity and can be easily used as a weapon against politically uncomfortable publications. According to Veniamin Golubitskiy, who heads the oblast Duma's finance and budget committee, the draft law paves the way for censorship. For now, at least, the Duma has decided just to consider the draft law. One can hope that before the law is adopted, the draft will develop into a useful legal act and not a meaningless and even dangerous document. - Natalia Mints in Yekaterinburg

ALLEGED THREATS OF VIOLENCE SHAKE PRIMORSKII KRAI. While Primorskii Krai Governor Yevgenii Nazdratenko was in Malaysia as part of Prime Minister Yevgenii Primakov's delegation, First Deputy Governor Konstantin Tolstoshein was involved in some stormy activities that ended in scandal. In a press conference discussing the progress in modernizing the production of the "Black Shark" military helicopters in the city of Arsenev, Tolstoshein charged that Vladimir Samburov, an assistant to Presidential Representative Viktor Kondratov, had threatened him with "physical force." Kondratov is also the director of the Federal Security Service in Primorskii Krai and has been a vocal critic of the Nazdratenko administration.

According to ITAR-TASS, the deputy governor's announcement was full of sensationalist details: "First Deputy Governor Konstantin Tolstoshein accused the assistant presidential representative in the krai of threatening physical violence against several krai leaders. The threat allegedly extended to Tolstoshein, Governor Nazdratenko, Deputy Governor Vladimir Rud and other individuals." This announcement became the talk of the town, coming in the wake of the Moscow scandal in which Boris Berezovsky charged that the Federal Security Service was plotting to assassinate him.

Tolstoshein charged that the ITAR-TASS report was a "planned provocation" aimed at complicating the political situation in the krai. In an interview with the newspaper *Vladivostok*, he stated that Samburov's threat was directed at him alone and did not target Nazdratenko or others in the oblast administration. He also pointed out that it was not a threat of "physical violence (*rasprava*)," but of "physical force (*nasilie*)," which inspired the perplexed journalist to ask for an interpretation -- was Samburov simply threatening to beat the deputy governor?

The potential victim has thus far been unable to produce any evidence of these threats. Samburov (known for his role in the Federal Security Services' battle against terrorism) simply resorted to the popular Russian phrase, *zakusyvav' nado*, suggesting that Tolstoshein had consumed too much vodka and lost control of his faculties. Kondratov told journalists that the procurator should take up the issue, because threats against the krai's leaders were being bandied about. -- Yevgenii Popravko in *Vladivostok*

ROSTOV OBLAST TO ADOPT RECALL PROCEDURES FOR MAYORS. Local authorities and the media are locked in a verbal battle in anticipation of a court decision over the legality of a grass-roots initiative to recall the Volgodonsk mayor through a referendum. Speaking to the city Duma, one of the leaders of the initiative, B. Shalimov, said that if the deputies support his group's effort and voted to hold the referendum to recall the mayor, the public will in turn support them. Nevertheless, after some heated debate, all but one deputy voted against the referendum. Members of the grass-roots group behind the initiative told the press that Shalimov's public statements challenging the Duma indeed provoked deputies to expose their true nature to the rest of the city. In other words, the group accused legislators of protecting the interests of a narrow ruling elite rather than those of the people.

According to public opinion polls conducted by the city's Center for Sociological Studies, the people do not have very high hopes that things will change for the better, even if new leadership emerges in the city. Below are some poll questions and the levels of response:

"How do you rate the mayor's performance in the last year?"

- * Excellent - 3.0%
- * Good - 12.8%
- * Satisfactory - 35.9%
- * Bad - 29.3%
- * Do not know - 19.0%

"Which level of government, in your opinion, could help the city the most out of the crisis?"

- * Federal - 17.3%
- * Oblast - 10.7%
- * City - 19.7%
- * All levels equally - 42.8%
- * Do not know - 9.5%

"If there is new leadership, will the social and economic situation in the city change?"

- * For the better - 9.5%
- * For the worse - 5.9%
- * No change - 50.3%
- * Do not know - 34.3%

Meanwhile, the Rostov Oblast Legislative Assembly is bracing for its encounter with the irreconcilable grass-roots group that is resolute on recalling the Volgodonsk mayor. Last week the Assembly experts began work on the oblast law on recalling mayors and members of local councils. One of the bill's authors, Legislative Assembly deputy B. Milkis, feels the law should be passed this year. The law has been under consideration for a while, Milkis said, but oblast legislators were finally prompted to begin working on passing it after the 7 November demonstrations, when many people demanded the removal of some local officials. Oblast authorities decided to take the initiative away from rally organizers and moved ahead on the draft law. Because only 16 Russian regions have a similar law, authors have had to consult similar acts in other countries, such as Poland, Germany and France.

The recall procedure described in the current draft will be very complicated. To protect mayors from popular mood swings, they will have the option of contesting referendum results in court. Additionally, during a recall referendum a mayor's opponents must gain an absolute majority of votes. A recall cannot be staged, furthermore, until at least a year after the mayor's election. This will enable the mayor to prove himself in office and will protect him from revenge by losing opponents. The draft also stipulates that referenda should not be held later than half a year before the next mayoral election, because holding a referendum is a long and costly affair. A relatively small number of voters would be required to back a recall initiative. A group of at least 10 legislators could initiate it as well, and there is some talk about granting the oblast governor the power to put a mayor's recall on the ballot. But in the end it will be up to the people to decide whether or not to keep or dispose of the official in question. (Based on materials in *Volgodonskaya pravda* and *Gorod N*) - Milana Slinko in Volgodonsk

CENTER-PERIPHERY RELATIONS

TATARSTAN DEFENDS ILUMZHINOV

by Midkhat Faroukshine, Kazan State University

KAZAN -- Tatarstan President Mintimer Shaimiev has defended Kalmykiya President Kirsan Ilyumzhinov's recent "secessionist" announcement. Shaimiev stated that Kalmykiya's constitution, the *Stepnoe Ulozhenie*, corresponds more closely to the Constitution of the Russian Federation than do most republican constitutions. He claimed that: "Ilyumzhinov's announcement is not about seceding from Russia, but about broadening powers. It challenges the fact that the Center has taken a vast amount of power for itself, and does not execute it. The President of Kalmykiya, who is responsible for the republic, clearly is unable to make himself heard at the center. So, several political and public statesmen are attacking him, this is nothing new. For them this is just a small opportunity, but each wants to get maximum use from it."

Vladimir Zhirinovsky's denouncement of the Kalmykiyan president differs little from Albert Makashev's recent anti-Semitic comments. Multi-national Russia seems to be uncomfortable not only with Jews but also with Kalmyks, and perhaps with other nationalities as well. If we truly want to build a democratic, federative state, we must learn to listen to one another and to peacefully work through our problems. There will be problems, especially in the republics, since each has their own historical and national peculiarities.

Until the adoption of the 1993 constitution, the Supreme Soviet of the USSR and the RSFSR had a nationalities' chamber to address specific problems of a national-territorial nature. National-territorial structures now lack such representation, making it necessary to think seriously about Russian national policies.

Chairman of Tatarstan's legislature, Farid Mukhametshin, interpreted Ilyuzhinov's announcement as a sign of despair. He believes the statement should not be regarded as a manifestation of separatism or personal ambitions. The problems encountered in Kalmykiya exist to a greater or lesser degree in other regions. Mukhametshin stated: "If a similar announcement came from Tatarstan, we would be accused of promoting Russian disintegration. But we are patiently silent. I am far from thinking that Kirsan Ilyumzhinov is in fact ready to leave the Russian Federation. Moreover, he certainly understands that it is easier to withstand a difficult period of economic reform as part of a larger state."

According to Mukhametshin, the president of Kalmykiya wanted to attract attention to his republic and its problems. He is certain that if the economic and social problems accumulating throughout Russia are solved, then many national and political problems will disappear, as will similar announcements.

Regional leaders are trying to cope with the difficult situation in Russia. The federal center's strategic and tactical mistakes greatly affect life in the regions. The situation is becoming increasingly tense as proposals spread for reshaping Russia, particularly that of converting the republics into guberniyas, presumably with fewer rights. A strong Russia may exist only if the regions become strong. According to Mukhametshin, "If Russia becomes a genuine federation without central dictate, then each of its subjects will find its own place."

SARATOV SEEKS TO STRENGTHEN TIES TO FEDERAL MINISTRIES

by Lev Voritsin

SARATOV - Over the last several weeks, Saratov Governor Dmitrii Ayatskov has adopted new economic policies. As in the past, he is seeking to improve Saratov's ties with the federal government. But the content of his policies has changed somewhat from earlier days. Recently, the Saratov government has concluded several agreements with key federal ministries, suggesting that both sides have received benefits that would be impossible to obtain through normal channels, i.e. through the federal government and the country's economic legislation. It is even possible to sign such agreements when the country's economy is in an extremely difficult situation.

An illustrative example is the deal Ayatskov made with the Railroads Ministry. What did the Railroads Ministry give Saratov Oblast, where the Privolzhskaya railroad, one of Russia's largest and most efficient, is located? Under a new agreement, the federal government can only appoint the head of the Privolzhskaya railroad with the agreement of the Saratov administration. Previously, Moscow had the exclusive right to appoint such a high-ranking official, who was considered independent of the regional authorities. Such status meant that the regional railroad head could carry out policies that did not address the interests of the region. Now that position is fundamentally different. The railroad head remains within the federal hierarchy because the railroads continue to be federal property, but his entire career depends on the regional authorities. And that will substantially change his relationship with the Saratov government.

In return, the ministry receives a variety of clever courtesies. Saratov Oblast should now set low prices for the electricity used to supply electric trains. This is not really a loss for the oblast since most of the railroad operates within the oblast anyway and most of its cargo is transported in the interests of the region.

The oblast also must subsidize the cost of the region's suburban electric trains. Because there is no money for such purposes in most regions across Russia, the railroad monopoly usually seeks to raise ticket prices. It has raised prices in Saratov, angering citizens who had become used to going to their dachas or country plots on inexpensive trains.

Of course, the oblast does not have the money to provide such subsidies. However, as part of the deal, the railroad must transport freight for the oblast at reduced rates. Such exchanges mean that in today's moneyless economy, the oblast can engage in mutual debt canceling (*vzaimozachet*) with the railroads, a privilege previously reserved only for the federal government. Transferring the debt canceling from the federal to the regional level makes the moneyless economy more flexible for Saratov and improves the social conditions of the population.

GAZPROM INCREASES PERM PRESENCE. Gazprom is trying to widen its presence in Perm Oblast's economy. Gazprom First Deputy Director Vyacheslav Sheremet and Perm Governor Gennadii Igumnov recently met and agreed that Gazprom's payment to Perm Motors will now be made prior to product shipment. Gazprom will also increase its participation in developing additional products such as airplane engines. The governor did not hide his intentions to raise the oblast's level of cooperation with Gazprom, hoping to reach the same level of cooperation the oblast enjoys with LUKoil.

Viktor Chernomyrdin's 19 November visit to the region seemed related to these interests. The former prime minister continues to serve as an influential consultant for various state and non-governmental structures closely linked to Gazprom. With the help

of Chernomyrdin, the governor plans to resolve a number of important issues concerning not only the fuel-energy complex but also the region's defense sector. His hopes are not ungrounded, especially because the governor is Chernomyrdin's deputy in Our Home is Russia (NDR). -- Andrei Suslov in Perm

RUSSIA'S DEMOCRATIC CHOICE LEADER VISITS TVER. State Duma member Segei Yushenkov, a Tver native and the deputy chairman of Yegor Gaidar's Russia's Democratic Choice (DVR) party, recently visited Tver in an effort to extend the DVR's influence in the regions. During his time in Moscow, Yushenkov has been trying to set up a Tver community center in the capital. (*Tverskie gubernskie izvestiya*, 18-24 November) Yushenkov sees the root of today's crisis in the State Duma's unwillingness to adopt a balanced budget backed by stringent tax legislation. He also accused the Duma of thwarting attempts to introduce legislation allowing the private ownership of land and of keeping many budgetary lines secret, leaving open the possibility of extensive corruption. (*Vechernyaya Tver*, 19 November)

The guest cited ballooning state bureaucracy and its propensity to interfere in the country's economy as the major obstacles to reforms. He accused the Communists in the parliament of blocking any attempts to move ahead. At the same time, he admits his own party's blame in carrying out a privatization program that fostered the creation of "oligarch capitalism."

The DVR's main goal in the upcoming State Duma election will be to counter the Communist and "national-socialist" threat from the left. Yushenkov sees the recent controversial anti-Semitic statements by Gen. Albert Makashov as representative of the general political platform of the Communist Party. That is why he wants to see all the right-wing parties united by next spring, and is confident that will occur. (*Tverskie gubernskie izvestiya*, 18-24 November) Such an electoral alliance should be capable of resisting the Communists, he believes. The DVR plans to work along these lines in all Russian regions. - Boris Goubman in Tver

SPECIAL REPORT

DESPITE CRISIS, BASIC RESEARCH THRIVES IN RUSSIAN PROVINCES

by Arsentii Ledovskii, Smolensk State Medical Academy

SMOLENSK--In one of his novels, the famous Russian writer Daniil Granin described so-called "conditional" scholars: they can only work effectively under certain circumstances, as opposed to "unconditional" scholars, who can do their research under any conditions. Now, in the midst of the harsh economic crisis that has engulfed the Russian provinces, "unconditional" scholars completely dominate basic research in Russia.

In general, the development of scientific research in small university cities, like Smolensk, which boasts five or six universities and about the same number of research institutes, has been characterized by dualistic tendencies over the last ten years. On the one hand, all research institutions suffer from a total lack of state funding, low salaries for teaching and research staff, constant wage arrears, inflation, and the collapse of

production at many high-tech enterprises and their respective research centers. Logically, those tendencies should have caused a major brain drain and outflow of talented personnel to other, more lucrative fields. Of course, some scholars do choose to leave, but that trend is much smaller in the provinces when compared to large cities. On the other hand, Russian scholars who remain at their workbenches now enjoy plentiful new opportunities, especially in such basic research fields as biology, mathematics, systems analysis, medical research, philology, history and others.

Compared to the system that financed research in the 1970s-1980s, one can notice either no change at all or a significant improvement in current conditions. This has to do with the spread throughout Russia of various foundations that support basic research. Consider for example the Russian Foundation for Basic Research (<http://www.rfbr.ru>). Through a competitive application process, the foundation gives out research grants to help fund projects in basic science. The main criteria are the project's originality, academic value, and novelty of approach. Grants from the RFBR average around \$2,000, which is significant by Russian standards. Grantees have maximum leeway in spending the funds.

That new system of financing scientific research gives provincial scholars incredible new opportunities to explore their ideas and make a positive contribution to science. Since 1994, the number of RFBR grantees in Smolensk has been steadily increasing (1 in 1994 and in 1995, 3 in 1996, and 4 in 1997 and in 1998). Sponsored projects include work in the fields of cellular biology, mathematics, philology, and history of medicine. Annually, up to ten Smolensk scholars and/or research institutions compete for grants from the RFBR, the Russian Foundation for the Humanities, the Soros Foundation, the Eurasian Bank Foundation and others. In part, the process also rids provincial academia of projects that lack merit and substance.

Moreover, scholars now increasingly utilize new information technologies in their work, as universities create computer labs and offer access to the Internet and global databases. Consequently, scholars depend less on Moscow and St. Petersburg libraries for research. Smolensk scholars, like their counterparts in other regions, can now participate in exchange programs with many countries, such as the United States, Great Britain, France, Denmark, Holland, Spain, Israel and Greece. In the last two years there has been a tendency in Smolensk science to integrate research between universities and specialized research institutes in order to find interdisciplinary solutions to basic research problems. For instance, there is now a major project underway in Smolensk in the fields of physical-chemical and cellular biology. The Smolensk State Medical Academy was created in 1996 as a part of that project, as was the new electronic journal of interdisciplinary medical research *Matematicheskaya morfologiya* (<http://www.smolensk.ru>).

Simultaneously, basic research in the regions has suffered from some negative trends. The biggest problem stems from the way scholars earn their academic degrees. Becoming a *kandidat* or a doctor is a complicated and conservative process, and earning those degrees gives the holder various privileges in salary compensation and career advancement. A graduate student can, for example, spend 3-5 years doing mediocre research that never makes it into prestigious scholarly journals, but eventually earn his academic degree, after which he or she "retires" from science to a comfortable and secure academic job. Lack of research does not affect salary or career advancement. This has

given rise to a class of scholars who comfortably exist all their lives off the research they did for their dissertation. Consequently, they encourage similar practices among their students, spreading the unhealthy tendency to obtain an academic degree by whatever means necessary in order to earn access to associated privileges. As a result, there has been a surge in falsification of experimental results, phony research, corruption and academic dishonesty in Russian basic research. Should that trend persist, Russian science and its international reputation would be considerably damaged.

ETHNIC CONFLICT AND REGIONAL SEPARATISM

CIVIL PEACE AND ETHNIC HARMONY REIGN IN ADYGEYA

by Sergei Kuzmin, New School for Social Research

The republic of Adygeya celebrated the anniversary of its founding on 5 October. Very small in size and populated by only 450,400 people, Adygeya is completely surrounded by Krasnodar Krai. For over 70 years the republic and the krai existed as one geographical, economic and political entity. However, when Adygeya upgraded its status from an autonomous ethnic formation within Krasnodar Krai to that of a republic equal in status to all other subjects of the Russian Federation, it simultaneously "left the krai and remained in it," as Adygeya's own President Aslan Dzharmov has noted.

Statistical data paints an interesting picture of an independent Adygeya. Today, of the total population in the republic, ethnic Adygeyans comprise 104,100 people, living alongside some 303,4000 ethnic Russians, 13,7000 ethnic Ukrainians, and 12,500 ethnic Armenians. The rate of intermarriage between ethnic Slavs (Russians, Ukrainians and Belarusians) and Adygeyans is very high. There are about 100 other ethnic groups living in Adygeya, all tiny minorities.

Birth rate statistics are also interesting. Last year, for every 1,000 residents, 12.2 new ethnic Adygeyans were born, in contrast to only 8.6 ethnic Slavs. Why is there such a demographic discrepancy? The difficult economic situation aside, ethnic Adygeyans strive to preserve their already small nation, probably for historical reasons. Mortality rates paint a different picture, however, as 10.5 ethnic Adygeans and 15.2 ethnic Slavs die each year for every 1,000 residents. This trend cannot be explained by the fact that the Adygeyans live better than the Slavs, but simply by the fact that there are many more elderly Slavs residing in the republic: over the last nine years about 4,000 retired ethnic Slavs migrated to the republic. All ethnic groups face the same causes of death: heart disease, cancer, etc. Only one in five ethnic Adygeyans and one of four ethnic Slavs die of old age.

Ethnic group representation in the republican government also reveals interesting trends. Today ethnic Russians hold 62.5 percent of ministerial positions, with 35.3 percent remaining for ethnic Adygeyans. A similar proportion exists in various government committees, services and agencies: 73.5 percent for Russians and 26.5 percent for Adygeyans. Even local governments staff their offices with 51.3 percent ethnic Russians, in contrast to 43 percent Adygeyans. Russians comprise 80 percent of the staff in the "power" agencies, such as the police, the local branch of the Federal Security Service (FSB), the Federal Agency for Governmental Communication and

Information (FAPSI), and the procuracy. The same holds for the treasury, the tax police and the employment service.

The relationship with Krasnodar Krai is very important for Adygeya, which partially explains the high level of ethnic harmony in the region. Most ethnic Adygeyans have developed business ties to the krai, which is only 1.5 hours away by car from the republican capital of Maikop. Adygeyans buy food in Krasnodar and rely on its importers for foreign food products and consumer goods. Adygeyans also supply the Krasnodar market with their own food products for cash. Given the pervasive wage and pension arrears that Adygeya experiences along with the rest of the country, the Krasnodar connection is a vital bloodline for the landlocked republic.

SOCIAL ISSUES

UNEMPLOYMENT LEVELS SOAR IN TOGLIATTI. According to reports from the local office of the State Employment Service, by 26 November the detergent producer Fosfor will lay off 711 of its employees. In the entire city of Togliatti a total of 910 workers will lose their jobs by then as well. This year has been especially bad for employment in the city: in the first nine months of 1998 over 20,000 people lost their jobs, government agencies report. In contrast, in all of 1997 only 22,000 city residents were newly unemployed. On average, about 36 percent find new jobs and the rest face bleak prospects on the tough job market, where six unemployed people compete for every one job opening.

Fosfor plans to lay off 1,000 of its staff in total. Additionally, the company owes 4.5 million rubles to the Employment Fund. Under the previous management, there were some talks about paying off the debt with detergent, but the new external management dropped that initiative. Production at Fosfor has been stalled in recent weeks, so the company was completely unprepared for the jump in domestic demand for its detergent due to the crisis and the flight of foreign competition. The city could have softened the blow of firings by subsidizing the layoff process, but it decided not to use public funds for this purpose. So, the newly unemployed will have to deal directly with their company. (*Prezent*, 17 November) - Gennadii Lipunov in Togliatti

BANKING ISSUES

IRKUTSK BANKS SURVIVE THE CRISIS IN GOOD SHAPE. In the face of Russia's looming bank shake-up, the Irkutsk banking sector has seen no significant changes in the past month, according to Tatyana Ivanova, who heads the regional branch of the Central Bank of Russia. Ivanova views the state of Irkutsk banking as "satisfactory." The oblast banks have navigated through the crisis reasonably successfully. Of the 23 banks that were originally registered in Irkutsk Oblast, only 14 retain their licenses after the crisis. Unlike some Moscow banks, the surviving banks in Irkutsk make timely payments. According to Ivanova, Irkutsk banks will not be affected by the collapse of the market for forward contracts. Only six such contracts have been signed by Irkutsk companies, all of them through Moscow banks.

Like their Moscow counterparts, Irkutsk banks have incurred some losses due to the plummeting ruble. That problem, however, has mainly affected branches of Moscow

banks in the oblast, which have had to stop selling foreign currency -- before the crisis they had been the largest currency dealers in the region. Today, Irkutsk Oblast's own authorized banks (BaikalONEKSIMbank, Vostsibtranskombank and Bratskgesstroj) have leading positions in currency sales. The demand for foreign currency has recently dropped, as the majority of the population cannot afford the high exchange rates. All exchange bureaus are open, but the volume of sales is down.

Depositors need to remember, Ivanova said, that Irkutsk branches of Moscow banks depend directly on the performance of their parent institutions. Regardless of how well an Irkutsk branch works, if the head bank in Moscow has to close down, that will affect the Irkutsk office. In such a case, depositors would need to petition the Moscow headquarters for assistance.

Ivanova thinks the country needs a strong network of regional banks to replace the proliferation of branch offices from Moscow-based financial institutions. Ideally, regional banks should have their own network of branches and be licensed for the full range of financial operations. In this light, the oblast administration's recent initiative to create a large regional bank would be most welcome, Ivanova said. The East Siberian Commercial Bank (VSKB) would be the candidate of choice to become such an institution. It is the only Irkutsk Oblast bank licensed to perform all financial operations, including transactions with precious metals and foreign currency. Additionally, it has a strong network of branches throughout the oblast and neighboring regions, as well as offices in Moscow and St. Petersburg. It is also authorized to have corresponding accounts in other Russian banks and abroad. However, the VSKB is in major trouble because it is behind on many of its payments. The bank's previous management granted too many risky loans, which wiped out its assets. Preventing VSKB's bankruptcy is the main goal of the bank's shareholders and the oblast administration. The Central Bank has forced the bank to change its management, so with the right policies, the VSKB still has a chance to regain its position as the leading financial institution in the region. - Yekaterina Vorobieva (Teleinform) in Irkutsk

TWO NIZHNI BANKS ALLY TO BETTER SERVE INDUSTRIAL CUSTOMERS. Two Nizhnii Novgorod banks, Garantiya and NBD-bank, announced the creation of a joint financial group, Guberniya. The new structure is not a state-backed regional bank, as its name suggests, but an initiative approved by the oblast government. Both banks have been issuing credit cards since 1 October: Union Card from Garantiya and Golden Crown card from NBD-bank. The leaders of the two banks, Aleksandr Sharonov and Viktor Kitaev, noted that the new alliance is not a merger, for which the two sides would have to go through complicated legal procedures, but simply a consolidation of their businesses. Guberniya's main goal is to help finance the revitalization of the region's economy. Its charter capital was set at 36 million rubles and the financial group will control a majority stake in each of the founding banks.

Among the economic sectors that will benefit from financial services offered by the group will be export-oriented and import-substituting enterprises, as well as producers of competitive consumer goods. Some clients of the two banks will especially benefit from the alliance, as the group will provide the kinds of services that neither bank could offer separately. For example, the Norski oil company and the Nizhnovenergo power utility will enjoy higher quality financial services and better management of their cash

flows as a result of the alliance. Part of the advantage is that most large clients of both banks are in the heating and power sector. They are therefore integrated into the same productive chain, which makes them interdependent.

Additionally, as the country's entire banking system undergoes major restructuring, the creation of the holding company will give the two banks a competitive edge over other banks. Should the government, for example, introduce restrictions on banking services, the new group will have much more room to maneuver than would each bank individually.

Incidentally, the group is open for other banks to join. If Garantiya and NBD-bank decide to merge in the future, Nizhnii Novgorod Oblast would gain a large regional bank capable of competing with such giants as the national savings bank Sberbank. That is especially important given the flight of Moscow banks from the regions. NBD-bank's charter capital is 31 million rubles, while its operating capital stands at 90 million rubles. Garantiya figures are 43 million rubles and 170 million rubles, respectively. - Yuri Rodygin in Nizhnii Novgorod

ECONOMIC ISSUES

DHL REDUCES EXPRESS SHIPMENT RATES. On 16 November, DHL express mail service significantly reduced its rates for deliveries from Irkutsk to Moscow. Letters weighing over 200 grams cost 25 percent less to send, while rates for letters weighing less than 200 grams are 15 percent cheaper, provided customers pay in cash. Founded over 30 years ago, DHL now works in 220 countries. It has been shipping inside Russia for over ten years, serving more than 200 cities. Three years ago it began serving Irkutsk and beginning this November DHL will extend its reach to Ulan-Ude in Buryatiya. - Teleinform's *Novosti kompanii i rynkov* in Irkutsk

FOREIGN TIES

IBM DOWNSIZES ST. PETERSBURG OFFICE. IBM Eastern Europe/Asia has reduced its workforce in its St. Petersburg office to a tenth of its former size. Now, only three of the originally 30 specialists remain in the office. The former general director of IBM St. Petersburg, Dmitrii Vereshkin -- who served in the post for over a year -- left for the Mebius information technology center.

The Moscow office of IBM Eastern Europe is not commenting on staff reductions. However, it stresses that the Petersburg office will not close, claiming that the office has a "strategic character" for IBM. According to IBM St. Petersburg Marketing Manager Yevgeniya Shapkina, the reductions will not affect the company's projects. She stated that IBM's Moscow office will continue to provide customer support and that the firm does not intend to break any service contracts. -- Roman Zotov in Saint-Petersburg

ICN PHARMACEUTICALS HALTS INVESTMENT PLANS IN ST.

PETERSBURG. In 1998 the company ICN Oktyabr, a joint venture with ICN Pharmaceuticals, Inc., invested \$4 million in new equipment and renovation of production facilities, although it has had to postpone the construction of a new plant. In February 1998, ICN's chairman Milan Panic told St. Petersburg Governor Vladimir

Yakovlev that the company was going to invest \$18 million in construction. However, Russia's economic troubles led ICN to postpone its plans, said Oleg Kayshev, the general director of ICN Oktyabr. ICN Pharmaceuticals, Inc. owns over 90 percent of the joint venture. It made its required contribution to the charter capital with investments in equipment. In the first ten months of 1998, ICN Oktyabr's sales were \$43.58 million, or 90 percent of the forecast. The firm plans to produce 26 new brands of medicines in 1999. - Roman Zotov in St. Petersburg

REGIONAL PROFILE: BRYANSK OBLAST

Governor: Yuri Lodkin

Yuri Lodkin was elected governor on 8 December 1996, winning more than 50 percent in the first round of a three-way race, defeating incumbent Aleksandr Semernev and former Governor Vladimir Barabanov. Lodkin had also won Bryansk's gubernatorial elections in April 1993 when he beat then-governor Barabanov. However, after Lodkin supported the Supreme Soviet in the October 1993 standoff, President Yeltsin removed him from office.

Lodkin is a traditional Communist both politically and economically. He had been a Communist Party functionary in Soviet times and was elected to the State Duma on the KPRF regional party list in December 1995. He claims a belief in the ideal of social justice and the possibility of genuinely carrying out populist economic reform. Since his election, however, the socioeconomic situation in the oblast has declined -- agricultural production has decreased, unemployment has risen, and the volume of trade is falling. Economic conditions in Bryansk are considerably worse than in the oblast's neighboring Communist regions. These economic troubles have fostered popular dissatisfaction with the administration's policies, particularly its failure to address social issues. Bryansk citizens have repeatedly claimed that Lodkin has failed to deliver the social reforms promised in his campaign, specifically in regard to wage arrears in the social service sector.

In the meantime, Lodkin blames Moscow for all of the oblast's economic shortcomings, arguing that the country's overall financial troubles inhibit the oblast's development. However, upon election, he stressed that he would cooperate with the federal government since it is necessary for a regional leader to do so in order to receive federal financial support. Among federal politicians, he favors Federation Council Speaker and Orel Governor Yegor Stroeve. He might support Stroeve for the next presidential election, since the latter, according to Lodkin, has a good chance of winning the race.

Other Local Leaders

Chairman of the Oblast Duma -- Stepan Ponasov, member of the Communist Party of the Russian Federation, elected in October 1995.

Presidential representative -- Vladimir Gaidukov, appointed in August 1997.

Brief Overview

Bryansk Oblast is located in the broad basin of the Desna River and borders Smolensk, Kaluga, Orel, Kursk oblasts, Belarus, and Ukraine. Local soil was badly contaminated by the 1986 accident at the Chornobyl nuclear power station and much of the land cannot be cultivated.

The oblast is one of the poorest in the country in terms of mineral resources, though it has some reserves of peat and materials for the construction, glass, and chemical industries. The oblast is one of the largest machine-building centers in Central Russia, with most of the enterprises concentrated around the city of Bryansk. Many of these enterprises used to belong to the defense industry, which has shrunk significantly in recent years, further hurting the oblast's economic situation.

Nevertheless, the oblast is a significant producer of machines and equipment for various industries, some of which are exported. Although the oblast passed investment legislation, it has attracted few international investors. One of the few ventures involves South Korea's Samsung Electronics, which will invest \$30 million in a new wireless phone system for the oblast, creating 50,000 new lines.

Basic Facts

Population (as of 1 Jan., 1997): 1,474,100 (1.00% of Russian total)

Urban population (1989 census): 68.3% (Russia overall: 73.0%)

Student population (1996): 109 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 30.60% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 7.7% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 32.3% (Russian average: 29.9%); Agriculture: 17.1% (12.8%); Trade: 8.7% (9.1%); Culture: 10.6% (13.6%); Management: 2.6% (2.3%)

Average monthly personal income in July 1998: 536.6 new rubles (Russian average: 891.7 new rubles)

Average monthly personal expenses in July 1998: 372.3 new rubles (Russian average: 684.9 new rubles)

Average monthly subsistence requirement in 1996: 330 new rubles (Russian average: 438 new rubles)

Consumer price index (as of July 1998): 86 (Russia overall = 100)

Industrial production as percentage of all Russian production (Jan.-Aug. 1998): 0.32%

Proportion of loss-making enterprises (as of July, 1998): 53.6% (Russia overall: 50.4%)

Number of enterprises which have wage arrears (as of 1 Sept. 1998): 4,520 (3.34% of Russian total)

Agricultural production as percentage of all Russian production (1996): 1.48%

Number of private farms (as of 1 Jan. 1997): 1,356 (0.49% of Russian total)

Capital investment (1996): 1,048.2 billion rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): federal budget: 24.3% (Russian average: 9.2%); regional budget: 9.4% (9.6%); enterprises: 49.8% (66.3%)

Number of joint ventures (as of 1 Jan. 1997): 80 (0.50% of Russian total)

Fixed capital investment in joint ventures and foreign companies (1995): 15,360 million rubles

Number of small businesses (as of 1 July 1998): 3,700 (0.43% of Russian total)

Number of enterprises privatized in 1996: 11 (0.22% of Russian total), including those which used to be municipal property: 54.5% (Russian average: 67.1%); regional property: 0% (14.3%); federal property: 45.5% (18.6%)

Number of telephones per 100 families (1996): in cities: 34.3 (Russian average: 48.7); in villages: 11.7 (19.7)

According to a 1998 survey by *Ekspert* magazine, the oblast is ranked 39th among Russia's 89 regions in terms of investment potential and 68th in terms of investment risks. A 1998 survey by Bank Austria ranked the oblast 63rd in terms of investment climate.

Electoral History

1996 Gubernatorial Election

Lodkin (NPSR): 54.54%

Semernev (incumbent): 25.81%

Barabanov (former governor, 1991-93, 1995-96): 5.57%

Simutin: 4.12%

Fedorov: 2.07%

Yakovlev: 1.82%

Khramchenkov (LDPR): 0.57%

Zuikov: 0.48%

Turnout: 50.61%

1996 Presidential Election

Zyuganov: 49.58%/59.23% (first round/second round)

Yeltsin: 26.23%/36.29%

Lebed: 11.60%

Zhirinovskiy: 5.09%

Yavlinskii: 3.48%

Turnout: 72.20%/70.86% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Elections

Communist Party of the Russian Federation: 35.44%

Liberal Democratic Party of Russia: 19.82%

Our Home Is Russia: 5.91%

Communists -- Workers' Russia: 4.15%

Forward, Russia!: 3.17%

Women of Russia: 2.66%

Party of Workers' Self-Government: 2.58%

Yabloko: 2.40%

In single-member districts: 2 Communist Party of the Russian Federation

Turnout: 69.37% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 39.92% "No" -- 60.08%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 27.23%

Communist Party of the Russian Federation: 20.18%

Russia's Choice: 12.57%

Agrarian Party of Russia: 10.80%

Women of Russia: 7.66%

Democratic Party of Russia: 5.70%

Party of Russian Unity and Concord: 4.86%

Yabloko: 4.46%

In single-mandate districts: 1 Agrarian Party of Russia, 1 Communist Party of the Russian Federation

From electoral associations: 1 Agrarian Party of Russia

Turnout: 65.89% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 53.78%

Ryzhkov: 19.31%

Zhirinovskiy: 9.41%

Tuleev: 5.75%

Makashov: 4.53%

Bakatin: 3.72%

Turnout: 81.89% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; T. Matiyasevich, N. Mogel, S.A. Nagaev, M. Rossmann, L.I. Smirnych, and A. Woergoetter, *Russia: Regional Risk Rating*, Vienna: Bank Austria, 1998; *Ekspert*, 19 October 1998; *Roadmap to Russian Regions*, Salomon Brothers, 1997; *Goskomstat, Regiony Rossii* [Regions of Russia], Moscow, 1997; *Central Electoral Commission, Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii* [Elections of the top executives of the federation subjects of the Russian Federation], 1995-1997, Moscow: Ves mir, 1997; *Goskomstat, Sotsialno-ekonomicheskoe polozhenie Rossii: janvar-avgust 1998 goda* [Socio-economic situation in Russia: January-August 1998], Moscow 1998.

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BREAKING NEWS

POLITICS

KIRIENKO ON GOVERNORS. The possibility of Russia's disintegration as the result of actions taken by powerful governors has been greatly exaggerated, former Prime Minister Sergei Kirienko told an audience in New York City on 30 November. He argued that the Russian economic situation was not going to improve and that the regional leaders would want to continue blaming the problems on Moscow. Few regions are financially independent of the center and none have the ability to print money, he noted. He also pointed out that the leaders of the strongest regions had ambitions to hold federal office themselves and so they had a personal interest in holding the country together.

Kirienko said that there had been some recent discussion of a so-called one-channel tax collection system in which the regional authorities would collect all taxes and then pass the federal share on to Moscow. Currently, the federal government collects most of the taxes and passes them back to the regions. Kirienko strongly advised against changing the system. His talk was sponsored by the Eurasia Group and the *East European Constitutional Review* at the New York University School of Law.

DAGESTAN COURT REJECTS LAW AGAINST CRIMINAL CANDIDATES.

Last week the Dagestani Constitutional Court declared unconstitutional a draft law that the republic's legislature had adopted in October which prohibited electoral commissions from registering candidates who had committed felonies (see *EWI Russian Regional Report*, 5 November). Republican Popular Assembly Deputy Gadzhi Makhachev had brought the case against the legislature. The court said that the draft law violated provisions of the Dagestani and Russian constitutions that guaranteed citizens the right to run for office. - Nabi Abdullaev in Makhachkala

BATTLE FOR MOSCOW OBLAST GOVERNORSHIP UNDER WAY. Although Moscow Oblast Governor Anatolii Tyazhlov does not face elections until December 1999,

Yabloko Duma Member Yevgenii Sobakin founded a new regional political movement called "Vozrozhdenie Podmoskovya" (Reviving Moscow Oblast) to oppose the governor on 28 November. Sobakin criticized Tyazhlov for allowing Moscow Oblast to fall from among the best in Russia to 14th place in terms of industrial output. He also noted that the standard of living in the region is lower than the Russian average and that the oblast has a 50 percent budget deficit. Given Russia's financial crisis, Sobakin wants Moscow Oblast to increase the production of goods which can be sold on the Russian market. The new party hopes to use the successful example of Moscow Mayor Yurii Luzhkov's leadership in the capital to drive development in the region. Russian Union of Industrialists and Entrepreneurs Chairman Arkadii Volskii, who is supporting Luzhkov's new Otechestvo party, called for the unification of Moscow and Moscow Oblast into one region. Although he remains a member of the Yabloko Duma faction, Sobakin's ties to the party are becoming increasingly tenuous. (*Nezavisimaya gazeta*, 1 December)

SIBERIAN GOVERNORS UNITE WITHOUT LEBED. A new Siberian political movement called "Unity for the Future" will hold its founding meeting on 12 December. The movement's ultimate goal is to win more than 5 percent of the vote in the December 1999 State Duma elections so that it can set up its own Siberian faction in the parliament. If this goal remains beyond its reach, it hopes to form a Siberian faction in alliance with some other parties represented in the Duma. Regional leaders began planning the new alliance in mid-November. Regional organizations of the new movement have already been formed in Kemerovo Oblast and Altai Krai. In line with the political sympathies of the local governors, these branches are close to the communists. At this point, it is difficult to define a political ideology that would gain support from a majority of Siberian governors. At least one part of the political spectrum has been excluded, however, since Krasnoyarsk Governor Aleksandr Lebed did not participate in the organization of the movement. Moreover, former Krasnoyarsk Krai Governor Valerii Zubov, who lost a recent election to Lebed, was elected head of the new movement's organizing committee (*Vremya MN*, 1 December). Zubov had the support of the Yeltsin administration and Moscow Mayor Yurii Luzhkov in his race against Lebed, but he lost after running an ineffective campaign.

ANOTHER FORMER DEPUTY GOVERNOR ARRESTED IN KRASNOYARSK. Former Krasnoyarsk Deputy Governor Vladimir Kornev was arrested on charges of receiving large bribes last week. He is the third high-ranking official from former Governor Valerii Zubov's administration to be arrested since Aleksandr Lebed was elected governor on 17 May (see *EWI Russian Regional Report*, 5 November).

ONE MORE DEPUTY GOVERNOR ARRESTED IN VORONEZH. Agents from the Federal Security Service arrested Voronezh Deputy Governor for Trade Yurii Shchepkin on 24 November. He is the third deputy governor and sixth official in the region to be arrested (see *EWI Russian Regional Report*, 24 November). The authorities accused Shchepkin of abusing his office. Voronezh Procurator Aleksandr Frolov said that the officials had used promissory notes (veksels) given to the oblast Fund for Development and Investment to buy vodka and then sell it through the "Yelena" store which has close ties to the administration. The deputy governors made 600,000 rubles from the deal. There has been no official reaction from Governor Ivan Shabanov. (*Izvestiya*, 27 November)

SOME GOVERNORS JOIN RIGHT-CENTER BLOC. Several governors have joined the effort to set up a right-center political bloc led at the national level by former prime ministers Yegor Gaidar and Sergei Kirienko, Unified Energy System head Anatolii Chubais, and First Deputy Presidential Chief of Staff Oleg Sysuev. Among the backers are Tver Governor Vladimir Platov, Vologda Governor Vyacheslav Pozgalev, and Altai Republic President Semen Zubakin. The mayors of Izhevsk and Tambov also support the proposal (*Nezavisimaya gazeta*, 28 November). Saratov Governor Dmitrii Ayatskov's name also appeared on the document, but he claimed that he was not associated with the effort. He said that he is still a member of Our Home is Russia but has also demonstrated some sympathy for Moscow Mayor Yurii Luzhkov. Kirienko may also be leaning toward Luzhkov's left-center Otechestvo (Fatherland) party. The members of the new right-center group hope to hold a founding congress by the middle of December (*Izvestiya*, 28 November). To compete in the December 1999 Duma elections, parties must be registered one year in advance.

AYATSKOV ANNOUNCES NEW PARTY IN SARATOV. Saratov Governor Dmitrii Ayatskov announced that he was setting up a new party in the region called Moe Otechestvo (My Fatherland), with a founding congress to be held by the end of the year. The party will apparently be separate from Moscow Mayor Yurii Luzhkov's Otechestvo, and another group is setting up a Saratov branch of Luzhkov's party, *Nezavisimaya gazeta* reported on 28 November. Contrary to earlier reports, Ayatskov did not participate in the 19 November meeting of the organizational committee of Luzhkov's party. It is not clear how Ayatskov's new party will fit with his previously announced Landholder's Party or his claimed membership in Viktor Chernomyrdin's Our Home is Russia. Ayatskov's apparent allegiance to all possible groups (combined with some back tracking here and there) may simply be a fruitless attempt to please all potentially powerful politicians simultaneously in order to curry favor for his region.

SEGODNYA: REGIONAL MEDIA HOLDING IS ILLEGAL. In May, President Yeltsin ordered the creation of a media holding company under the control of the Russian State Television and Radio Company (RGTRK). The goal is to gain firmer control of the regional media before the election season begins. Many of the regional television and radio companies have refused to register with the holding and so far only 9 of a potential 90 have done so. The deadline for the completion of the process expired last month. Even the agreements RGTRK President Mikhail Shvydkoi has signed are not legally valid because they violate the Russian Federation Civil Code, according to *Segodnya* (24 November). Since the regional broadcast media have separate funding from the federal budget, they are not directly subject to pressure from RGTRK. However, it is possible for RGTRK to deal with the governors, removing journalists critical of the oblast administration in exchange for the governor's support in making the regional broadcaster join the holding. Such an exchange apparently took place in Primorskii Krai (see below for more details).

ECONOMICS

REGIONAL BANKS SURVIVING. The Central Bank's program for restructuring the bank system pays considerable attention to the regions. It seeks to give special support to key regional banks, which will form the basis of the regional bank system, by providing capital and by stimulating interregional cooperation. Central Bank representatives say that about 200 regional banks will have Central Bank support. Meanwhile, regional banks are taking their own steps to ensure their viability.

After the regional branches of several Moscow banks (Inkombank, MENATEP, SBS-Agro) collapsed, the number of corporate clients using regional banks increased. Prime examples include some small and medium banks in Samara (Gasbank, KB Solidarnost, Tolyattikhimbank, Bank Volga-kredit), and Novosibirsk (Bank Akzept, Sibakadembank, Bank Alemar) (*Vremya MN*, 30 November). Moscow banks, however, also continue to compete in the regions. In Samara, for example Vneshekonombank entered the region after the crisis began and Alfa-bank increased the number of clients it is serving in the region. (*Vremya MN*, 30 November).

Regional banks are seeking a variety of hard-nosed solutions. For example, In Yekaterinburg, bank Severnaya kazna punished Inkombank by refusing to give hard currency in exchange for rubles that had already been transferred. Some banks are seeking the support of the Sverdlovsk Oblast government. Others have opened numerous correspondent accounts and transfer money from one to another in order to avoid non-payments.

Additionally, regional banks are no longer merging with the regional branches of Moscow's financial institution. For example, about a year ago Rostov's Donkombank merged with the regional branch of MENATEP. In the beginning of September, the process of unification was halted (*Vremya MN*, 30 November).

Large regional enterprises are also developing strategies to address the crisis. The most common one is to open accounts in several banks simultaneously. This approach explains the increasing number of corporate clients in regional banks. The other solution is to open their own banks in order to increase their reliability. The giant Samara carmaker AvtoVAZ chose this alternative by founding its own bank on the basis of Rosestbank and Avtomobilnyi bankirskii dom. According to *Profil's* rating (23 November) of the most reliable small and medium-sized banks, Avtomobilnyi bankirskii dom already occupied twelfth place.

Thus, the banking crisis led enterprises to transfer their accounts to second tier banks which, especially in the regions, had not invested heavily in the now worthless Treasury bills (GKO). In fact, small and medium-sized banks are trying now to develop their own independent strategy. The financial crisis is pushing those banks to coordinate their policy in order to protect the interests of their clients. One of the consequences of this development is that the leaders of four medium-sized Moscow banks are now meeting to discuss possible forms of cooperation (*Ekspert*, 30 November).

SAMARA REGION ADOPTS BALANCED BUDGET IN THE FIRST

READING. For the first time in recent years, the Samara regional Duma has adopted a balanced budget that foresees 6.1 billion rubles in expenditures. To achieve the balance, the budget already takes into account a new sales tax, which comes into force in January 1999.

In comparison with the 1998 version, the new budget will increase social spending in order to cover such benefits as education, public health care, and social policy.

Furthermore, the new budget gives the regional administration the right to create its own gold reserves. The main novelty is the new type of interbudgetary relations between regional and municipal authorities: transfers from oblast to local budgets will be determined by average income in the city or rural area. This method will effectively transfer money from rich urban areas to poorer rural areas within the oblast. Samara Mayor Georgii Limanskii complained that the introduction of this system would substantially limit the resources of the city authorities. The oblast Duma deputies ignored his arguments (*Vremya MN*, 26 November).

MOSCOW TELECOMS BATTLE FOR RIGHTS. Moscow's Sistema corporation is threatening to sue the State Communications Committee because it has violated an exclusive agreement it gave the company in 1993 to provide GSM mobile telephone service in Moscow and Moscow Oblast. Despite the exclusive agreement, in August then-Deputy Prime Minister Boris Nemtsov sold rights to a VimpelCom subsidiary to also provide GSM service in the capital region. Sistema is closely associated with Moscow Mayor Yurii Luzhkov, while First Deputy Prime Minister Yurii Maslyukov has ties to VympelCom, *Kommersant Daily* reported on 1 December. Sistema's telecommunications subsidiary, Mobile TeleSystems (MTS), was cofounded with Deutsche Telecom, whose managers are furious that rules of the game have been changed on them. Competition among cellular telephone providers has increased sharply since the beginning of the 17 August crisis. The firms have had to cut their prices and once profitable providers like VimpelCom are losing money.

COURTS SHUT POLLUTING PLANT IN IRKUTSK. In September the Irkutsk Oblast Arbitration Court ordered the Usolkhimprom factory to shut down by 1 December because it had allowed 1,500 tons of mercury to leach into the soil over the last 25 years. At least half of the plant's 8,000 workers suffer from chronic mercury poisoning and the mercury has polluted the nearby Angara river. The plant made sodium hydroxide, one of the principle ingredients in paper manufacturing, and then exported much of it. Greenpeace Russia was the first to bring attention to the case. Irkutsk authorities believe that the plant has caused \$21 billion worth of damage. The plant has set aside only \$1.3 million to cover these expenses. (*Moscow Times*, 1 December)

PETERSBURG'S ATTEMPT TO TAKE OVER LOCAL BANKS IN TROUBLE. St. Petersburg Governor Vladimir Yakovlev's attempt to gain control of 25 percent of the stock for two years in four of the city's largest banks (BaltONEKSIMbank, Petrovskii, Promstroibank, Sankt-Peterburg) may fail because the city would have to set up a company with 1 million ECU in charter capital, a sum the city does not have (see *EWI Russian Regional Report*, 5 November). Because of this requirement, no action has been taken on the proposal during the last month.

FERROUS METAL FIRMS MERGE. Shareholders who own 86.2 percent of Belgorod Oblast's Lebedinskii Ore Mining and Concentration Combine announced that they have formed a holding that will include the Lebedinskii, Stoilenskii (Belgorod Oblast), and Mikhailovskii (Kursk Oblast) ore producers and the Oskolskii

Electro-Metallurgical Combinate (Belgorod Oblast), *Segodnya* reported 26 November. Lebedinskii supplies about a quarter of Russia's iron-ore concentrate and pellets, while Oskolskii is one of Russia's most modern steel mills. The Swiss firm Nakosta, Oskolskii, and Rossiiskii Kredit bank are the main shareholders. Oskolskii began buying up shares in Lebedinskii last year when a new director at the ore plant raised prices for the ore. Oskolskii depends on the raw materials Lebedinskii produces to manufacture its steel products. Its partner Nakosta provided financial backing to make the deal work (see *EWI Russian Regional Report*, 13 August). The new vertically-integrated holding should help Oskolskii keep its prices competitive.

KALININGRAD MAKES PROGRESS ON LAND LAW. Last week the Kaliningrad Oblast legislature adopted a bill that allows the buying and selling of land in the first reading, *Finansovye izvestiya* reported 1 December. The bill must still go through two more readings. So far Saratov, Tatarstan, and Samara have adopted similar laws. Tatarstan's is the most liberal because it allows the sale of land to foreigners.

BUSINESS BRIEFS

-- Cyprus-based **SKIRONAS INVESTMENT LTD.** paid about \$16 million to buy 15 percent of **CHELYABINSK'S** Mechel mill. The price paid is currently more than twice the market value of the shares. Switzerland's Glencore International, which owns 70 percent of the plant, said that it is not associated with Skironas. The purchase is a mystery since the plant has more than \$70 million in tax and pension debts and output dropped by 15-20 percent in the first quarter of 1998. Mechel is planning a \$400 million, seven-year investment program that will give it the capacity to produce high-quality metal products (*Moscow Times*, 1 December). Glencore will invest \$300 million (*Finansovye izvestiya*, 25 November).

-- Construction at **IKEA's** \$100 million shopping complex between **MOSCOW** and the Sheremetevo airport is continuing and the complex is set to open in October 1999. In addition to a 30,000 square meter IKEA store, there will be a shopping mall with a food court, bowling alley, and multi-screen theater. IKEA is planning four other centers in the city, the second to open within 18 months after the first one. (*Moscow Times*, 1 December)

-- Germany's **EHRMANN** is building a DM60 million dairy products factory in the **MOSCOW OBLAST** town of Ramensk that will be completed next summer. The plant will have an annual capacity of 30,000 tons. Initially, the plant will import fruit from abroad, but Ehrmann is planning a DM20 million fruit processing plant to be built later. Many Russian consumers can no longer afford to buy imported food products because of the drop in the value of the ruble, so Ehrmann hopes to keep prices down by producing locally. (*Kommersant Daily*, 1 December)

-- The Dutch **CAMPINA**, Ehrmann's main competitor, is also planning to build a \$50 million plant with an annual capacity of 50,000 tons in the **MOSCOW OBLAST** city of Stupino. As a test it has built a \$2.5 million production line at an existing factory. France's

DANONE is still deciding whether to follow through with plans to build a plant with a 150,000 ton capacity. (*Kommersant Daily*, 1 December)

-- **PHILIP MORRIS** is trying to finish construction at its \$300 million **LENINGRAD OBLAST** plant before the scheduled completion date at the end of next year, hoping to increase the proportion of domestically-produced cigarettes it sells from 15 to 30-40 percent. (*Kommersant Daily*, 1 December)

-- **SUBWAY** opened its first fast food restaurant in Moscow last week. An earlier restaurant in St. Petersburg opened in 1994 but closed after 18 months following a disagreement between Subway and its Russian partner (see *EWI Russian Regional Report*, 26 March). (*Kommersant Daily*, 1 December)

-- The company **INGEOKOM** is planning to build a huge \$165 million shopping-entertainment complex at **MOSCOW'S** Kurskii Train Station by the year 2000. The complex will have a 1,000 car parking garage, hypermarket, 11-screen cinema, fast food restaurants, a bowling alley, and children's entertainment. The train station serves 70,000 passengers a day and 300,000 use the Kurskii metro station. The city of Moscow will own 30 percent of the complex, and Ingeokom and LIS'S will own the rest. (*Segodnya*, 2 December)

-- Russia and Kazakhstan have agreed to build a pipeline between Tengiz and Novorossiisk (**KRASNODAR KRAI**) to ship Caspian oil to the west. The **CASPIAN PIPELINE CONSORTIUM** will build the 1,580 km pipeline. The first phase of work will cost \$2.3 billion allowing shipments of 28 million tons of oil a year. With an additional \$2 billion investment, the pipeline's annual capacity will reach 67 million tons. Russia hopes to make \$33 billion over 35 years from the deal. The partners in the CPC are Russia (24%), Kazakhstan (19%), Oman (7%), Chevron (15%), LUKARCO (12.5%), Rosneft-Shell (7.5%), Mobil (7.5%), and others (7.5%). (*Kommersant Daily*, 26 November)

-- The firm **EAST LINE** is planning a \$36 million reconstruction project of **MOSCOW'S** Domodedovo airport. The project calls for a complete overhaul of the current airport. (*Segodnya*, 28 November)

-- The **INTERNATIONAL FINANCE CORPORATION** loaned the Turkish company **RAMENKA** \$30.5 million to build three Ramstore hypermarkets in Moscow. The company already owns two such stores in the city, one of which opened last week. That store cost \$45 million to build. The company claims that it has not been affected by the crisis because it sells at bargain prices. It is planning to have 10 stores in Moscow by the end of 1999. (*Moscow News*, 28 November)

PATTERNS OF REGIONAL DEVELOPMENT

CAMPAIGN PROFESSIONALS DRIVE 6 DECEMBER ST. PETERSBURG ASSEMBLY ELECTIONS

by Lyudmila Bogomolova

ST. PETERSBURG--As far back as the Summer 1998 most analysts agreed that the 6 December elections to the St. Petersburg Legislative Assembly would be marked by record-high campaign spending and a strong criminal presence in the candidate pool. They were right on both counts. It seems that forces of the shadow economy have come to realize the value of having their interests represented in the city's legislature. They have also banked on running independent candidates with no visible connections to any political or business structures. Historically, independents do better in St. Petersburg than do party candidates. Thus, there are 550 candidates competing for 50 seats in the assembly. According to the city electoral commission, 81 percent of all the candidates are running as independents.

Judging by the political rhetoric of the candidates, this campaign is largely devoid of political content. People are running on such prosaic issues as improving city infrastructure and transport, especially extending the metro system. Of course, the issues of pension arrears and healthcare services also figure in platforms. However, there are precious few political slogans in all the campaigns.

Political parties, few in number, are faced with a powerful challenge from independents. Some of the independent candidates are well financed, rely on professional campaign managers, and seem to be ready to do anything to win. Political blocs have to adapt to the new environment and invent creative new ways to deal with the independent challengers. However, experts have observed the lack of creativity in the parties' advertising. Consider the political bloc Accord-United Democrats. It is following the old strategy of Our Home is Russia (NDR)--lots of outdoor advertising and ads in business newspapers targeting the "middle class." The local Yabloko branch is trying hard to hold on to its electoral base, the technical intelligentsia. It also has agreed to merge party lists with Accord and Democratic Russia, testifying to the uncertainty of the groups' leaders in going it alone. Despite the rhetoric of the Yabloko leadership, this alliance is a populist action, an attempt to capitalize on the hysteria that has spread through the city's political circles.

In contrast, the bloc Northern Capital, founded by the late Galina Starovoitova, stands to benefit from such a merger, since it lacks virtually any financial resources. Yurii Boldyrev is actively campaigning for the bloc named after himself, even though he is not running for an assembly seat. Boldyrev, one of the original founders of Yabloko, lost the gubernatorial race in 1996 to Vladimir Yakovlev. Boldyrev has refused under any circumstances to ally with other democratic forces, and has frequently criticized the practice in the press.

In general, this race features a standoff between large political movements, rapidly losing their appeal, and private individuals, who smartly employ the techniques and expertise of professional campaign managers. Independents also do not have to approve every campaign strategy change with a party bureaucracy, which allows for maximum flexibility.

Those who are preparing for the Duma elections in 1999 are using this race as a testing ground for new campaign techniques. One of the most notable tricks used in this race, the so-called "twin" trick, has gained much publicity in the press. Usually, a group puts on the ballot a candidate with the same name as that of another, more popular candidate, to confuse the electorate and benefit from votes gained by mistaken identity. For example, the prominent politician Sergei Belyaev finds that he is competing against... Sergei Belyaev. A.

Koshmarov has gone even farther, establishing a party called Yabloko-St. Petersburg that will try to confuse voters who mistake it for Grigorii Yavlinskii's Yabloko, which is extremely popular in the city. In reality, this trick has been used before both in the Moscow city duma elections and in the Leningrad Oblast races in 1997. In the latter case tricksters relied on the high level of protest vote and low political culture of the oblast's population.

During the Leningrad elections, I was running the reelection campaign for Yu. A. Alferov and had to face such a "twin" challenge. There were two other candidates with the same last name and initials as Alferov's on the ballot. We managed to help our core supporters out of the confusion by using a mock ballot in advertising, where we clearly marked the placement of "our" Alferov. Additionally, we steered away from negative campaigning and insults, simply clarifying the confusion to voters. In the end, Alferov was reelected with a record turnout at the polls. This example shows that the "twin" trick is not original at all, and creative ways can be found to counter this technique. What does not work is engaging in whining and negative advertising, since neither the electoral commission nor the voting public will pay attention to that.

In some districts parties resort to bribing the population with food products and vodka, while others organize transportation of pensioners to the polling sites. My experience in many poor regions shows that these tactics rarely work. We cannot ignore such blatant abuse of the election rules, but we should not exaggerate their effects either. Most poor people see right through these tricks and feel little gratitude to their "benefactors."

The murder of Galina Starovoitova is another, if tragic, component of political life in St. Petersburg on the eve of legislative elections. Thanks to the recent series of contract killings that shook St. Petersburg, the media has dubbed the city as the criminal capital of the country. One fact is consistently avoided in the press, however, and that is that St. Petersburg politicians tend to neglect their own security and walk around without protection. This is natural, since the general situation in St. Petersburg is much quieter than in Moscow.

The media and public figures have decried this heinous crime in unison as a politically motivated murder. Some claim that the reason behind the murder was Starovoitova's actions during the election campaign for the assembly. I seriously doubt this theory. As mentioned above, her political bloc Northern Capital is politically weak, short of funds, and thus threatens nobody. Starovoitova's connections to former Mayor Anatolii Sobchak and the head of the TV company Channel 11 D. Rozhdestvenskii add nothing to the picture of the possible motives behind the crime. Sobchak is extremely unpopular, while Rozhdestvenskii is well known in the city. Both are under criminal investigation.

The only possible political reaction to the assassination is a short-term outburst of protest activities on the part of the intelligentsia. Some predict that this will significantly affect the demographic makeup of those who turn out at the polls on election day. In other words, elections in the city will be carried not only by pensioners, as more young people will participate out of outrage. All in all, developments in St. Petersburg are reflective of the countrywide electoral trends. The outcome of this race will influence both the 1999 Duma elections and the 2000 race for the presidency.

Lyudmila Bogomolova, a political scientist, is writing her Ph.D. dissertation on the topic of political campaign advertising in St. Petersburg. She has worked on campaigns for the State Duma in 1995, governorship of St. Petersburg and Leningrad Oblast in 1996, and Leningrad Oblast assembly in 1997. She currently heads the

analytic department of COMCON-2's St. Petersburg office which engages in market research.

KRASNODAR KRAI VOTERS ELECT PRO-KONDRATENKO ASSEMBLY.

On 22 November Krasnodar Krai voters elected representatives to the regional Legislative Assembly. Fifty seats were up for grabs in 12 multi-mandate electoral districts. Preliminary data shows that Governor Nikolai Kondratenko's regional "party of power" Fatherland (*Otechestvo* - not to be confused with the party of the same name recently established by Moscow Mayor Yurii Luzhkov) emerged victorious, claiming 38 seats in the assembly. Additionally, one Yabloko member and 11 independents entered the body. On average 38.93 percent of eligible voters turned out across the region. The turnout in two districts in the city of Krasnodar was 41.22 and 42.74 percent, respectively.

The mayor of Krasnodar, Valerii Samoilenko, who ran his own slate of candidates and campaigned strongly against Kondratenko's party, said that the krai has acquired a "one-party parliament," in addition to its one-party administration. The mayor's candidates lost badly in the race. Therefore, he argued that since the regional "party of power" is now in complete control of the krai government, it should accept responsibility for all the problems in Krasnodar Krai. The governor and his team now have nobody else to blame, said the mayor. The public has made its choice and can now hold both branches of the government responsible for krai policies, he noted. Kondratenko has gained much attention in Russia and elsewhere for his numerous statements blaming the region's problems on a "Zionist conspiracy" (see *EWI Russian Regional Report*, 26 March).

Samoilenko, who had the support of Luzhkov during the campaign, also commented on the high quality of some of the independent deputies in the assembly. He especially praised Krasnodar's deputy mayor Igor Khankoev and the head of Prikuban district Anatolii Medovnikov. Samoilenko also hopes that individual members of Fatherland will have enough "common sense" not to be completely "indoctrinated by the party line." Therefore, the city administration plans to build a constructive working relationship with the new Legislative Assembly. The mayor also plans to push ahead with his idea of creating a bicameral legislature for the region (see *EWI Russian Regional Report*, 5 November).

Overall, the election results show a significant shift to the left in the krai's voter preferences. One trend has remained constant: elderly pensioners are the most active voters. The young and employed residents of Krasnodar seem to be either too busy or too complacent to elect their own lawmakers. (*Krasnodarskie izvestiya*, 24 November) - Sergei Kuzmin in New York with reports from Krasnodar

LEBED LOSES MAJOR SUPPORTER IN ROSSIISKII KREDIT

DIFFICULTIES. The problems facing Rossiiskii Kredit bank will certainly lead to major personnel changes in the ranks of the Krasnoyarsk Krai administration. The bank was the main financial backer of Gen. Aleksandr Lebed's successful bid for the post of the krai governor. Accordingly, Lebed drew on the bank's middle managers for his team in the krai administration. Through a rotation system, these managers would come to the krai for one or two months to work and then return to their positions in Moscow. The main goal was to give government experience to future high and middle ranking officials in Lebed's presidential team, should he succeed in the 2000 race. The bank's difficulties will certainly alter Lebed's presidential prospects. Many who worked on his team in the krai will now find new jobs,

and the bank's owners have other things to worry about than Krasnoyarsk Krai. It is not yet clear where Lebed will recruit new members for his team. - Pavel Avramov in Krasnoyarsk

PERM DEMOCRATS UNITE FOR POLITICAL ACTION. Various events in recent weeks around the country have shaken up the political activists in Perm Oblast. The anti-Semitic rhetoric of Gen. Albert Makashov, separatist pronouncements from Kalmykiya and Tatarstan, compromising information revealed about secret service officials, and the murder of Galina Starovoitova all mixed to produce an outburst of outrage among Perm's democratic groups. On 24 November Igor Averkiev, who leads the Perm Regional Civil Rights Center and Aleksandr Kalikh, the chair of Perm's branch of Memorial, called an emergency meeting of all democratic forces in the city. The two questions on the agenda were: Can the democrats revitalize their presence in local politics? And, if so, what needs to be done?

Members of such groups as Memorial, Democratic Russia, Russia's Democratic Choice, Yabloko, and Honor and Motherland attended the meeting. Additionally, civic-minded private citizens and members of city and regional legislatures were also present. State Duma Deputy Viktor Pokhmelkin called on all the democrats to form a united front against the "fascism, totalitarianism and criminality rampant in Russia." He called on everybody to draw battle lines and dig in for a long and ruthless struggle. Other leaders mostly expressed their grief about Starovoitova's death. All agreed on the need to consolidate, but everybody had their own ideas on how to do it. So, at first it seemed like the old story was going to repeat itself again and the efforts to unite Perm democrats would fail amidst internal squabbles.

However, it was clear that there was no turning back. The meeting voted to create a coordinating council representing all democratic political movements. The group is open to all interested in its work. So far Averkiev is the informal leader of the initiative. He left active politics some time ago and his return comes at the time when the term "democrat" is a four-letter word in Russian political discourse. It is easy to create an organization, but the real challenge will be to make it truly influential. Another challenge is to get the national leaders of democratic organizations, not just their Perm representatives, to agree on the common ground. (*Zvezda*, 26 November) - Andrei Suslov in Perm

DEMOCRATIC OPPOSITION UNITES IN VORONEZH. Voronezh's democratic opposition groups gathered on 24 November to mark the assassination of State Duma Deputy Galina Starovoitova and decided to forge a new regional democratic coalition. Representatives from Democratic Russia (Starovoitova's party), Russia's Democratic Choice (DVR) and Our Home is Russia (NDR) attended the meeting. Yabloko was not represented at the meeting and some claimed that the party's Voronezh chapter no longer exists. Voronezh branches of NDR, DVR and Democratic Russia are planning to participate in the next year's State Duma's elections as one bloc.

Boris Kuznetsov, the presidential representative in Voronezh initiated the gathering. Kuznetsov is clearly becoming the leader of the local democratic opposition. In October 1998 he denounced the corruption and incompetence of Governor Ivan Shabanov and his entourage. (Three deputy governors have been arrested in the last several weeks -- see Breaking News for details.) Kuznetsov characterized the current situation in the oblast as

"the monopolization of power by the Communist party and the development of bureaucratic capitalism" (*Voronezhskii Kurier*, 1 October 1). He also denounced the governor's decision to complete construction of the Voronezh Thermal Nuclear Power Station (see *EWI Russian Regional Report*, 12 November). - Andrei Muchnik in Voronezh

CENTER-PERIPHERY RELATIONS

PROCURATOR UNCOVERS MISUSE OF FEDERAL FUNDS IN KURSK. At the initiative of President Boris Yeltsin, a new commission of federal executive agencies was created in each region to better coordinate federal policies and provide more control over regional authorities. Typically, such commission include the heads of local branches of the Procuracy, the Federal Security Service (FSB), the Federal Treasury, the Tax Police, the Tax Service, the Federal Postal Service and others.

On 25 November, the Kursk commission of federal executive agencies held an open meeting. The commission's creation in the oblast coincided with the appointment of the new presidential representative in Kursk, Leonid Bashkeev, previously a KGB and FSB officer, who most recently headed the security department of Sberbank. At the meeting, the commission reported that it had found that some federal subsidies have been misused in Kursk. For instance, the 12 million rubles transferred in October 1998 toward paying teachers' salaries were used to pay the oblast administration's debts. Nikolay Tkachev, the oblast procurator, said that for a whole month he could not obtain any information about where this money went, and eventually was forced to launch a special investigation.

Moreover, the commission found that local businesses owe over 1 billion rubles to the Pension Fund, which is enough to pay all Kursk Oblast pensioners for seven months (and for two more years, if the delinquents were forced to pay the fines for their tax arrears). Among the largest debtors to the budget are the Kursk Atomic Power Station and the Mikhailovsk Ore Enrichment Plant. It was also brought to light that the Kursk Oblast administration has misused half of the money from a special fund attached to the power station to purchase houses and personal cars for oblast officials, many of whom are still in public service.

Kursk Oblast Governor Aleksandr Rutskoï quickly went on the offensive against these findings at a press conference he held the following day. He accused the federal Center of failing to provide 30 percent of the subsidies it owes to the region. This is especially abhorrent, he said, given that the region had collected 103 percent of its projected taxes. Thus, the federal and regional authorities continue to engage in an information war. - Sergei Sarychev in Kursk

NIZHNIĬ GOVERNOR OPENLY BACKS LUZHKOVI'S PRESIDENTIAL BID.

In a bold political move, Nizhniĭ Novgorod Oblast Governor Ivan Sklyarov joined Moscow Mayor Yurii Luzhkov's newly created Otechestvo political movement. Luzhkov has long been a model for Sklyarov both in politics and regional governance. The governor thinks that Luzhkov's ideas are the only ones suitable for Russia. The governor believes that the movement has completed its first stage work of bringing together professional, responsible and patriotically-minded people interested in changing the country for the better. The next step will be winning seats in the December 1999 State Duma elections, Sklyarov said.

The governor's aides believe that Sklyarov made a good move, and will only suffer negative consequences if Luzhkov loses the presidential race. However, former Nizhnii Governor Boris Nemtsov (who was recently dismissed from the position of First Deputy Prime Minister) said that the Kremlin is not happy to see Sklyarov take Luzhkov's side. He thinks it is a very risky step for Sklyarov, but acknowledges the importance of taking risks for political gain. Nemtsov himself is forming a political bloc that will include such liberal personalities as Yegor Gaidar, Irina Khakamada, and Anatolii Chubais. Should Yurii Luzhkov triumph in 2000, Sklyarov will be seen as an astute politician who made the correct choice at an early stage in the race. But, if Luzhkov loses, the outcome for Sklyarov will be equally negative. However, all this is in the future. For now, one of the clear presidential contenders has just acquired an ally in a governor of one of the most important Russian regions. - Yurii Rodygin in Nizhnii Novgorod

SOME URAL POLITICIANS JOIN LUZHKOVS PARTY. Three leading Ural politicians took part in the 19 November organizational conference of Moscow Mayor Yurii Luzhkov's new political movement Fatherland (*Otechestvo*). They are: Yekaterinburg Mayor Arkadii Chernetskii, who also heads the regional Our Home-Our City party and is a prime challenger in the next gubernatorial race, Vice Speaker of the Sverdlovsk Oblast Duma Valerii Trushnikov, who leads the movement Mining Urals, and prominent businessman Igor Kovpak, a member of the oblast Chamber of Representatives and a favorite candidate for Yekaterinburg mayor in the next elections. The three have also joined the party's steering committee.

Curiously, in regional politics these three are in competition with each other, but now they will have to find some common ground, unless something changes before 19 December, when Fatherland holds its first congress. Local analysts think that Luzhkov is trying to size up all three politicians to figure out whom to back in regional politics in order to secure Sverdlovsk Oblast's support in the presidential campaign. Chernetskii seems to have the best chances, since he is the most influential of the three, often ranked right behind Governor Eduard Rossel, and commands the best organized political party machine in the oblast. Rossel himself was not invited to join Luzhkov's party. This is an indicator of Luzhkov's preferences in the upcoming gubernatorial elections in 1999. It is crucial for Luzhkov to guess correctly who will run Sverdlovsk Oblast next year, so that he can secure this person's cooperation in the presidential campaign. - Natalia Mints in Yekaterinburg

MEDIA ISSUES

DAGESTANI PRESS UNDER FIRE FROM GOVERNMENT

by Nabi Abdullaev

MOSCOW--Pressures on the free press in Dagestan have been a fact of life throughout the republic's brief post-Soviet history. The republican leadership has used several tactics to influence journalists' positions. Often high ranking officials would summon editors of media companies to "talk," and exert pressure through the tones of those exchanges. Individual journalists were censured as well: the Minister of Nationalities and External Affairs Magomedsalikh Gusaev used to require that all articles on inter-ethnic issues as well as

Dagestan's internal or external policies gain his approval before publication. Whereas reporters at state-owned publications had to comply, very few journalists in independent media obliged, and if they did, it was only the case when the article could have caused major damage to the newspaper.

Recently, Dagestani authorities have redoubled their efforts to censor the press. In October 1998 the republican Ministry for Nationalities and External Affairs was transformed into the Ministry of National Policy, Information and External Relations, with Gusaev at the helm. The newly reorganized ministry quickly came into conflict with the media. For example, ethnic Lezgins were demonstrating in the city of Derbent in the middle of October, trying to call attention to the plight of the residents of southern Dagestan, one of the poorest regions in the republic. At one of the meetings, the head of the Lezgin Elders Council Gen. Mugutdin Kakhrimanov voiced the idea of forming a Lezgin autonomy outside of Dagestan. NTV's correspondent in Dagestan Ruslan Gusarov aired a segment with the general's statements.

Several days later, Gusaev told reporters that his ministry planned to petition the Ministry of Justice to prosecute Gusarov for airing reports which undermined Dagestan's constitutional system and its territorial integrity. Gusarov said nothing against Gen. Kakhrimanov, who is backed by a powerful ethnic lobby. Additionally, Gusaev wrote an article for *Nezavisimaya gazeta*, where he accused the central media of malicious intent in covering only the negative aspects of developments in Dagestan. The newspaper also published a response from NTV's General Director Igor Malashenko, who defended his company's position.

Nevertheless, some kind of solution was found, as the ministry called off its petition, while the NTV correspondent became more politically correct in his subsequent reporting. Some local newspapers have offered him the opportunity to express his true opinion, but Gusarov has declined these offers. His coverage since the incident has shifted significantly from political issues to news events.

Dagestani authorities shortly found themselves entangled in another conflict, this time with the weekly *Molodezh Dagestana*. The newspaper, published since 1921, used to be called *Komsomolets Dagestana* and was originally published by the republican Komsomol organization. Always a liberal publication for its time, the newspaper was a leadership training ground of sorts for journalists and editors of virtually all other publications. After the Komsomol disappeared and the paper was renamed in 1991, the republican youth affairs committee took the place as one of the paper's owners, and a former Komsomol boss, Gadzhi Abashilov, became its editor-in-chief. In the political struggles of the time he backed Magomed Tolboev, then a little known leader of one of the ethnic clans. When Tolboev lost his bid to head the republic and left the political arena, the newspaper's focus widened and it became a general critic of the government of Dagestan's current leader, Magomedali Magomedov. For instance, on 10 October, the well-known human rights activist Ali Aliev published in the newspaper an article about the misuse of federal subsidies, corruption in the highest echelons of the Dagestani leadership, and the dangerous and ill-conceived internal policies of the present leaders. The same issue featured an article by the head of the Confederation of the Caucasus Peoples Dengi Khzlidov, slamming the Dagestani leadership.

Gusaev fired back in the 17 October edition of *Dagestanskaya pravda*, an official newspaper, by sharply criticizing Aliev and defending Magomedov. On 23 October, Dagestan's youth affairs committee voted to leave the board of *Molodezh Dagestana*,

arguing that the paper's policies do not reflect the true actions of the republican government and hurt constructive consolidation of peaceful forces in Dagestan. This step would effectively remove most of the paper's financing. Gadzhi Abashilov immediately called a press conference and said that the committee's decision went against the freedom of speech and the federal law on the media. Additionally, the committee was in violation of the newspaper's charter, according to which any co-owner must notify the staff at least six months ahead of time if it is going to withdraw and fulfill all contractual responsibilities during the half-year period. If the committee leaves now and refuses to fund the newspaper, Abashilov said, he will sue the body for breach of contract. The Dagestani Union of Journalists has also condemned the committee's actions. While the committee has not ended its formal membership in the newspaper's board, it has stopped money transfers. Its representative on the editorial panel has resigned for personal reasons.

Consequently, the newspaper is in a dire financial predicament. Salaries of the leading reporters have dropped to 300 rubles (\$20) a month. No sponsors could be found, as nobody wants to sever ties with the republican government. Some loyal readers have been collecting donations to help the newspaper survive. Of course, it is natural for authorities to try to control the media, but it is the methods that appall most people. Instead of providing the reading public with a point of view different to that of the opposition papers, the government is pushing the latter out of the market. The authorities are not fighting for favorable public opinion, they are fighting to remove it as a factor altogether. One can only conclude that the Dagestani leadership is not interested in an open and fair public policy process.

PRIMORSKII KRAI GOVERNOR CONSOLIDATES HOLD OVER MEDIA

by Yevgenii Popravko

VLADIVOSTOK--The latest scandal in Primorskii Krai involves the control over the largest regional TV and radio broadcasting company "Vladivostok." The company was merged in May 1998 into the Russian TV and Radio Company (VGTRK) as a part of President Boris Yeltsin's effort to consolidate all state-owned regional media outfits into a giant state-run holding. In September VGTRK Chairman Mikhail Shvydkoi appointed Valerii Bakshin to head "Vladivostok." However, the company's outgoing general director, Boris Maksimenko, refused to leave his post. Several of his staff and a number of regional legislators sharply criticized the new appointment. There were even attempts to bar Bakshin from entering his new office. Chairman of the Krai Duma Sergei Dudnik, Presidential Representative to the Krai Viktor Kondratov, and State Duma Deputy Svetlana Orlova sent letters of protest to the Russian government.

Protesters fear that Bakshin's appointment jeopardizes the company's openness and integrity. Dudnik and Kondratov charge that Bakshin will be likely to serve the interests of Governor Yevgenii Nazdratenko, remove reporters whose politics he does not approve, and cancel any coverage of the work of the mayor's office in Vladivostok. The city's mayor is locked into a drawn-out political battle with the governor. In turn, Bakshin denied all of these allegations as groundless rumors and even threatened to sue the petitioners for defamation of his professional reputation. He equated the denunciations to those used during the years of the Stalinist terror. He said that he sees the main goal of "Vladivostok" as

being to comply with the uniform standards envisioned for all state-run regional media companies by the president. "State-run TV and radio companies must comply with government policies," Bakshin said.

However, his opponents charge that in Bakshin's eyes "government policies" really mean the policies of his patron, Governor Nazdratenko. Prior to his appointment, Bakshin ran the nominally independent newspaper *Vladivostok*, which has long been a puppet of the oblast administration. Should Bakshin take the helm at the regional TV and radio broadcaster, the governor will have all the important media outlets in the region in his grip. With virtually all the local media on his side, Nazdratenko will have no problem conducting an extensive media campaign before the next elections, and will be in a position to prevent any credible opposition candidate from winning public attention.

Right now Valerii Bakshin is busy reorganizing the company. Although officially fired on 5 October by an order of the Federal Television and Radio Service, Boris Maksimenko continues on the payroll. He has suffered a heart attack, and has since been recovering in a sanatorium. According to Russian law, no worker can be terminated while on sick leave. At the recent Federation Council meeting Orlova asked Prime Minister Yevgenii Primakov to intervene. Primakov denied the rumors that Bakshin was appointed with his blessing and has charged appropriate agencies to look into the situation.

NEWSPAPERS ARRIVE A DAY LATE IN KURSK. In the past Russians used one-day old newspapers for household needs. However, these days they must treasure them if they want to stay abreast of the printed news. According to the Federal Postal Service, several Moscow newspapers will be delivered to Kursk one day late. Among them are dailies *Sovetskaya Rossiya*, *Pravda*, *Izvestiya*, *Rossiiskie vesti*, *Ekonomika i zhizn*, and *Sovetskii sport*, along with virtually all weekly papers. Some villages and small towns in the oblast will not receive their issues for two or three days. The delays will cause the central press to lose its timeliness and demand among readers.

The delays are the result of the financial crisis and the subsequent debts the postal service owes to the railroads ministry. For months now, railroad cars belonging to Belgorod Oblast had brought the mail. Under the new arrangements Kursk-owned cars will bring newspapers and magazines from Moscow. The change is certain to have a deleterious effect on the country that believes its citizens read more than any other. - Sergei Sarychev in Kursk

SUCCESS STORIES

RYAZAN OIL PROCESSOR BENEFITS FROM CRISIS, TIES TO TYUMEN OIL COMPANY

By Sergei Postnov

RYAZAN--There are no large industrial enterprises in Ryazan today that do not suffer from some kind of problems, but some are doing better than they had been. This is particularly true in the case of the once profitable Ryazan Oil Processing Plant (RNPZ). Paradoxically, it is the devastating economic crisis in the country that has helped the company begin a slow climb out of recession. Sharply declining world prices for crude oil have forced Russia's oil

barons to look into processing their petroleum at home rather than merely exporting it. This was one of the few factors that have helped the RNPZ, which recently was dying for inputs, to more than double its monthly volume of processed oil.

In the beginning of 1998 the plant processed no more than 300,000 tons of oil a month, whereas now it turns out up to 800,000 tons. As the company restarts some of its previously dormant plant, output will likely reach 1 million tons of oil a month. These numbers are quite telling, when one keeps in mind that the RNPZ's processing capacity is 18 million tons a year. In 1996 it had to reduce its operations by 45 percent compared to the previous year, and in the entire year of 1996 the plant managed to process a mere 4.12 million tons. (*Rynok neftegazovogo oborydovaniya SNG*, 3-4 April 1997).

Another reason for the plant's success is the partnership it has developed recently with the Tyumen Oil Company (TNK), which both supplies the RNPZ with crude oil and helps sell the processed product. According to TNK's President Semen Kukes, his company has recently increased the number of gasoline stations it owns from 240 to 400 (for a portrait of Kukes, see *Business Central Europe*, November 1998). At the grand opening of the latest TNK gasoline station in Ryazan, the city's Mayor Pavel Mamatov said that the new enterprise benefits Ryazan in three ways. First, through the creation of well-built gas stations. Second, through new jobs and more taxes for the local budget. And third, through high quality service to motorists.

The Ryazan Oil Processing Plant is also moving ahead with creating new types of gasoline. Its latest series of fuels was deemed one of the 100 best consumer products in Russia. The plant's scientists have made considerable progress in creating an environmentally sound type of gasoline, labeled REK (Ryazan's ecological fuel). Soon the plant will be able to produce REK for the domestic market *en masse*. REK's specifications match, and at times exceed, European environmental quality standards. Additionally, oxidated additives make it a much more efficient type of car fuel.

These developments will enable the RNPZ to reenter foreign markets, decreasing its dependency on the volatile domestic ones. Kukes fears that if world oil prices continue to fall, many Russian oil companies will crash by the end of the year. However, compared to most, the TNK is in great shape, even improving its performance. Part of its secret is that the company never invested in either the government's short-term treasury bills (GKOs) or any other questionable securities. This enables TNK's president to look confidently toward the future and hope that the U.S. Exim Bank will grant the RNPZ a loan requested for restructuring needs as soon as December 1998. Should the decision be positive, the first tranche will be delivered by next spring, when the plant could begin much-needed reconstruction. (*Ekonomika i zhizn*, Nn. 44, 45, *Ryazanskie izvestiya*, 19 November)

ETHNIC CONFLICT AND REGIONAL SEPARATISM

POPULAR JOURNALIST PICKETED BY KURSK COMMUNISTS, ANTI-SEMITES. On 26 November the popular TV personality and talk-show host Vladimir Pozner gave a performance in a Kursk theater. Posner, raised in the United States by Russian parents, returned to the Soviet Union in the 1980s and rose to prominence with the ground-breaking talk-shows he conducted jointly with U.S. journalist Phil Donahue. The auditorium was packed and among local dignitaries attending were Kursk Mayor Sergei Maltsev and oblast Governor Aleksandr Rutskoi. Pozner met with the governor in person

later in the day, local TV station Takt reported. However, some were not happy about Pozner's visit, as testified by a number of Communists and vehement anti-Semites demonstrating outside the theater. They were carrying placards proclaiming that "Posner is a traitor and an agent of American imperialism" and "Posner is the enemy of the Russian people." One of the demonstrators told reporters: "Watching TV, it seems you are not in Russia, but in Israel." - Sergei Sarychev in Kursk

SOCIAL ISSUES

DYSENTERY EPIDEMIC STRIKES REGIMENT IN KHABAROVSK. Recruits from the Eastern District's training regiment of interior troops began arriving in the military hospital with symptoms of dysentery on 27 November. By 1 December, there were forty cases and military medics officially declared an epidemic. Stationed in one of Khabarovsk's suburbs, the training regiment has been in relatively good condition until now. It was the soldiers' parents who first alerted the local authorities to the problem. In a matter of days legions of worried parents arrived in Khabarovsk, some from as far as Chita.

During the first three days of the epidemic over one hundred servicemen were diagnosed with dysentery. In addition to the team of military medics, a group of high level officials from the Eastern District is investigating the incident. Preliminary data show that the epidemic was caused by the contamination of the water supply with raw sewage from a rupture in the sewage system. Nobody knows exactly how this happened, but given the poor sanitation conditions, such a problem was inevitable sooner or later. Today the regiment's servicemen are happy to have cold water, and do not remember when they last enjoyed a hot shower. At least the regiment is fully stocked with the medical supplies necessary to fight the disease. - Sergei Shilo in Khabarovsk

EXTREME COLD PLUNGES TWO SVERDLOVSK CITIES INTO EMERGENCY. Two cities in Sverdlovsk Oblast, Alapaevsk and Nizhnii Tagil, have declared states of emergency due to frigid outdoor temperatures. The region is suffering from the coldest weather it has seen in the last 160 years, with temperatures reaching 30-35 degrees below zero Celsius. Due to mounting payment arrears and subsequent debts, natural gas providers have cut down back supplies to some heating power stations. With less heat warming their apartments, many residents are suffering from extremely cold conditions.

In Alapaevsk indoor temperatures do not rise above 8 degrees Celsius. As of 27 November, 80 apartments with over 400 residents were left with no heat at all. There is no heat even in the local maternity ward, so patients have been transferred to the main hospital, which is relatively warmer. To help the struggling city, Yekaterinbug has sent Alapaevsk three large tanks of oil, containing 600 tons of fuel each. The city needs to burn 450 tons to meet minimum heating needs. So far, the oblast seems to be taking care of Alapaevsk, however, it is drawing down its own strategic reserves of fuel oil, which it cannot afford to deplete in such cold conditions.

In Nizhnii Tagil the situation is not much better: indoor temperatures average 8-10 degrees Celsius in residential and office buildings, and rarely exceed 12 degrees. Most people stay at home wearing winter clothing at all times. The mayor ordered that all offices with temperature below 15 degrees Celsius cease work. Furthermore, the city has created

special repair teams to patrol the heating infrastructure and prevent possible ruptures, which could lead to catastrophe. Authorities are negotiating with Uraltransgaz and Mezhrefiongaz about possible increase in gas supplies to the embattled cities, both of which will remain in the emergency situation until temperatures inside residential buildings can be raised. - Natalia Mints in Yekaterinburg

INTER-REGIONAL CONTACTS

ASTRAKHAN, VOLGOGRAD GOVERNORS SEEK TO ENCOURAGE INTERREGIONAL TRADE. Astrakhan and Volgograd oblasts are trying to encourage greater interregional trade, though the effort has not turned a profit yet. The cooperation began after the two governors signed a treaty promoting trade at a midnight airport meeting last summer. Since then both governors have encouraged local producers, primarily of food products, to sell in the neighboring region. According to *Delovoe Povolzhie* (November 1998, # 47), Astrakhan Governor Anatolii Guzhvin pushed Astrakhan producers to sell rice in Volgograd at prices lower than they charge at home. O. Shamina, the commercial director of Makarna, a Volgograd enterprise producing macaroni, believes that such sales so far only serve as public relations stunts. The governors believe that trade fairs displaying goods from the neighboring regions are a good way to increase inter-regional co-operation. Despite the official optimism, however, some of the merchants are more skeptical. Volgograd is now preparing for a fair to be held in Saratov. Many Volgograd enterprises have old-fashioned marketing strategies and currently lack the ambition to expand across regional borders. The governors' policy may encourage them to be more ambitious. - Ivan Kurilla in Volgograd

SAKHA (YAKUTIYA) BUILDS COOPERATION LINKS WITH BASHKORTOSTAN. Visiting Bashkortostan in late November, a delegation of lawmakers from the Republic of Sakha (Yakutiya) discussed prospects for future cooperation between the two regions. Members of Sakha's State Council (Il Tumen) were received by Bashkortostani President Murtaza Rakhimov, the newspaper *Yakutiya* reported on 1 December. Visitors thanked Bashkortostan for the humanitarian aid it provided during the summer's catastrophic floods, which devastated 135 settlements in some 20 raions. Sakha's legislators also met with their counterparts from Bashkortostan's State Council, following up on the previous meeting in September in eastern Siberia. Speakers of both parliaments made presentations. Both Mikhail Zaitsev of Bashkortostan and Vasili Filippov of Sakha noted the necessity of establishing better political institutions, especially parliamentarism, and setting clear policy goals in their regions.

The regional capital cities of Ufa and Yakutsk signed cooperation agreements, as did the cities of Sterlitamak and Neryungri, which also plan to participate in a sister-city cooperation program. Filippov, who heads the upper chamber of Yakutiya's parliament, said in a TV interview on 1 December, that President Rakhimov will visit Yakutsk at the end of the month. The presidents of the two republics will then sign a cooperation treaty. - Oleg Yemelyanov in Yakutsk

ECONOMIC ISSUES

TATARSTAN DEFAULTS ON DEBT TO ING BARINGS

by Midkhat Faroukshine, Kazan State University

KAZAN--Local newspapers topped their 27 November issues with headlines shouting that "Tatarstan is bankrupt" (*Vechernyaya Kazan*) and "Tatarstan announces default" (*Vremia i dengi*). One day earlier, the Republic of Tatarstan became the first Russian region to default on its foreign financial obligations. On 27 April 1998 the Dutch bank ING Barings granted Tatarstan a short-term (179 days) credit for \$100 million with annual interest rate set at LIBOR plus 9 percent. The debt was due on 25 November, but the republican government has failed to make the payments. As a result of this default, Standard & Poor's credit rating agency has stripped Tatarstan of its international rating for long-term hard-currency credits.

According to newspaper *Vremiya i dengi*, Tatarstan had been planning to finance its short-term debts with money from a \$200-300 million Eurobond issue scheduled for spring-summer of 1998. However, in the middle of the summer Tatarstan decided to postpone the issue indefinitely, allegedly due to the turbulence on the global financial markets and low oil prices. Tatarstan derives much of its hard-currency revenues from oil exports. It became clear by the Fall that Tatarstan, which had already defaulted on its internal debt (RKO), would not be able to meet its obligations to foreign lenders as well. So, to avoid an international scandal, the republic began negotiating a debt restructuring plan with ING Barings.

The official position of the republican government is truly mesmerizing. As officials from the Finance Ministry have put it, Tatarstan is not defaulting, it is simply out of money. Journalists attacked President Mintimer Shaimiev with questions about the default in the airport, immediately upon his arrival from an official trip to India. He also surprised everybody with his logic: according to Shaimiev, first a solution for the default should be found on the federal level, and then Tatarstan's own financial insolvency can be tackled (*Respublika Tatarstan*, 28 November). Shaimiev also said that the financial crisis and the subsequent rising exchange rate for the U.S. dollar has tripled the ruble value of Tatarstan's debt. Tatarstan simply cannot agree to pay that much money, the president said.

One obvious question remains, even though nobody seems to be interested in finding the answer: where has the money obtained through the credit been spent?

SVERDLOVSK GOVERNOR BACKS FOREIGN BANK OPERATIONS IN RUSSIA. Governor Eduard Rossel held a news conference to describe his meeting in Moscow with Central Bank chief Viktor Gerashchenko last week. According to Rossel, the Russian shadow economy today is worth \$70 billion (not counting drugs, arms trade, etc.). The state could benefit from this money if it was properly circulating in the legal economy. However, the governor acknowledged that the main obstacle today is the lack of confidence on the part of the public in the Russian banks. So, Rossel suggested that Gerashchenko allow foreign banks to open Russian branches and license them for retail banking operations, since the people will undoubtedly trust Western financial institutions. Of course, the government should not probe depositors about the origin of their savings, but simply charge a 10 percent tax, Rossel suggested. Income from such a tax would enrich the budget by \$7 billion, so Russia would not need to look for a \$3 billion credit abroad.

Rossel has another idea: to give more money to enterprises, but not allow them to use it for salary payments. The enterprises would only be allowed to spend their profits after the sale of their products.

The governor believes that Gerashchenko welcomed his ideas. Rossell thinks that the only way to impose order is for the state to run all the country's financial flows. He first aired these ideas during his meeting with President Boris Yeltsin in early October, when he also controversially proposed banning the circulation of dollars within Russia and creating a gold-backed ruble. The governor decided to stay away from such inflammatory statements this time around. - Sergei Pushkarev in Yekaterinburg

PROCURATOR ENDS CONSTRUCTION SITE DISPUTE IN NIZHNI. The Nizhnii Novgorod procurator, Vladimir Shevelev, last week ruled in favor of building a new hotel where the hotel Moskva once stood. The conflict concerned plans to build a hotel complex on a site that turned out to contain an ancient burial ground (for background stories see *EWI Russian Regional Report*, 12 November). The oblast administration, which has been trying to thwart construction for several months, has now lost the last battle. Shevelev found the argument that a hotel cannot be built on ancestral bones unsound, and thus refused to order that investors stop the project or move it to a different site. He said that the law does not extend protection to the ancient burial ground in question because it is not a designated historical site. Therefore, there are no legal grounds to bar contractors from building on that territory.

The ruling seemingly puts an end to the debate which has entangled the oblast, the city, and investors from the US/Russian Spring Investments (*Vesennie investitsii*) company. Nizhnii Mayor Yurii Lebedev, along with the oblast civic chamber and its legislature have backed the project. The oblast administration was left alone opposing the construction. Its last resort at this point is to appeal the procurator's ruling in court, a dubious prospect since courts are generally reluctant to overturn the procurator's opinions. - Yurii Rodygin in Nizhnii Novgorod

STAVROPOL LEGISLATORS REJECT SALES TAX INITIATIVE. At the 26 November emergency session of the Stavropol Krai Duma, deputies discussed a draft law on a regional sales tax. The Kirienko government gave each region the right to introduce a sales tax up to 5 percent, but left the adoption of the specific legislation up to each region. The draft proposes a 5 percent tax on a number of expensive goods. There is a separate list of protected goods, which will not be taxed, due to their "social importance." This list includes meat, eggs, and fish. As one deputy put it, the draft law proposes not a sales tax, but a tax on purchasing. Many argued that it will inevitably lead to higher prices for all sorts of goods, including the basic ones. These opponents also claimed that the new tax will cause people to buy at least 5 percent fewer goods, but the government budget will not get the money they will not be spending. In the end, the Duma rejected the draft, but created a commission composed of the heads of all of its committees to study the problem and report back to the body by the next session. - Irina Morozova in Pyatigorsk

FOREIGN TIES

GERMAN FIRM ADAPTS TO BARTER CONDITIONS IN KOMI MARKET.

The financial crisis that has engulfed Russia is forcing Western firms to adapt to the new market conditions. Consider the case of Germany's Alkatel, which has been actively helping the Komi Republic increase the number of telephones in use in the region. The republic today has 50,000 people waiting in line for a telephone in their apartment, with 14,000 of them living in the capital city of Syktyvkar. The local telecommunications company Svyaz contracted with Alkatel to produce a complex of digital stations with a 29,000-number capacity. The contract, worth DM 7.5 million, was jeopardized, however, by the financial crisis, as the Russian partner is no longer able to pay its bills. Svyaz itself is owed 145 million rubles from its institutional customers. At the same time, the Germans have already produced the stations, customized for Komi specifications, so they cannot sell them to any other client.

Alkatel and Svyaz have had a strong and reliable partnership for over five years now, so both firms decided to find a constructive solution to the problem. A German delegation visited Komi and met with Anatolii Karakchiev, the First Deputy of Komi's Chief Executive Yurii Spiridonov, in order to obtain the backing of the republican government. After the meeting, Alkatel's representative Gunther Haas announced to reporters that the two sides have found a solution that goes beyond normal German business practices. Companies that owe Svyaz for telephone services will be asked to pay not in cash but in their own products--timber, coal and paper. The German firm will help Svyaz sell these commodities abroad and will retain the cash proceeds as payment for the digital stations. In some cases there have already been concrete negotiations with particular debtors to Svyaz. (*Molodezh severa*, 19 November)

This example shows that even Western firms have begun relying on barter as a preferred form of payment in the cash-strapped Russian market. Barter today accounts for the lion's share of all transactions among Russian domestic companies and various government bodies. Perhaps other Western firms will follow Alkatel's example, however this method cannot work successfully everywhere: some regions lack the resource base for competitive exports. - Yurii Shabaev in Syktyvkar

CHELYABINSK OBLAST'S FOREIGN TRADE VOLUME DROPS. The volume of foreign trade for Chelyabinsk in January-September 1998 dropped by 8 percent compared to the same period last year, according to the Chelyabinsk Oblast statistical committee. Trade for the first three quarters of this year was \$1.86 billion. In the first seven months of 1998 the volume of foreign trade rose by 6 percent, but in the first eight months it dropped by 1.2 percent. Exports amounted to \$1.356 billion, or a 7 percent drop compared to last year, while imports were at \$508 million, or 11 percent below last year's figure. The oblast's balance of trade remained positive, at \$848.6 million. Similarly, in January-September 1997, the balance of trade was also positive, at \$884.9 million.

The statistical committee also made public the details of the oblast's trade activities. Trade with countries outside the Commonwealth of Independent States (CIS) was valued at \$1.2 billion, or 1.3 percent less than in the same period last year. The oblast exported \$1.08 billion worth of goods to these countries, or a 2 percent drop from last year. It imported \$128.9 million worth of goods, which is 0.7 percent more than last year. The balance of trade with these countries remained positive at \$949.2 million, slightly less than the \$967.3 million it was in January-September 1997.

Chelyabinsk Oblast mostly exported ferrous metal (78 percent of all exports, not counting scrap metal, ferrous alloys and cast iron). The share of machinery and equipment amounted to mere 0.9 percent of the total exports. Last year's figures were 76 percent and 1.2 percent respectively. Imports were dominated by machinery and equipment, which account for 43 percent of the total volume, compared to 50 percent last year. As a matter of fact, most of the basic products in the oblast are imported from countries outside the CIS: 98 percent of medicaments, 96 percent of personal cars, 92 percent of furniture. Last year's respective figures were 99, 96 and 84 percent.

CIS countries were also strongly represented in the ranks of the region's trade partners: the volume of trade with them amounted to \$513.4 million, or 0.8 percent less than last year. Chelyabinsk Oblast exported \$151.1 million, or 15 percent less than last year. It imported 7 percent more than last year, or \$356.3 million worth of goods. The net balance of trade with CIS countries was negative at \$199.2 million. In January-September 1997 the balance of trade was also negative, but then imports overtook exports by only \$149.9 million. CIS countries benefited from Chelyabinsk's machinery and equipment (19 percent) and ferrous metals (21 percent). In contrast, machinery and equipment accounted for only 5 percent of imports from CIS countries. Some products were almost exclusively imported from the CIS, for example, alcoholic and non-alcoholic beverages (74 percent), coal (99.6 percent) and frozen meat (83 percent). Last year the figures for the same products were 95, 95 and 92 percent, respectively. - Igor Stepanov in Chelyabinsk

REGIONAL PROFILE: CHELYABINSK OBLAST

Governor: Petr Sumin

Petr Sumin was elected Chelyabinsk Governor on 22 December 1996. He received over 50 percent of the vote, leaving nine competitors, including the incumbent Vadim Solovev, far behind. Sumin has actually won the governor's office twice -- in April 1993 he defeated Solovev in a popular vote, but did not take the office because the Constitutional Court declared the election illegal.

During the Soviet era, Sumin, now 52, was a Komsomol and party functionary. He served in such positions as chairman of the Chelyabinsk City executive committee, first deputy chairman of the oblast executive committee, and second secretary of the oblast Communist Party organization. In 1990, he was elected member of the Russian Federation parliament and oblast Soviet of People's Deputies. He served as chairman of the oblast Soviet until it was disbanded in the fall of 1993.

In the end of that year, Sumin founded and became the leader of the "For the Resurrection of the Urals" political movement. In April 1995, he joined Aleksandr Lebed's Congress of Russian Communities (KRO) as a member of its National Council. In December of the same year, he won a State Duma seat in the oblast's single-member district on the KRO ticket. In the parliament, Sumin joined Nikolai Ryzhkov's People's Power faction since his party had not cleared the 5-percent barrier and the number of party members elected individually was not sufficient to form a parliamentary group. He also served on the budget committee.

Although Sumin is not officially a member of the Communist Party of the Russian Federation, his political platform is often described as moderately Communist. One signal

that he had returned to the Communist fold was that during the 1996 presidential campaign, Sumin was one of the KPRF Chairman Gennadii Zyuganov's aides, although Lebed was also participating in the race.

Other Local Leaders

Chairman of the Oblast Duma -- Viktor Davydov, member of the regional branch of the Union of Industrialists and Entrepreneurs, reelected for the second term in December 1996.

Presidential representative -- Nikolai Studenkov, former deputy administration head of the region (until December 1996) in charge of foreign trade, law-enforcement bodies, and anti-corruption agencies, appointed in July 1997.

Brief Overview

Chelyabinsk Oblast is situated in the southern Urals bordering Kazakhstan, Bashkortostan, Sverdlovsk, Kurgan, and Orenburg. The city of Chelyabinsk, today's oblast's administrative center, was founded as a fortress in 1736.

The region is rich in mineral resources such as coal, iron and copper ores, graphite, and clays. The oblast also possesses a highly developed industry, mainly ferrous and non-ferrous metallurgy, ore mining, mechanical engineering, and machine building. It ranks fifth nationally in terms of industrial production.

Major industrial centers are Magnitogorsk, with iron and steel plants, and Chelyabinsk, on the Miass River. The oblast also houses large nuclear industry centers in the cities of Snezhinsk and Ozersk and important manufacturers of space equipment and rockets. Until 1992, the region was closed to foreigners since nuclear weapons were produced at its militarized industrial cities. The area suffers greatly from radioactive contamination caused by nuclear waste and nuclear accidents in 1949, 1957, and 1967. Today, it has one of the highest pollution rates in the country (282.3 kg of waste per capita), according to *Ekspert* magazine.

The oblast's financial situation has been rather stable. For instance, last year it generated one of the highest proportions of own budget revenues -- 93.3%. The regional administration had planned to issue Eurobonds worth \$300 million. However, due to the overall financial crisis, these plans were dropped earlier this fall. The region has also experienced a significant flow of foreign and domestic investment. In 1997, it received 0.38% of the country's total direct foreign investment -- \$14.7 million -- and 2.56% (8,850.7 old rubles) of capital investment. Such foreign companies as the American Agco and ICN Pharmaceuticals, Inc. and German Bosch and Siemens are active in the regional economy.

Basic Facts

Population (as of Jan. 1, 1997): 3,678,100 (2.50% of Russian total)

Urban population (1989 census): 81.3% (Russia overall: 73.0%)

Student population (1996): 164 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 25.83% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 9.0% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 38.2% (Russian average: 29.9%); Agriculture: 10.0% (12.8%); Trade: 8.4% (9.1%); Culture: 12.2% (13.6%); Management: 1.9% (2.3%)

Average monthly personal income in July 1998: 694.9 new rubles (Russian average: 891.7 new rubles)

Average monthly personal expenses in July 1998: 487.6 new rubles (Russian average: 684.9 new rubles)

Average monthly subsistence requirement in 1996: 363 new rubles (Russian average: 438 new rubles)

Consumer price index (as of July 1998): 96 (Russia overall = 100)

Industrial production as percentage of all Russian production (Jan.-Aug. 1998): 2.89%

Proportion of loss-making enterprises (as of July, 1998): 45.6% (Russia overall: 50.4%)

Number of enterprises which have wage arrears (as of Sept. 1, 1998): 1,499 (1.11% of Russian total)

Agricultural production as percentage of all Russian production (1996): 1.97%

Number of private farms (as of Jan. 1, 1997): 6,294 (2.26% of Russian total)

Capital investment (1996): 7,401.5 billion rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): federal budget: 5.4% (Russian average: 9.2%); regional budget: 21.4% (9.6%); enterprises: 66.4% (66.3%)

Number of joint ventures (as of Jan. 1, 1997): 247 (1.54% of Russian total)

Fixed capital investment in joint ventures and foreign companies (1995): 44,152 million rubles

Number of small businesses (as of July 1, 1998): 17,700 (2.04% of Russian total)

Number of enterprises privatized in 1996: 48 (0.96% of Russian total), including those which used to be municipal property: 91.7% (Russian average: 67.1%); regional property: 0% (14.3%); federal property: 8.3% (18.6%)

Number of telephones per 100 families (1996): in cities: 40.2 (Russian average: 48.7); in villages: 17.8 (19.7)

According to a 1998 survey by *Ekspert* magazine, the oblast is ranked 15th among Russia's 89 regions in terms of investment potential and 60th in terms of investment risks. A 1998 survey by Bank Austria ranked the oblast 10th in terms of investment climate.

Electoral History

1996 Gubernatorial Election

Sumin: 50.79%

Solovev (incumbent): 15.99%

Grigoriadi (State Duma deputy): 8.58%

Golovlev (State Duma deputy): 6.49%

Kichedzhi: 3.64%

Kostromin (National-State Party): 3.52%

Belishko: 1.42%

Ubozhko (Conservative Party): 0.84%
Vlasov: 0.45%
Yalovenko (LDPR): 0.42%
Turnout: 53.48%

1996 Presidential Election

Yeltsin: 36.60%/58.52% (first round/second round)
Zyuganov: 24.73%/34.96%
Lebed: 19.82%
Yavlinskii: 8.77%
Zhirinovskiy: 5.23%
Turnout: 70.29%/69.31% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Communist Party of the Russian Federation: 14.70%
Liberal Democratic Party of Russia: 10.06%
Yabloko: 9.89%
Our Home Is Russia: 7.94%
Congress of Russian Communities: 7.33%
Russia's Democratic Choice: 6.72%
Communists -- Workers' Russia: 5.79%
Women of Russia: 5.75%
Party of Workers' Self-Government: 4.80%
In single-member districts: 2 Russia's Democratic Choice, 3 Congress of Russian Communities
Turnout: 62.80% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 75.02% "No" -- 24.98%

1993 Parliamentary Elections

Russia's Choice: 23.58%
Liberal Democratic Party of Russia: 20.38%
Yabloko: 11.34%
Women of Russia: 8.52%
Communist Party of the Russian Federation: 7.49%
Party of Russian Unity and Concord: 6.77%
Democratic Party of Russia: 4.69%
Agrarian Party of Russia: 4.06%
In single-mandate districts: 3 Russia's Choice, 2 independent
Turnout: 51.43% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 77.20%
Ryzhkov: 8.14%
Zhirinovskiy: 5.77%

Makashov: 2.75%
Tuleev: 2.02%
Bakatin: 1.74%
Turnout: 80.31% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; T. Matiyasevich, N. Mogel, S.A. Nagaev, M. Rossmann, L.I. Smirnych, and A. Woergoetter, *Russia: Regional Risk Rating*, Vienna: Bank Austria, 1998; *Ekspert*, 19 October 1998; *Roadmap to Russian Regions*, Salomon Brothers, 1997; *Goskomstat, Regiony Rossii* [Regions of Russia], Moscow, 1997; *Central Electoral Commission, Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii* [Elections of the top executives of the federation subjects of the Russian Federation], 1995-1997, Moscow: Ves mir, 1997; *Goskomstat, Sotsialno-ekonomicheskoe polozhenie Rossii: ianvar-avgust 1998 goda* [Socio-economic situation in Russia: January-August 1998], Moscow 1998.

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BREAKING NEWS

POLITICS

PRESIDENT REPLACES CHIEF OF STAFF. President Boris Yeltsin named Nikolai Bordyuzha as his chief of staff, replacing Valentin Yumashev on 7 December (http://www.maindir.gov.ru/Administration/Press_Release/Dec/svwi3582.html). The move is clearly an attempt to strengthen the role of the administration. Bordyuzha has served in the KGB, border guard service, and most recently was secretary of the Security Council. One of the main jobs of the administration is dealing with the regions. So far, Yeltsin has not replaced First Deputy Chief of Staff Oleg Sysuev, who handles this area of responsibility, even though he is seen as a weak coordinator. *Izvestiya* (8 December) speculated that the move could mean that the administration is planning to crack down on the governors who have been demanding greater support from Moscow while claiming that they don't need to send tax revenues to the center. However, signaling a serious change in the tenor of center-periphery relations would require the replacement of Sysuev. Among the other personnel changes, Yeltsin removed Yurii Yarov as his main scheduler and named him as his representative to the Federation Council (*Kommersant Daily*, 8 December).

PARTY OF POWER CANDIDATE WINS KEMEROVO ELECTION. Acting Anzhero-Sudzhensk Mayor Viktor Ivshin won that city's mayoral elections on 6 December, defeating a candidate from Vladimir Zhirinovskiy's Liberal Democratic Party of Russia by a 2-1 margin in the runoff. Turnout was 60 percent, unusually high for such a race. The city is the so-called capital of the "rails war" in which miners blocked train traffic during the summer demanding the payment of their salaries. The LDPR candidate, Sergei Zamotaev, had come within 500 votes of winning the race outright in the first round. The fact that a Communist candidate failed to enter the runoff is an important political event since the region is in the heart of Russia's protest movement, an electorate the Communists hope to harness in the coming parliamentary and presidential elections.

Kemerovo Governor Aman Tuleev had strongly backed Ivshin, so allowing the victory of the LDPR would have been a significant blow to his power in the region. According to *Izvestiya* (8 December) Tuleev's "hypnotic effect" on Kemerovo is slowly waning and the press is becoming more critical of his budget and personnel policies. Former Governor Mikhail Kislyuk, a long-time Tuleev rival, is reportedly preparing an alternative set of policies and organizing a new political organization (Salvation of the Kuzbass - *Spasenie Kuzbassa*).

FORMER VOLOGDA GOVERNOR AMNESTIED. A court sentenced former Vologda Governor Nikolai Podgornov to one year in jail for using state money to buy parts for his Mitsubishi Pajero and he was immediately amnestied on 2 December. Nineteen of the other twenty charges against him were dropped. When Podgornov was arrested in 1996, the charges against him included taking bribes and abusing power. The prosecutor could not make his case that the governor had given a firm special tax breaks in exchange for building a house. (*Kommersant Daily*, 3 December)

NAZDRATENKO NOW A FRIEND OF THE GOVERNMENT. Until recently, Primorskiy Krai Governor Yevgenii Nazdratenko was considered one of the federal government's worst enemies and Yeltsin even tried to remove him from office in the summer of 1997. However, he is now one of Prime Minister Yevgenii Primakov's staunchest defenders, describing him as Russia's last defense against chaos. Nazdratenko blames many of the country's current problems on the governors, arguing that the Federation Council could not become "a fist" to block the implementation of the earlier government's destructive reform policies. Now Nazdratenko believes that the government should regulate prices and print limited amounts of money. He also supports Primakov's idea of lowering the value added tax rate and transferring the tax burden to the consumer. Nazdratenko supports developing regional banks, which he believes the crisis revealed to be cleaner than the large Moscow banks. (*Nezavisimaya gazeta*, 4 December)

ECONOMICS

MOSCOW OBLAST RESIDENTS BLOCK TRAIN TRACKS. About 400 residents of the Moscow Oblast city of Shcherbinsk blocked local railroad tracks because their apartments lacked heat and electricity for the last three days. About 1,000 people were affected. Special police troops were able to remove the protesters from the tracks after two hours. The light and heat were shut off because of defects at a transformer station. The local police are planning to take action against the strike organizers. The strike action did not move the authorities to restore utility services to the apartments. (*Segodnya*, 7 December)

SWISS FIRMS LOAN KEMEROVO \$20 MILLION. Last week the Swiss firm Transrail Holding AG agreed to loan Kemerovo Oblast \$20 million for regional development programs. Although Transrail is registered in Switzerland, it is closely associated with the Russian Railroads Ministry, and some believe that the ministry is one of the company's founders. The loan was made at a relatively low 10 percent annual interest rate. Kemerovo Governor Aman Tuleev says

that he himself and shares in Kuzbassrazrezygol guarantee the credit. The deal requires the establishment of a transportation company that would work with the West Siberian railways to improve freight transportation in the region. (*Vremya MN*, 1 December)

BUSINESS BRIEFS

-- The French **DANONE** is planning to build a \$100 million dairy products factory with a 150,000 ton annual capacity in the **MOSCOW OBLAST** city of Chekhov, local officials announced. The firm will invest the first \$2 million in the project by the end of the year and production will begin in the first quarter of 2000. Danone owns a plant in Samara Oblast and has a controlling stake in the Bolshevik confectionery factory (*Segodnya*, 7 December). The Dutch Campina and Germany's Ehrmann, Danone's main competitors, are also now constructing facilities in Moscow Oblast (see *EWI Russian Regional Report*, 3 December).

-- The partners in the **SAKHALIN-1** project (**JAPAN PETROLEUM CORPORATION, ITOCHU, MARUBENI, and EXXON**) are negotiating with the **TOKYO ELECTRIC POWER CORP.** and the **TOKYO GAS CORP.** to build a natural gas pipeline from the Sakhalin shelf to the Japanese city of Niigata. The two sides are negotiating the financing of the project which will cost several billion dollars. Japan is interested in the gas to diversify its energy sources away from the Middle East. (*Finansovye izvestiya*, 2 December)

REPORT FROM THE FEDERATION COUNCIL

FEDERATION COUNCIL DISCUSSES GOVERNMENT'S ANTI-CRISIS PLAN

by Yelena Kuznetsova

Federation Council Spokeswoman for St. Petersburg Governor Vladimir Yakovlev

MOSCOW (Federation Council)--At their 2 December meeting, members of the Federation Council discussed the government's anti-crisis program. The regional executive and legislative leaders who comprise the body heard reports from Prime Minister Yevgenii Primakov and his cabinet members, as well as from Central Bank chief Viktor Gerashchenko. The high-level visit demonstrates that the government needs the endorsement of the Russian regions in its efforts to lead Russia out of the current crisis. Indeed, many have criticized the prime minister for his slow response to the crisis and his failure to take concrete actions. Now Primakov has an action program to show the parliament, and the State Duma has already considered and endorsed the document, albeit with amendments. The government plans to incorporate suggestions from both chambers into one comprehensive anti-crisis plan.

The program proposes a four-pronged approach for dealing with the crisis. First, it vows to pay off the mounting wage and pension arrears, as well as create a special reserve of foodstuffs and medicines. Second, it envisages creating a sustainable economy through monetary stabilization, normalization of the ruble's exchange rate, and restructuring of the banking sector and the government's sovereign debt. Third, the plan seeks to restore domestic

industry by improving the tax system, attracting direct foreign investments, and more effectively managing state-owned property. Fourth, the government would like to strengthen state institutions and preserve a unified system of power in the country, for which it plans to streamline revenue sources and expenditures in the federal and the regional budgets, as well as make regional laws comply with federal legislation.

Overall, members of the Federation Council approved the plan. St. Petersburg Governor Vladimir Yakovlev especially praised the government for incorporating suggestions from the regions into the federal action plan. At the same time, some senators, like Altai Krai Governor Aleksandr Surikov, criticized the plan as being too vague and largely declaratory. Additionally, it is still unclear how the government plans to finance the envisioned measures, such as paying wage arrears and restructuring the banking system and the government debt. The Council proposed including in the plan a timetable explaining when the federal government would pay wage, pension and social service arrears. The original draft did not mention any payment plan at all. Perm Oblast Governor Gennadii Igumnov even proposed that the government adopt such a timetable and publicly update it every week.

Many members of the Council spoke of the need to reform inter-budgetary relations between the Center and the regions. Today Moscow receives the vast majority of all taxes and credits, and then redistributes the revenues to the regions in the form of federal subsidies. When the federal government fails to raise enough money to cover budgeted expenditures, it decides which expenses to forego without consulting the regions. Regions feel they can better prioritize how the money is spent because they know their own needs better than Moscow bureaucrats. Governor Yakovlev called on the government to leave in the regions of origin that part of the revenue which today goes to Moscow, but then returns in the form of civil servants' salaries. Tver Oblast Governor Vladimir Platov recommended that the government set aside 50 percent of the IMF credits that it receives for the regions to investment in the real economy.

The senators also endorsed the government's plan to revitalize the industrial sector and create favorable conditions for foreign investments. The main beneficiaries of this effort would be large industrial enterprises, which provide most tax revenues for many regional budgets. One of the most important ways to encourage industrial growth the governors believe is to lower the rates charged for electric power and transportation. Chairman of the Republic of Adygea legislature Yevgenii Salov asked the cabinet to freeze for the whole of next year electricity rates for domestic manufacturers, on the condition that they maintain their output.

Other Council members, like Altai Krai Governor Surikov, made some purely declaratory pronouncements. In particular, he called for the state to help only those private sector banks that finance production in the real economy. The "predatory" private banks, as he called them, should not benefit from the government's restructuring program. However, he did not explain how to determine which banks are "predatory" and which are useful. Finally, the Council called on local government bodies to coordinate their own anti-crisis measures with the federal authorities. They also proposed a periodic monitoring of local legislation by the Center.

PATTERNS OF REGIONAL DEVELOPMENT

RIGHT WING PARTIES WIN FIRST ROUND OF ST. PETERSBURG ELECTIONS

by Roman Zotov

ST. PETERSBURG--The first round of elections for the St. Petersburg Legislative Assembly on 6 December was marked by the relatively strong voter turnout of more than 40 percent. Six of the 50 races have been decided, all secured by incumbents. Legislative Assembly speaker Sergei Mironov and deputy speaker Viktor Novoselov were both reelected. Overall, representatives from right wing parties had the greatest success. Party leaders attribute their victory to their anti-crime campaign that began after the recent murder of State Duma member Galina Starovoitova. Of the six winners in the first round, one was a member of Yabloko (Mikhail Amosov, the chairman of the party's political council).

The majority of candidates who moved into the second round are from Yabloko and Yurii Boldyrev's Bloc. Third place went to the left-wing bloc, Leningrad's Communists. Not one candidate from Galina Starovoitova's Northern Capital movement, the ultra-nationalist Liberal Democratic Party of Russia (LDPR), the Congress of Russian Communities (KRO), or Aleksandr Lebed's Honor and Motherland movement made it into the second round. From St. Petersburg Industry, an association of enterprise directors, only one candidate, Yelena Drapeko, made it to the second round. Our Home is Russia (NDR), Sergei Baburin's Russian All People's Union, and the public movement Regional Union each have one candidate in the runoff.

Independent candidates, who expected to take the majority of seats (they constituted more than 400 of the 550 candidates), experienced the greatest setback, as voters showed that they had more trust in political "brands" than concrete individuals (see the pre-election overview in *EWI Russian Regional Report*, 3 December). Incumbents have shown that their chances for reelection are high: six have already secured seats and 23 are in a good position to win in the runoff. Likewise, women candidates are faring well, with eight moving into the second round. Because of the anti-crime campaign, entrepreneurs, who constituted more than 20 percent of all candidates, did not do well since competitors are groundlessly accusing them all of having ties to organized crime. As a result, the overwhelming majority of candidates in the second round have no business ties.

However, the balance of power could change considerably after the second round, scheduled for 20 December. In many districts, Yabloko candidates are paired against members of Yurii Boldyrev's Bloc, and in one case, against a candidate from the Accord association of democrats. Thus the number of democrats entering the legislature could be smaller than it currently seems. Furthermore, it is unlikely that voter turnout for the second round will be as high as it was in the first, increasing the chances for Leningrad's Communists.

AFTER STAROVOITOVA MURDER, COMPETING FUNDING SOURCES PREVENT DEMOCRATS FROM UNITING

by Yurii Rodygin

NIZHNII NOVGOROD--The murder of State Duma Deputy Galina Starovoitova makes clear the nature of the so-called "democrats" in modern Russian politics. In their speculations about the possible forces behind the gruesome murder, the media have accused the Communists, the extremist General Albert Makashov, or some mysterious criminally-connected contenders against Starovoitova in the St. Petersburg Legislative Assembly elections. However, murdering an opposing candidate is not typical for Russian political life: there are plenty of other more effective methods of neutralizing an opponent. Contract killings are virtually always motivated by money.

It seems that Starovoitova learned by accident something she was not supposed to know. This would be a very logical reason for somebody to physically eliminate her. At the same time, there is no evidence that she was engaged in a search for compromising information--she was too idealistic and uncompromising for that, it simply was not her style. So, whatever incriminating information she had learned, it was probably by accident. Given her principled nature, those who stood to lose from her knowledge of this information knew that it was useless to try to bribe or intimidate her, so physical removal was the only option left. However, if Starovoitova had indeed learned something incriminating by accident, this narrows the circle of potential suspects considerably, pointing mostly to her immediate friends and partners. There is a very good chance that she overheard a phrase or saw a document that became her death sentence. Quite possibly this phrase or this document had something to do with the upcoming elections and their financing. In either case, the Communists have nothing to do with this murder, whereas "democrats" are likely to be involved.

Russian democracy today is characterized by an absence of a real party system. Outside the Communist Party, all other forces on the political arena are so-called "movements," led by charismatic leaders and their close associates. All these movements are financed from undisclosed sponsors, and the leaders are accountable before them, not before party members. This system also provides for top-down financing of the movement's operations, as funding for local organizations comes from Moscow, not from the local membership dues. Sponsors are almost always private individuals, and only the movement's top leadership deals with them directly. This scheme is true of all "democrats," be they Yegor Gaidar, Anatolii Chubais, or Grigorii Yavlinskii. Lack of transparency provides no guarantees that the movements are financed by clean money. Of course, leaders of these movements are honest people, by and large, and once in power they make decisions based on their political convictions. However, policy making is definitely affected by the sponsors.

Consider Moscow Mayor Yurii Luzhkov, who despite his tremendous success in managing the nation's capital cannot rid it of corrosive and pervasive corruption. Luzhkov lacks a party of masses, whose membership dues would support his political ambitions. This means that should he succeed to the Kremlin, Russia would have another Yeltsin. Recall that at first Yeltsin also was an idealistic democrat, but the need to rely on the money of sponsors irreparably damaged him. His 1996 reelection campaign was openly financed by dirty money, as exemplified by the shady episode with hundreds of thousands of dollars in cash intercepted on the way out of the White House.

Therein lies the basic reason why Russia's democrats cannot unite: they all have different and competing sponsors. All the original perestroika-era democrats have long vanished from the political scene, most likely because they could not bear playing by the rules of the game where money is the main trump card. Some, like former St. Petersburg Mayor Anatolii Sobchak, have fallen victim to the warring criminal moneyed interests, as some competing criminal gang triumphed over his own sponsors.

At the same time, most "democrats" today prefer this arrangement. They like to repeat that a "movement" is more democratic than a political party. However, this argument is flawed. In today's "movements" the leader makes all the policy decisions, including fundraising, which means he or she is not accountable to the rank and file. This leads to a lack of democratic transparency and complete alienation of the voting public from the political movements. Voters have no real stake in any movement, however attractive its proclaimed political ideals might be. In contrast, the Communists have a real party with a bottom-up structure, regular congresses and collegial decision making. Whatever Zyuganov's personal qualities, in the end of the day he is still personally responsible to the party members, and his policies are dictated by his fellow Communists. If he deviates from the party line, he will be replaced.

In this sense, the Starovoitova murder, far from implicating the Communists, actually plays into their hands. Implicitly, it points to the circles of "democrats" as potential perpetrators, suggesting the inherent superiority of the Communists' party organization. Several people have told me that they do not want to back any of the democratic "movements" anymore. If Luzhkov and Yavlinskii fail to organize a normal political party by the next presidential election, they plan to vote for Zyuganov instead, even though they abhor his policies.

COMMUNISTS HOPE TO WIN VOLGOGRAD ELECTIONS. Volgograd residents will elect one-third of their regional Duma deputies (16 seats) on 16 December. The campaign is neither as violent as in St. Petersburg nor as scandalous as the Volgograd gubernatorial elections of 1996. However, the recent Communist victory in the Krasnodar regional legislative elections suggest that the leftists will win in Volgograd as well, gaining total control over the regional legislature (On Krasnodar, see *EWI Russian Regional Report*, 3 December). The governor is also a Communist.

The consequences of the current economic crisis are clearly visible in local stores as food prices are skyrocketing. Butter, sausage, and cheese are now 2 to 3 times as expensive as they were in August. At the same time, salaries remain unchanged. Even the relatively well-off have begun to complain since some of the goods they had become accustomed to buying are no longer available. Since there are not enough customers to purchase those goods at the new prices, traders no longer bring them to Volgograd.

The main question for the election is: to what extent will the economic difficulties affect voting behavior? Will protest voters support the Communists, who have controlled the regional executive for two years, or will they back independent or even radical candidates? - Ivan Kurilla in Volgograd

SVERDLOVSK LEGISLATORS CONSIDER 1999 BUDGET. At their last extraordinary meeting, members of the Sverdlovsk Oblast Duma considered the draft budget

for 1999, but not until a clash with the oblast government over expenditures in this fiscal year. According to a sensational announcement by Nikolay Voronin, who chairs the Duma's social policy committee, the oblast government unilaterally, and in total secrecy, decided to cut certain expenditures from the 1998 oblast budget. Without consulting the Duma, as the law requires, Voronin claimed, the oblast government has cut down on education expenditures by 25 percent and almost halved healthcare expenditures. The Duma members were so outraged that they even refused to consider the 1999 budget until the government offered an acceptable explanation. Chairman of the Oblast Government Aleksei Vorobyev told the deputies that no changes to the budget have been made, but that the government has to reconsider minimum expenditures every quarter of the fiscal year. The Duma probably did not find his statements acceptable, but eventually moved on to discussing the 1999 budget.

Vorobyev personally presented the draft budget to the deputies. According to the draft, the consolidated budget predicts 14.692 billion rubles in revenues and 15.784 billion rubles in expenditures. The oblast budget alone is projected to raise 6.321 billion rubles and spend 7.439 billion rubles. Obviously, the oblast is planning to incur a 14 percent budget deficit, which is a lot, but considerably less than the 50 percent deficit that the administration thought it would have just a few weeks ago. Spending on state administration services will amount to 516.6 million rubles of the consolidated budget, and of that number 470.9 million will pay for law enforcement activities. The energy sector, construction and industry will receive 372.7 billion rubles, while agriculture and the housing sector--821.6 million rubles and 3.459 billion rubles, respectively. Education expenses will amount to 3.869 billion rubles, healthcare--2.846 billion rubles, social policy--1.26 billion rubles, and servicing government debt--700.12 million rubles.

All these figures will hold true if the government manages to spend within the budget limits, which is far from certain. The oblast fiscal situation is complicated by the fact that the federal budget for next year has not been adopted yet, and the same is true for the federal anti-crisis program. Additionally, the Russian government plans to make some changes to the tax system, specifically lowering the value added tax (VAT) from 20 to 14 percent, and the profit tax from 35 to 30 percent. All these factors can strongly influence the oblast budget, and should these measures be adopted, Sverlovsk Oblast will have to reconsider its fiscal priorities. - Natalia Mints in Yekaterinburg

TVER COMMUNIST HAS PLAN FOR LOCAL GOVERNMENT

by Boris Goubman, Tver State University

TVER--On 2 December the newspaper *Tverskaya Zhizn* published an article by State Duma Deputy Tatyana Astrakhankina, "From Discussions to Real Issues." The Communist deputy is well known for her political radicalism, which has forced her own party leadership to distance itself from her controversial pronouncements. The article contains a series of well thought out political proposals and presents an outline of her future platform in the upcoming parliamentary elections and perhaps in the gubernatorial race in Tver Oblast. Characteristically, she concentrated on problems of regional politics.

Starting with an angry denunciation of market reforms, Astrakhankina argues that the Constitution's design for center-periphery relations has led to a "stingy delegation of authority 'from above' to the regions, and attempts on the part of the regional elite to 'squeeze out' additional power from the center." She asserts that reformers have failed to devise a mechanism to safeguard Russia's integrity and have in essence brought the unitary tendencies of the Center, which were overcome with such difficulty, to the regional level. The process of delegating power to the regions is not over and local government exists only on paper. Astrakhankina claims that the federal center is ignoring the status of municipal budgets and local authorities have no hope of gaining access to legal and financial levers to exert influence on the economic processes taking place in their territories. Municipal property was lost to privatization. According to Astrakhankina, this is the scenario in Tver Oblast.

Given the catastrophic financial and tax conflict between the center and regions and the rise of ethnic separatism, Astrakhankina warns that the consequences "of municipal bankruptcy, which is becoming more like, are difficult to imagine." Despite her general radicalism, Astrakhankina's points are widely accepted. These themes were touched discussed at a recent conference in Tver on local government (*Veche Tveri*, 26 November). The only question is, what constructive measures can be adopted to address these problems?

Astrakhankina spoke of the importance of preserving the integrity of the federation, strengthening the horizontal ties between city governments, and stimulating industry and agriculture. However, she does not support the idea of giving cities and rural raions the right to form their own tax bases and generally leave them alone as long as they send 20-30 percent of their revenue to the oblast budget. In other words, the oblast must continue to give subsidies to the poor rural raions. To do this, Astrakhankina calls for a global vision for self-government. She concluded by stating that increasing production requires studying relations among local government, the regions, and the federal center and adopting necessary active measures into real life. It is unlikely that any of her opponents would dispute that. However, Astrakhankina's article contained no concrete proposals for overcoming the crisis of Russian federalism. It is an ideological document which reveals that Communists look to economically depressed regions as the main targets of their electoral strategies.

THE NEW GENERATION

STRONG ECONOMIC MANAGER TACKLES DZERZHINSK'S PROBLEMS

by Yurii Rodygin

NIZHNII NOVGOROD-- Dzerzhinsk, a depressed and polluted city in Nizhnii Novgorod Oblast housing Russia's largest chemical industrial enterprises, is seeking salvation in a young, new leader. Acting Mayor Sergei Trofimov won the city's top office in September elections. Trofimov ran on a promise of quickly improving life in the city, which in the Soviet days was dedicated almost solely to chemical research. He is considered a rising star in the region.

Trofimov, 35, studied chemical engineering and finance, and had a brief industrial and Komsomol career in the waning days of the Soviet system. Beginning in 1995 he headed a

private company, Sintez, and in March 1998 ran successfully for the oblast assembly, before competing for the post of mayor in his hometown.

He is widely considered a successful manager, who was able to navigate his company successfully through the raging storms of the Russian transition. Sintez has been paying its employees' wages on time, as well as providing them with various social benefits, including free public transport passes, medical coverage, extended maternity leave, generous vacations, subsidized tourist trips abroad, and more. Sintez was the first among the city's large enterprises to react to the August 1998 crisis and index salaries 70 percent to keep up with the fall in the ruble's value. Additionally, the company has invested in plant restructuring and modernization, and, as a result, virtually all of the company's output is exported. Additionally, Sintez has a joint venture with the Gazprom natural gas monopoly for manufacturing of a special synthetic material. All in all, Trofimov's company has managed not only to stay afloat, but even to advance its interests. Its current development plan spans the next seven years to 2005.

Yet, Trofimov found it necessary to leave Sintez to try his hand at politics. City administration largely depends on wise and effective expenditures of budget funds. Local enterprise managers acutely felt the truth of this fact during Russia's on-going turmoil. They quickly learned that politics cannot be neglected, and shortly before the March assembly elections, local enterprise directors suggested that Trofimov run for a seat in the legislature. Later they encouraged him to accept an appointment to the post of acting mayor, following the resignation of the former mayor (see *EWI Russian Regional Report*, 4 June).

Trofimov's guiding belief is that the city and the chemical complex, which dominates the local economy, make one indivisible unit. Chemical companies in Dzerzhinsk are not only dependent on one another, but are interconnected through the municipal infrastructure. Even the most successful enterprise, like Sintez, needs a stable situation in the city, which in large part depends on the smooth functioning of such municipal institutions as day-care centers, schools, health-care services and public transportation. Additionally, until now Dzerzhinsk has lacked a coherent industrial policy, which has prevented large-scale capital investments in the industry. So, Trofimov decided to use the mayor's office to consolidate the resources and efforts of the chemical companies and the rest of the city to help them both tackle the crisis together.

For Trofimov there are two kinds of people in the world: those who create and those who destroy. The former bring together others to resolve a problem and he considers himself one of them. One of Trofimov's first acts was to make local papers publish weekly updates of municipal accounting figures, making transparent where and how the city's money was spent. He also believes in hands-on experience for policy makers and tries to get out into the city as much as possible.

Initially Trofimov was linked with former Prime Minister Viktor Chernomyrdin, who was rumored to have chosen Dzerzhinsk to run for a State Duma seat. However, as Trofimov admits, he was a member of Chernomyrdin's Our Home is Russia (NDR) movement because he wanted to use it to bring together the reform-minded elite in the city. At one time it was a "talking club" for the intellectual elite of Dzerzhinsk to discuss the city's problems, Trofimov claims. Since then, he has quit the NDR, because he no longer needs its networking functions.

Commenting on the future of Dzerzhinsk's industrial base, Trofimov is confident that domestic demand for chemical products will remain steady, as imports will grow increasingly

expensive, allowing Russian producers to carve out a niche in the market. Last October former Prime Minister Sergei Kirienko and his former deputy and the oblast's former Governor Boris Nemtsov visited Dzerzhinsk. Nemtsov plans to lead a team of local managers in developing a customized anti-crisis program for the city, which will be fully financed by Moscow sponsors and will cost the city budget nothing. Kirienko envisages a global development program for the city's chemical industry sector, but its results will not be available until the end of 1999.

Trofimov has the backing of the city's enterprise managers as well as the oblast administration. Nizhnii Novgorod Governor Ivan Sklyarov has promised to supervise Dzerzhinsk directly, the way he does municipal affairs in Nizhnii Novgorod itself. Trofimov welcomes this kind of scrutiny. He is sure that if the oblast capital, his own city and the nearby city of Kstovo can all work well, the entire oblast stands to benefit.

CENTER-PERIPHERY RELATIONS

MUSCOVITES EMPTY STORE SHELVES IN YAROSLAVL. Yaroslavl residents are again becoming used to empty store shelves following the August crisis. It was no surprise when imported goods disappeared, but now domestic goods have also begun to vanish. This is especially puzzling since Yaroslavl is renowned for its excellent food industry, hosting such food enterprises as Yarmoplod, Yaroslavkonditer, and Ruskhleb. With so many producers in the region, why are the stores empty? Why, for example, is it impossible to find products from the local dairy industry?

One gets the sense that the region is returning to Soviet practices when the entire country worked to support Moscow. Only now the situation is slightly different. Before, producers brought prepared goods to the capital, leaving Yaroslavl residents with practically nothing. Now, Muscovites are buying unprocessed products and raw materials for outrageous prices. Local factories are idle because they have no raw material inputs. For example, the collective farms around Yaroslavl sell milk to Muscovites for 5-6 rubles per liter. Local customers, which can pay at the most 3 rubles per liter, are left with nothing.

It is uncertain how local consumers will survive this situation. In the past a factory processed about 200 tons of dairy products a day during the winter, but the numbers have dwindled to almost nothing. Employees at processing plants are furious. They want to know why the oblast continues to subsidize collective farms when they are selling milk to Moscow enterprises. On 1 December, Yaroslavl Oblast Governor Anatolii Lisitsyn signed a decree to reduce the subsidies granted to collective farms that sell their products to the outsiders, harming others in their own region. - Anton Mavrin in Yaroslavl

CREDITORS MOVE TO BANKRUPT PRIMORYE'S ENERGY MONOPOLY. On 1 December the creditors of Dalenergo, a subsidiary of the Unified Energy System (UES) power utility, voted to introduce external managers at the regional utility. Dalenergo is a monopolist on the Primorskii Krai electricity market, and external management is the first step in the bankruptcy process. Dalenergo's bankruptcy was demanded through the local arbitrage court by the company's largest creditor, the coal-mining company Primorskugol. Dalenergo's total debts to its creditors amount to 4.7 billion rubles (\$293 million).

The territorial bankruptcy agency officially asked the creditors to vote on external management. This is the first time that bankruptcy procedures are being applied in the electricity sector, until recently a "sacred cow" along with other natural monopolies, according to the daily *Vladivostok* (2 December). Meanwhile, Dalenergo's debt to its creditors virtually equals what the company is owed by its large customers. Among the largest debtors is the city of Vladivostok, which owes over 800 million rubles (\$50 million). Mayor Viktor Cherepkov charges that the federal and regional authorities should foot the city's utilities bill, since they have failed to deliver their promised subsidies to the city budget.

A large delegation representing UES and the federal Ministry of Fuel and Energy came to Vladivostok to negotiate with Dalenergo's creditors. Both are vehemently against bankrupting the company, backing its general director, Vasilii Poleshchuk, who says that Dalenergo's bankruptcy will lead to the bankruptcies of its debtors, creating an endless chain of bankruptcies. Despite these protestations, the creditors appointed Aleksandr Kanchin as the new director. Undoubtedly, the meeting's decision will be contested, and several court appeals have been filed already. Dalenergo's ultimate fate will be decided on 16 December by the krai's arbitration court.

Governor Yevgenii Nazdratenko, in Moscow at the time of the meeting, registered his protest against applying bankruptcy procedures to Dalenergo. The governor believes that the bankruptcy is being artificially engineered. After all, he has discussed Dalenergo's predicament in a meeting with UES Chairman Anatolii Chubais, a long-time rival of the governor, where both sides came to an understanding about the company's future. Nazdratenko also stressed that supplying the region with power, not dwelling on bankruptcy procedures, should be the main priority right now.

Dalenergo would not be in its current condition if its creditors, such as the city of Vladivostok, would pay their bills, he said. A krai administration official in charge of energy told reporters that Dalenergo's bankruptcy is likely to start a chain reaction of bankruptcies, taking down the creditors themselves. After all, they will still have to pay federal and regional taxes and associated fines for delayed payments, which in turn will lead to their own insolvency. The entire region could go bankrupt this way, he concluded. - Andrei Ivlev and Vladimir Oshchenko in Vladivostok

YAROSLAVL ENGINE MAKERS SEEK FEDERAL PROTECTION. On Tuesday 1 December Yaroslavl Oblast Governor Anatolii Lisitsyn met with journalists to comment on his 27 November meeting with the Russian government and Prime Minister Yevgenii Primakov. Unfortunately, there is little hope for improving Yaroslavl's economy in the near future. The governor said that after he had secured government support for the production of a new generation of airplane engines at Rybinsk Motors, he received "warnings" from competitors in Tatarstan and Bashkortostan. They were not explicit threats, but nevertheless a cause for concern. In order to eliminate competition and prepare Rybinsk Motors to begin making the new engines, the oblast needs a presidential endorsement. Moscow Mayor Yurii Luzhkov, Governor Lisitsyn, and Minister of Defense Igor Sergeev have written a letter to President Boris Yeltsin asking for an appropriate decree. Primakov is also expected to back the petition. - Anton Mavrin in Yaroslavl

SOCIAL ISSUES

CHELYABINSK FUEL STOCKS SHRINK TO CRITICAL LEVEL. At a 1 December meeting of the heat and electrical taskforce, Chelyabinsk Oblast Deputy Governor Vladimir Bukrin discussed the oblast's fuel supplies, which have decreased to a critical mark in recent days. The oblast requires 33,700 tons of furnace fuel for the winter, yet it only has 420 tons in reserve. Estimates of daily usage show that the region uses 155 tons of furnace heat per day, which only leaves enough reserves to last for three days. Oblast coal reserves as of 1 December were 32,000 tons, but the region needs 357,100 tons to make it through the winter. With 685 tons of coal used every day, the reserves will last for 20 days. Fuel oil reserves are 32,000 tons, whereas the winter needs are 114,900 tons. Since daily usage is 526 tons, fuel oil will last 26 days.

According to Bukrin the oblast administration is currently undertaking measures to avoid the fate of Sverdlovsk Oblast, which is experiencing serious shortages in cities like Alapaevsk, Urbut, Nizhnii Tagil, and others. Bukrin believes that the main reason for these problems is that Sverdlovsk began stockpiling fuel oil only at the end of September. Additionally, relations between local consumers and Mezhhregiongaz, a Gazprom subsidiary, in Nizhnii Tagil were tense. Bukrin noted that in Chelyabinsk Oblast the heat and power taskforce has agreed to provide 2 million rubles worth of furnace fuel for the oblast through the middle of December, which should help the situation. - Igor Stepanov in Chelyabinsk

VOLGOGRAD MIGRATION FIGURES. The local newspaper *Gorodskie vesti* published migration statistics for Volgograd Oblast during the years 1992-1997 on 2 December. The total number of registered immigrants is 41,221, including people from:

- Tajikistan - 8,550
- Chechnya - 5,965
- Kazakhstan - 5,844
- Uzbekistan - 5,735
- Azerbaijan - 4,213
- Kyrgyzstan - 3,236
- Georgia - 3,115

The vast majority of them (33,089) are ethnic Russians.

The dissolution of the Soviet Union forced many people from their homes. Ethnic Russians escaping from the Central Asian republics tend to stay in the neighboring southern regions of Russia. Tajikistan and Chechnya lead the list because of the wars in those regions. Kazakhstan has a common border with Volgograd Oblast.

In spite of this immigration flow, Volgograd's population has been declining. According to the latest estimates, the number of residents recently dropped under a million (999,800). The main reason for the drop is that the mortality rate exceeds the birth rate. Additionally, many residents left the city in the early part of the decade, particularly Volga Germans leaving for their homeland. - Ivan Kurilla in Volgograd

CHUKOTKA RESIDENTS WAIT TO LEAVE. Leaving Chukotka becomes increasingly difficult every year, but living in the Russian North is even more difficult. The regional capital city of Anadyr will lose 434 families in the near future. All of these people are either driven to despair from unemployment and lack of money, or are pensioners who have access to housing elsewhere. All 1,300 people have waited in turn for shipping containers to transport their belongings. This wait started in 1993 and the line is growing fast every year. Last year, of 163 families waiting at the beginning of the year, only 49 actually departed, while an additional 274 families joined the line. A few ships were able to transport only 40 containers. Everyone else was left with another year of anguish and anticipation.

It is impossible to start life in the central regions of the country with nothing, only a young person could start a life in a new place from scratch. For those who spent most of their lives in the mines working towards a pension that cannot even buy medicine, the only hope for survival is floating away with the ships. In 1998 the city administration has been unable to pay for a single container since the municipal budget did not allocate money to lease containers. Ordering a container is very expensive and no containers can be expected in Chukotka without advance payment. - Varvara Litovka in Anadyr

ARMY DESERTERS TAKE ADVANTAGE OF AMNESTY IN TOMSK. The nationwide amnesty program for deserters from the armed forces that began on 23 March officially ends on 24 December. The amnesty was designed to attract back thousands of Russian soldiers who desert military service rather than endure harsh living conditions and brutal hazing by fellow servicemen. In addition to the overall amnesty program, the government announced on 24 June that the amnesty only applies to those deserters who are not being charged with other felonies. As a result, 7,000 deserters have turned up at the draft registration centers across Russia. In the Tomsk army garrison alone 126 soldiers returned for service. Of them, 68 were reassigned to new garrisons, some were dismissed, and only five were prosecuted for other felonies. The military procuracy has noted a growing number of repeat desertions among the offenders. Unit commanders blame the soldiers' lack of will to perform their constitutional duty. However, soldiers' mothers cite harsh conditions in the army as the leading cause for the growing desertions. In any case, the amnesty program seems to have worked for the country as a whole. - Andrei Bondarenko in Tomsk

ECONOMIC ISSUES

ICN'S KURSK SUBSIDIARY SUFFERS FROM CRISIS. ICN Leksredstvo, a Kursk-based subsidiary of ICN Pharmaceuticals, sent nearly 30 percent of its employees on unpaid leave from 16 November to 18 January. This move is likely related to the difficulties encountered by all Russian enterprises during the financial crisis. Unlike other industrial enterprises, ICN Leksredstvo had intensified production for a while, but its production costs have increased 65 percent during 1997 and the first half of this year. The company's workers are considered among the best-compensated in Kursk Oblast. However, the crisis has caused the enterprise lose this distinction.

In these conditions, ICN's owners and managers are trying to find a way out of the situation through more aggressive marketing. Kursk pharmacies are now flooded with drugs from ICN (this was not the case before November). Additionally, on 29 November the firm opened its own pharmacy in one of Kursk's districts, and the company began producing a new children's medicine, Prokhodol. The unusual name for the medicine comes from the last name of ICN Leksredstvo's President Yevgenii Prokhoda. According to him, the medicine is different from all other similar drugs because of its cherry flavor and an unusual measuring spoon. - Sergei Sarychev in Kursk

ST. PETERSBURG SEAPORT COMPETES FOR ORDERS. The St. Petersburg Seaport is competing with ports in the Baltic countries to win contracts to handle imports of humanitarian aid from the U.S. and the European Union. According to the port's Executive Director, Vyacheslav Martynenko, the donors will send 3 million tons of freight. The Russian Ministry of Transportation is investigating different options for delivering the humanitarian and food aid. All in all, from December 1998 to May 1999, 2.2 million tons of grain (1.2 million tons from the U.S.), 420,000 tons of meat (170,000 tons from the U.S.), and 100,000 tons of vegetable oil will be shipped. An additional 250,000 tons of food will be sent to Uzbekistan. According to a representative of the St. Petersburg Seaport, the port is capable of taking in 25-30,000 tons of food cargo a day and dispatching it to 500 train cars. The Ministry of Transportation will decide which companies will participate in the humanitarian convoy. American ships primarily will be delivering the load. - Roman Zotov in St. Petersburg

SOUTH KOREAN LG BUYS IRKUTSK PLANES. South Korea's LG Company has ordered one BE-200 airplane from the Irkutsk Aviation-Production Association (IAPO). The cost of the hydroplane, which can take off and land on dry land or water, is nearly \$30 million.

Builders have worked out four models for different purposes: fire fighting, addressing natural disasters, carrying cargo, and transporting passengers. The first BE-200 planes will be shipped to customers in 2000. Two planes are intended for the Russian Federation Ministry for Emergency Situations and one for the South Korean marine police. IAPO has the capacity to produce up to 15 BE-200s per year. - Natalia Michurina (Teleinform) in Irkutsk

IRKUTSK INSURANCE COMPANIES SURVIVE CRISIS IN GOOD SHAPE.

Unlike the rest of Russia's financial sector, the insurance industry has survived the economic crisis in fairly good shape. As Executive Director of the Baikal Insurance Association Sergei Lobachev says, the crisis left regional insurers intact because of their relatively small exposure to the market for government treasury bills (GKO), which collapsed in August. Just about the only way in which the crisis has affected regional insurance companies is by lowering the purchasing power of the population. Moreover, some institutional clients have lost part of their savings. At the same time, the rate of income for Irkutsk insurance companies this quarter has not dropped, remaining on a par with the beginning of the year.

Today Irkutsk insurers' main priorities concern increasing their companies' charter capital and receiving government licenses for new insurance operations. They would like to do this before foreign insurance companies enter the market and begin offering the public more

competitive packages of services. There are 47 insurance companies registered in Irkutsk today, 14 of them working in the sphere of mandatory medical coverage, and 20 in other insurance areas. Their charter capital varies in the range from 200-400,000 rubles to 10 million rubles. The largest local insurers in the region (those with charter capital exceeding 1 million rubles) are Diana, Angarsk-TASO, Angara, VostsibZHAKO, Podderzhka-Irkutsk, Energiya, and VostSibRosso. The largest Moscow-based insurance companies represented in the regions are Ingosstrakh, the Military-Insurance Company, the Law Enforcement Organs Insurance Company, Rosno, and Reso-Garantiya.

In January the government enacted a law on insurance regulations, requiring insurance companies to increase their charter capital. The charter capital for companies in the life insurance business must now equal 25,000 minimum monthly wages, while that for companies in all other insurance fields--30,000 minimum monthly wages. Reinsurance companies' charter capital must equal 50,000 minimum monthly wages. The companies have until 1 January 1999 to comply with the law. According to Lobachev, the parliament is now considering an amendment, which would extend the time limit until 1 January 2000.

All but one of Irkutsk's insurers are owned by shareholders, while the government owns Rosgosstrakh. In 1997 Irkutsk insurance companies collected 817.5 million rubles in premiums and paid 760 million rubles to their customers in claims. Most premiums were collected by Angarsk-TASO, VostsibZHAKO, Angara, Podderzhka-Irkutsk, Energiya, VostSibRosso, and Diana. All of them belong to the Baikal Insurance Association. Most Irkutsk insurers enjoy investments from large industrial enterprises, and thus tend to specialize by industry. Lobachev noted a trend for insurance and industrial capital to merge together. Industrial companies more and more tend to invest their capital in insurance companies, while insurance companies make investments in certain productive sectors of the regional economy.

Evidently, only 10 percent of the oblast's insurance market potential is developed today, which is somewhat lower than the national average. Compared with other parts of Russia, such as other Western Siberian and Urals regions, however, the Irkutsk insurance market is developed at least as well. However, it still lags behind the Far East, Moscow and St. Petersburg. There have been no new entrants on the insurance market this year. The same 47 companies have been on the market for the last two years. Two companies, VostSibRoss and Ingosstrakh, merged earlier in the year.

The main challenge facing Irkutsk insurers today is where to invest their incomes safely and with maximum profit. After the 17 August default on the government debt, answering this question is even more difficult. In the past the Ministry of Finance required insurers to keep at least 20 percent of their reserve capital in government securities (for medical insurance companies the figure was 70 percent). However, today they lack a good financial instrument to invest their money. Bank deposits are risky in the current volatile financial system. Foreign currency seems like a good target now, but what if the dollar plunges tomorrow? Additionally, the insurance industry is tightly regulated by the Ministry of Finance. Finally, as Lobachev points out, Irkutsk insurers would like to invest in local projects, but so far they lack an appropriate financial instrument to do so as well as concrete investment proposals. -
(Teleinform's *Novosti kompanii i rinkov*, 27 November)

THREE RELIABLE BANKS REMAIN IN YAKUTIYA

by Oleg Yemelyanov, *Yakutiya*

YAKUTSK--According to the Chairman of the National Bank of the Republic of Sakha (Yakutiya), Viktor Kosliltsev, the Central Bank and the Russian government are taking concrete steps to design a long-term strategy for reforming and developing the country's banking system. Similar measures are envisaged on the republican level. Consider, for example, the decision to cancel until 2001 the Central Bank's requirement for commercial banks to have at least ECU 1 million worth of assets (which threatened the license of three Yakutsk banks). At the same time, specialists are noting that the crisis in the financial market, linked with the default on government treasury bills (GKO) has had practically no influence on the banking system in Yakutiya since the majority of local banks had lost their liquidity long before the August crisis. Kosliltsev claims that the current situation came about in part because banks conducted risky credit policies by engaging in active speculation on the stock market in an effort to gain high short-term yields. Such adventuresome investing led to a serious exhaustion of bank resources, an inability to provide credit to the real sector of the economy, and a lack of borrowers able to service loans.

Not long ago there were twenty seven independent credit institutions working in Yakutiya, but as of 1 November there are only ten. More than half of them were unable to pay their debts and the Central Bank began revoking their licenses long before 17 August. Now, the banking system in the republic consists of only ten independent banks, nine branches of Moscow banks, and 34 branches of Sberbank in various parts of Yakutiya. Among the ten republican banks, the majority continues to violate economic standards and only three banks have shown a profit over the past nine months. The republic's National Bank has permitted these three to continue attracting deposits from the population while it has put severe limits on the remaining seven.

The credit resources of the independent commercial banks have decreased 30 percent (401 million rubles) since the beginning of the year. Their operational assets have also decreased by more than 50 million rubles over the last nine months. Kosliltsev believes that the future of Yakutiya's banking system will depend greatly on the republic's macroeconomic situation. Local specialists predict that in the next few years, the number of independent banks will drop dramatically. The remaining banks will have a high degree of liquidity and a strong client base representing corporations and clients able to service loans. Yet, chiefly, these banks will deal with loaning money to the real sectors of the economy and thus should return the people's faith in Russia's banking system, including in Yakutiya.

FOREIGN TIES

AZERBAIJAN AND DAGESTAN CLASH OVER BORDER ISSUES

By Nabi Abdullaev

MOSCOW--The situation on the border between Azerbaijan and Dagestan has deteriorated during the last several months. Largely due to the incompetence of the federal and regional authorities tasked with border management, the two republics almost engaged in armed conflict and their diplomatic relations are in jeopardy.

The first conflict arose from the customs collection policies on the Russian side of the border. In the middle of September freight truck drivers blocked the federal Kavkaz highway at its largest border crossing checkpoint, Yarag-Kazmalyar. They were protesting the activities of twelve border agencies (customs, border guards, police, health inspectors, environmental inspectors and others), which often hindered transit and collected illegal bribes from the drivers. The Independent Union of Entrepreneurs and Drivers, somewhat battered in its conflict with Makhachkala mayor (see *EWI Russian Regional Report*, 6 August), used this opportunity to stand up for the drivers and reclaim its role as their main voice. The government of Dagestan was forced to send a special commission, which examined the conflict and persuaded the drivers to back down.

Only a month later the drivers were blocking the highway again. This time they were protesting the disappointing results of the commission's work, which amounted to reducing the number of inspection agencies from twelve to five. Instead, a whole slew of special firms emerged at the checkpoint, which would charge drivers for obtaining the necessary permits to cross the border. As a matter of rule, border guards would find something wrong with a driver's paperwork and send him to one of the firms. This led many to suspect collusion between the inspectors and the firms. Finally, a special joint commission from the State Customs Committee and the General Procuracy came from Moscow to investigate. Drivers demanded the removal of middleman firms and lower customs rates for transit. Also, the Dagestani government suddenly demanded that all drivers reregister as entrepreneurs, which would imply a 3 percent tax increase on top of what the drivers have already paid for their transit licenses. In the heat of the debate it became clear that Dagestan was charging Russian citizens only 0.15 percent in levies, while Azerbaijani drivers had to pay a 50 percent customs tax.

In early November the government of Dagestan announced the streamlining of customs duties: everybody, regardless of their origin, would be charged a flat 3.15 percent tax, of which 0.15 percent would be a customs levy and 3 percent an import duty. Additionally, the government was suspending the middleman firms' operations on the border, taking direct control over tax collection. The drivers freed the highway.

But now once again 400 Azerbaijani and 200 Dagestani trucks are blocking the road. They are angry at the border services for hindering the transit of food shipments. Most recently freight operators began exporting large quantities of sugar, flour and vegetable oil from Dagestan to Azerbaijan, causing prices for these goods to rise. Following its anti-crisis program, the Dagestani government is trying to keep the foodstuffs in the republic by preventing their export.

Several other border problems are negatively affecting relations between the two republics. First of all, Russia and Azerbaijan disagree on the ways to manage the water resources of the Samur river. The Russians advocate that each side collect 30 percent of the upstream water and leave the remaining 40 percent to flow into the Caspian Sea. In contrast,

Azerbaijanis have been collecting up to 80 percent of the water to service their agricultural lands in the north.

Second, the two sides have almost engaged in an armed conflict over a disputed portion of the border. Dagestan and Azerbaijan are contesting control over 40 acres of agricultural land between two villages on each side of the border. Officially, the decision has been postponed indefinitely, and both sides have agreed not to cultivate the land in question. However, on 27 November several peasants from the Dagestani village tried to plow the field with their tractors. Efforts by both Russian and Azerbaijani border guards, including gun shots in the air, did not deter them. Eventually, armed men began assembling on each side of the border, digging trenches and building encampments, as if preparing for battle. With the help of the Dagestani government and the head of Russian border guards, the two sides were mollified.

Overall, until the two republics clear up the numerous outstanding questions about their joint border, the region will be ripe for conflict and even armed confrontation. General incompetence and occasional malicious intent on the part of the agencies charged with managing the border provoke the local population, which is accustomed to using brutal force to resolve its problems. Under these circumstances border management by government agencies comes down to trouble-shooting. With no comprehensive border management system in place, agencies often contradict each other. As long as this continues to go on, the two republics cannot hope to reach constructive understanding.

SARATOV'S GOVERNOR FORGES ECONOMIC LINKS TO UKRAINE. Many analysts were skeptical about the prospects of Saratov Oblast Governor Dmitrii Ayatskov's planned visit to Ukraine. Their pessimism was based in the negative dynamics of Russian-Ukrainian relations in the recent year. Moscow and Kyiv tend to take every opportunity to resort to mutual recriminations: Russia is unhappy with Ukraine's seeming collaboration with the West's NATO expansion plans, while Ukraine scolds Russian energy producers for greedy policies toward cash-strapped Ukraine.

Preparations for Ayatskov's visit only confirmed this trend: Saratov's officials reported that during their talks with Ukrainian counterparts, the latter would insist on speaking only Ukrainian instead of Russian. The Saratov side had to switch to English, before the Ukrainians agreed to communicate in Russian. The number of Saratov visitors kept growing smaller, until in the end Ayatskov came to Ukraine accompanied by only key members of his team. On the receiving side, the head of the Kyiv Oblast administration learned about the visit a day before Ayatskov's arrival, which explained the initial chaos when the delegation landed. However, the rest of the trip went very smoothly.

The first meeting of the Saratov visitors took place in the Ukrainian Ministry of Foreign Economic Relations and Trade, and it was attended by virtually all Ukrainian deputy ministers. After two hours of talks, the two sides were able to overcome their superficial disagreements and suspicions. Especially popular was Ayatskov's offer to supply the Crimean peninsula with electric power from Saratov's Balakov Nuclear Power Plant at only 0.5 cents for kiloWatt/hour of energy. He also offered Ukrainians processors over 300,000 tons of raw coal and oil products, as well as opportunities for joint ventures in exploring Saratov's oil deposits and shipments of trolley-buses. For cash-strapped Ukraine this means a breath of fresh air in light

of its failure to pay for gas deliveries from Turkmenistan and multi-billion dollar energy debt to Russia's oil and gas producers. Ayatskov's initiative has shown that these questions can be resolved on the level of bilateral ties between Ukrainian and Russian regions.

Next, the Saratov delegation was received by the Kyiv Oblast administration, and the two sides signed a framework cooperation agreement in the areas of trade, economy, science, technology and culture. Concrete cooperative ventures will be worked out by industrial enterprises. In return for its products, Saratov oblast will receive large shipments of industrial and agricultural products from Ukraine, especially sugar.

Official Kyiv quickly showed its appreciation for the effectiveness of bilateral relations between Ukrainian and Russian regions. President Leonid Kuchma received Ayatskov, and the Saratov governor took the opportunity to propose a similar agreement, with the city administration of Kyiv. Kuchma supported this idea, as well as the proposal to organize Ukrainian oblasts into an association like the Greater Volga Association of Russian regions, which Ayatskov chairs. Indeed, Ayatskov invited governors of the eastern regions of Ukraine to participate in the meeting of the Greater Volga Association next spring.

The burgeoning activities of Saratov's governor on the international scene must be viewed in the context of his meeting with Prime Minister Yevgenii Primakov in the city of Saransk. The prime minister gave Ayatskov a mandate to conduct his own foreign economic policy. After all, he was the only regional leader included in the recent meetings with the visiting Chinese leader Jiang Zemin in Moscow. Before the end of the year Ayatskov plans to visit Uzbekistan, Israel and Germany. Apparently, the prime minister feels that Russia can expand its foreign links better on the level of regions than on the national level. - Lev Voritsin in Saratov

REGIONAL PROFILE: SAKHA (YAKUTIYA) REPUBLIC

President: Mikhail Nikolaev

Mikhail Nikolaev was reelected republican president on 22 December 1996. He defeated his four competitors, including a Communist Party candidate, with support from President Boris Yeltsin's administration.

Like many other regional leaders, Nikolaev, who is now 61, used to be a Communist Party functionary during the Soviet era. Among other positions, he has held the office of republican agricultural minister, deputy prime minister, and chairman of the republican Supreme Soviet Presidium. In 1990, he was also elected to the Russian Federation parliament, where he served on the Constitutional Commission and was a member of the "Sovereignty and Equality" faction.

In December 1991, he was elected republican president for the first time. Though during the electoral campaign he had advocated republican sovereignty within the Russian Federation, after being elected, Nikolaev began advocating republican independence. However, as soon as the federal center agreed to give the republic considerable control over its diamond wealth, Nikolaev dropped his separatist claims. The federal government is now trying to take back some of these privileges.

For most of his tenure, Nikolaev has been one of the President Yeltsin's staunchest supporters among republican leaders. He even supported Yeltsin's September 1993 decree disbanding the parliament. However, he was strongly against approving the new constitution by referendum, suggesting, instead, that it should have been approved by the regions.

In December 1993, Nikolaev won election to the Federation Council, where he was a member of a committee on federal affairs. He holds the same position in the current body.

Brief Overview

Sakha (Yakutiya) Republic is the largest region in the Russian Federation (approximately the size of India). It lies in northern Siberia occupying the eastern half of the Central Siberian Plateau in the west and the East Siberian Mountains, including the Kolyma Valley in the east, stretching from the Arctic Ocean with the New Siberian Islands in the north to the Patom and Stanovo Mountains in the south. It borders Magadan, Irkutsk, and Amur oblasts, and Krasnoyarsk Krai. Over half of the republic's inhabitants are Russians, while indigenous Yakuts, who call themselves the Sakha, make up one third of its population. Other indigenous peoples of the North comprise slightly over 2 percent of the entire population.

The republic is one of the most richly endowed parts of the world in terms of mineral resources. There are over 40,000 fields of over 100 various raw materials in Sakha, although only about 900 of them are being industrially exploited. The only materials being mined are ones that do not exist in other regions or are found only in small amounts. Sakha supplies 98 percent of Russia's natural diamonds. The major republican diamond mining enterprise -- Almaz Rossii-Sakha (Alrosa) -- is allowed to sell 5 percent of what it extracts on the free market. According to a recently signed agreement, Alrosa is supposed to supply South Africa's DeBeers with \$550 million worth of diamonds annually for the next three years. This contract comes up for renewal at the end of the year and the federal government is currently studying it. Other important mineral resources include gold, tin, coal, natural gas, ferrous and non-ferrous metals, and timber.

Basic Facts

Population (as of Jan. 1, 1997): 1,015,700 (0.69% of Russian total)

Urban population (1989 census): 64.5% (Russia overall: 73.0%)

Student population (1996): 115 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 18.78% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 11.3% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 16.5% (Russian average: 29.9%); Agriculture: 11.9% (12.8%); Trade: 9.0% (9.1%); Culture: 16.8% (13.6%); Management: 2.8% (2.3%)

Average monthly personal income in July 1998: 1,417.8 new rubles (Russian average: 891.7 new rubles)

Average monthly personal expenses in July 1998: 761.5 new rubles (Russian average: 684.9 new rubles)

Average monthly subsistence requirement in 1996: 949 new rubles (Russian average: 438 new rubles)

Consumer price index (as of July 1998): 214 (Russia overall = 100)

Industrial production as percentage of all Russian production (Jan.-Aug. 1998): 1.03%

Proportion of loss-making enterprises (as of July, 1998): 64.1% (Russia overall: 50.4%)

Number of enterprises which have wage arrears (as of Sept. 1, 1998): 990 (0.73% of Russian total)

Agricultural production as percentage of all Russian production (1996): 0.95%

Number of private farms (as of Jan. 1, 1997): 3,751 (1.35% of Russian total)

Capital investment (1996): 5,001.8 billion rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): federal budget: 3.0% (Russian average: 9.2%); regional budget: 11.2% (9.6%); enterprises: 40.2% (66.3%)

Number of joint ventures (as of Jan. 1, 1997): 26 (0.16% of Russian total)

Fixed capital investment in joint ventures and foreign companies (1995): 5,180 million rubles

Number of small businesses (as of July 1, 1998): 4,300 (0.50% of Russian total)

Number of enterprises privatized in 1996: 10 (0.20% of Russian total), including those which used to be municipal property: 0% (Russian average: 67.1%); regional property: 100% (14.3%); federal property: 0% (18.6%)

Number of telephones per 100 families (1996): in cities: 49.6 (Russian average: 48.7); in villages: 35.5 (19.7)

According to a 1998 survey by *Ekspert* magazine, the republic is ranked 18th among Russia's 89 regions in terms of investment potential and 72nd in terms of investment risks. A 1998 survey by Bank Austria ranked the republic 56th in terms of investment climate.

Electoral History

1996 Republican Presidential Election

Nikolaev (incumbent): 58.96%

Alekseev (NPSR): 25.46%

Osipov: 5.80%

Sannikov ("Democratic Yakutiya"): 1.98%

Arkipov (Social-Democratic Party of Yakutiya): 1.54%

Turnout: 64.66%

1996 Presidential Election

Yeltsin: 51.85%/64.65% (first round/second round)

Zyuganov: 20.55%/29.89%

Lebed: 12.61%

Yavlinskii: 4.68%

Zhirinovskiy: 3.65%

Turnout: 71.94%/70.64% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Communist Party of the Russian Federation: 17.61%

Our Home Is Russia: 13.75%

Power to the People: 7.48%

Women of Russia: 7.46%

Liberal Democratic Party of Russia: 6.80%

Congress of Russian Communities: 4.43%

Communists -- Workers' Russia: 4.34%

Party of Workers' Self-Government: 3.84%

Yabloko: 3.63%

In a single-member district: 1 Power to the People

Turnout: 65.90% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 52.94% "No" -- 47.06%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 15.45%

Russia's Choice: 13.36%

Party of Russian Unity and Concord: 13.01%

Women of Russia: 11.44%

Agrarian Party of Russia: 10.51%

Communist Party of the Russian Federation: 10.19%

Yabloko: 7.04%

Democratic Party of Russia: 5.23%

In a single-mandate district: 1 independent

Turnout: 59.41% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 44.90%

Ryzhkov: 24.73%

Tuleev: 12.82%

Zhirinovskiy: 6.68%

Bakatin: 3.72%

Makashov: 3.33%

Turnout: 76.65% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of

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BREAKING NEWS

POLITICS

PRIMAKOV ON GOVERNORS. Prime Minister Yevgenii Primakov said he supports the idea of appointing governors rather than letting their constituents elect them as a way of improving the country's management. Speaking in a long interview with *Nezavisimaya gazeta* editor Vitalii Tretyakov, conducted on 5 December and published four days later, Primakov cautioned that it would be impossible to carry out such plans in an election year. He said that nevertheless, Russia would eventually restore the direct subordination of the governors to the president. He noted that the governors have already directly subordinated many of the mayors, who are elected by city councils, usually on the recommendation of the governor. Primakov wants to complete this process by making the governors more accountable to the center. Additionally, he said that he gets along with the vast majority of Russia's governors, although he has poor relations with governors who seek to take as much as possible from the center while giving as little as possible in return.

One potential scenario for carrying out such a change would be for the president to appoint the governors while allowing the governors to appoint all local executives. As additional compensation to the governors, the president would also remove all of his personal representatives to the regions. Often the governors see these federal officials as interfering in their work (*Izvestiya*, 4 December). Despite Primakov's enthusiasm for this proposal, however, it would be extremely difficult to convince elected officials to accept appointed positions.

REGIONAL LEADERS LOBBY MOSCOW. When Russia's regional executives gather in Moscow for their monthly Federation Council meetings, they usually use the opportunity to lobby the federal government for regional interests. North Osetiya - Alaniya President Aleksandr Dzasokhov gave a particularly vivid example of what such trips are like in an interview with *Nezavisimaya gazeta* (5 December). During a visit to the capital in early December, he met with Prime Minister Yevgenii Primakov to discuss the political, economic

and social situation in the republic and the Caucasus region in general. He discussed the improvement of the Vladikavkaz airport with Yevgenii Shaposhnikov, who is now a presidential aide on aviation issues and the former general director of Aeroflot. In a meeting with the president's cultural advisor, he reviewed plans for the country to celebrate the 200th birthday of the poet Aleksandr Pushkin, proposing that the festivities begin in Vladikavkaz. In other meetings, he discussed ways to resolve the on-going conflict between North Osetiya and Ingushetiya. He also met with officials from the Federal Medical Insurance Fund and the Federal Road Service. He noted that the bureaucracy in Moscow was very rigid and that it was difficult to push through new ideas.

OTECHESTVO BUILDS NATIONAL NETWORK. Moscow Mayor Yurii Luzhkov's Otechestvo party already has 73 regional branches even before its official launch date, set for 19 December. Last week the party opened its Moscow city branch, electing Moscow State University Rector Viktor Sadovnichii as chairman. (*Nezavisimaya gazeta*, 15 December)

KRASNODAR OTECHESTVO PROTESTS LUZHKOVA'S USE OF THEIR NAME. Krasnodar Governor Nikolai Kondratenko set up a regional political party named Otechestvo in 1993. Now Luzhkov is using the same name for his new political organization and the Krasnodar party has sent him a letter of complaint. The Krasnodar party holds 10 of the region's 13 seats in the state Duma, the regional governor's office, and 38 of the 50 seats in the regional legislature. It is by far the most powerful party in the region.

Nezavisimaya gazeta (11 December) describes the "Kondratenko phenomenon" as one of the most difficult to understand in post-Soviet Russia. Kondratenko has become famous for blaming his region's problems on the Jews. His "phenomenon" is notable because his experience shows that what is important is not what you do, but what you say. It also demonstrates that dropping living standards are not of political importance, but finding someone to blame for that situation is.

Looking forward to the upcoming state Duma elections and the presidential elections, the Krasnodar party is concerned that there will be confusion among the voters if both organizations have the same name. They have suggested that Luzhkov change the name of his party.

Krasnodar Mayor Valerii Samoilenko chaired the organizational meeting of the Luzhkov party in the city on 4 December. He and his associates would also like to change the name of the party so that it includes Luzhkov's name.

RUTSKOI'S SON SENTENCED. A Moscow court found Governor Aleksandr Rutskoi's son guilty of trying to take \$11,900 out of the country illegally and gave him a six-year suspended sentence. The state confiscated the money and confined the younger Rutskoi to his home after 8 pm for six months. The younger Rutskoi had been on his way to Hawaii for his honeymoon. (*Kommersant Daily*, 9 December)

ECONOMICS

CHANGES IN PRODUCTION SHARING LAW DO LITTLE. The state Duma approved some changes to Russia's production sharing laws on 9 December, but they are unlikely to make a significant difference, *Kommersant Daily* argued on 10 December. The lack of good legislation is costing Russia as much as \$20 billion in investments, the paper estimates.

The only projects currently proceeding under production-sharing deals now are Sakhalin-1 and Sakhalin-2. Both projects seek to recover oil and gas on the shelf of Sakhalin Island. One requirement of the law is that 70 percent of the equipment used be produced in Russia. When the Sakhalin investors gave a large order to the Amur Construction Factory, however, it could not find the necessary steel products from domestic sources and had to use Japanese imports. So far about \$1 billion has been invested in Sakhalin-2, but little more investment is expected until the State Duma offers better investment conditions. Investors had originally planned to invest up to \$10 billion. To make matters worse, the price of oil has now dropped so low that many projects are not profitable even under the best tax conditions.

MOSCOW TO LAUNCH LAND SALES. Moscow will adopt legislation to sell land at the site of the Moscow Business Center City and in Zelenograd in January 1999. Moscow Mayor Yurii Luzhkov hopes the land sales will increase foreign investment in the Russian capital by giving investors additional guarantees. So far, the city is not considering more widespread land sales. In the business center project, the land will be included in the overall investment contract signed by the city. The minimum investment required for the land sales is \$100 million. In Zelenograd, the land will be sold through auctions. After these experiments, the city will decide which system works best. Forty- eight regions already have laws on selling land, and Kaliningrad and Rostov oblasts are considering their own regional legislation (*Kommersant Daily*, 11 December). On 9 December the state Duma indefinitely postponed discussion of a federal land code. (*Izvestiya*, 10 December)

UDMURTIYA ADOPTS SALES TAX. The Udmurtiya State Council has approved a republican sales tax of 4 percent. Among the items that will now be taxed are expensive furniture, stereo equipment, clothing, prepared foods, jewelry, furs, video equipment, services provided by tourist agencies, hotel rooms, first class train tickets, and airplane tickets. The republican government will keep 40 percent of the proceeds while local governments will gain 60 percent. The money will be used for social needs. The new tax is expected to bring in an additional 200 million rubles a year. (*Finansovaya gazeta, Regionalnyi vypusk*, December)

BUSINESS BRIEFS

-- **VIST** Company opened its first supermarket in **MOSCOW** on 4 December. The store will sell products under its own brand name as well as goods made by domestic and foreign suppliers. The store also plans to sell items through the Internet. (http://www.algo.ru/include/current_issue.asp).

PATTERNS OF REGIONAL DEVELOPMENT

COMMUNISTS GAIN CONTROL OF VOLGOGRAD LEGISLATURE. Volgograd residents elected Communist deputies to 11 of the 16 seats open in the oblast Duma in elections on 13 December. Overall, the Communists control 23 of the 32 seats, giving them a 74 percent majority. Turnout was 34.7 percent, relatively high compared to the 21 percent turnout for the 1996 elections. The Communist victory once again confirmed Volgograd's nickname as "the buckle of the red belt." The new members of the legislature will elect a Communist as the speaker (and automatically a member of the Federation Council) to replace former Our Home is Russia activist Leonid Semergei, who was an apolitical figure.

Following the vote, Volgograd Mayor Yurii Chekhov expressed considerable concern about the possible future policies of Volgograd Duma. In particular, he believes that if living standards for the local population continue to drop, the Communist Duma will seek out "enemies" responsible for the problems. (*Gorodskie Vesti*, 16 December) Chekhov will face mayoral elections in fall 1999 and he is certain his main opponent will be a Communist. He thus considers himself the natural leader of the democratic opposition to Communist rule in the region.

Some of the results may in fact encourage regional democrats. For example, voters in Volzhskii, the region's second-largest city, elected two democrats. That contrasts with the 1996 election, in which they chose only Communist candidates in the municipal elections, including Communist Mayor Anatolii Shiryaev, who led the city to the verge of social unrest (see *EWI Russian Regional Report*, 5 February 1998). Now, Communists have lost in both of the city's electoral districts. Instead of ideological candidates, Volzhskii residents elected skillful managers, the directors of the city's two most prosperous enterprises -- Volzhskii Pipe Plant Director Vitalii Sadykov and Volzhskii brewery "Povolzhie" Director Petr Nekryti. This is a clear sign of the return to the center from the political left in the former Communist stronghold.

The second cause for democratic optimism was the unexpectedly strong performance of Yabloko candidates. Eight members of that party were second or third in their respective districts, while in the city of Volgograd they nearly won: Valentina Bukina in the Central district received 24 percent of the popular vote, compared to 25.8 percent for the victorious Communist Vyacheslav Komissarov. Yabloko members Alexander Medvedev in the Dzerzhinskii and Alexei Egorov in the Traktorozavodskoi districts each lost by a 5 percent margin to their Communist rivals.

Overall, the first-past-the-post electoral system worked in favor of the Communists in Volgograd. At the same time, the divisions within the democratic camp doomed its candidates to failure - Ivan Kurilla in Volgograd

PARTIES OUTFITTED INDEPENDENTS IN ST. PETERSBURG ELECTIONS

by Lyudmila Bogomolova

ST. PETERSBURG--Judging by the preliminary results of the 6 December first round of elections to the city's Legislative Assembly, independent candidates are the major losers while political blocs have carried the day. That trend implies that voters were trying to protect their legislature from infiltration by candidates with criminal connections -- and there were many such

candidates in the pool of independents. Another explanation is that the prolific campaign managers and image-makers that ran most independent campaigns simply tried too hard and the public saw through their manipulative tactics. In some instances, campaign managers even overshadowed their own candidates in the spotlight. One is hard pressed to understand why some of them went public with revelations about their manipulative campaign techniques, statements that only made them less attractive to the public.

The success of Yurii Boldyrev's bloc makes for a good start in the effort to restore his reputation in the city. Long one of the leading democrats in the city, Boldyrev did not even make the runoff in the 1996 gubernatorial election. Nevertheless, he still commands considerable respect since his bloc was able to push through some virtual unknowns, all thanks to the weight of his name alone. Boldyrev's appeal stems mainly from his anti-corruption credentials, particularly his work in the national Accounts Chamber. He has not been implicated in any shady dealings until now. Right after the votes were counted some newspapers began spreading compromising rumors. For instance, *Novaya gazeta* alleged that several of Boldyrev's supporters in the government have been charged with corruption and abuse of power.

Boldyrev's bloc is still vulnerable in the second round of elections. The root of the problem is Boldyrev's deep-seated hatred for his former allies in the Yabloko bloc and its local branch, the Regional Party of Center (RPC). This prevents him from cooperating with this leading pro-reform movement in St. Petersburg. Consequently, in seven districts liberally minded candidates are opposing each other. The public may also dislike Boldyrev's sharp pronouncements about the "traitors" from his party who have suggested an alliance with the hated Yabloko.

Thus, although liberals have scored a victory in the first round, their triumph is really divided between the pro-governor Yabloko and the anti-governor Boldyrev bloc. In fact, Yabloko is playing the role of a virtual "party of power" in the city, with Boldyrev's bloc reduced to being the liberal opposition.

The latest challenge for the RPC is financing their candidates all the way to victory in the second round. It is not likely that the party will find sufficient funds to back candidates in all 23 districts. So, some candidates will be left to their own devices. Although Governor Vladimir Yakovlev has been working with the RPC for a long time, he will not loan his funds to the party in the second round, since he has his own prospects he would like to see in the assembly.

The Accord political bloc suffered the greatest defeat. The campaign run by Russia's Democratic Choice (DVR) demonstrated the incredible helplessness of the party's leadership and its inability to communicate with the electorate. This defeat further harms the city's "democrats," who have been trying unsuccessfully to unite for some time. In early October the media spread rumors that Anatolii Chubais would run for governor of St. Petersburg in 2000. If that is true, the recent election should tell him that he would have no real base for his campaign in the city. Like Russia's Democratic Choice, Our Home is Russia did poorly.

By 20 December, when the second round of voting will take place, voter turnout might drop, which could mean bad news for the liberals. The protest electorate (i.e. Communist supporters) tends to be very disciplined and turn out in large numbers on polling days. Either

way, the city is likely to have a politically divided parliament, which will be even less likely to work effectively than the current one.

LOCAL MAYOR BACKS FASCISTS IN NIZHNI NOVGOROD OBLAST. On 22 November the local Nizhnii Novgorod television station Seti-NN broadcast material prepared by journalists in Kstovo, Nizhnii Novgorod Oblast, on the relationship between the city's law enforcement agencies and the fascist organization, Russian National Unity (RNE), led by Aleksandr Barkashov. According to the story, the RNE is a "normal public organization" interested in cooperating with the authorities. Kstovo Mayor Vyacheslav Bolyak said the RNE members will form a volunteer patrol brigade to help the police enforce law and order on the streets. The head of the local branch of the Federal Security Service (FSB), Sergei Lvov, described the fascists as "normal young men who want to see more public order in the city," and said on the program that he can see cooperating with the RNE under certain circumstances.

The RNE is not officially registered in Russia, and most Russians view the group negatively, associating it with fascism. Many political leaders in the country proclaim that they would never cooperate with the RNE and warn the public against letting the fascists merge with law enforcement agencies, citing the example of Hitler in Germany in 1933. There have been similar incidents in Southern Russia. The fact that such favorable coverage was broadcast by the local TV station, which is directly subordinate to the mayor, suggests that the mayor himself authorized the program. The former TV station chief, who now heads the Kstovo branch of the ultra-nationalist Liberal Democratic Party of Russia (LDPR) and was at one time ousted by the mayor, criticized the city for this program. The mayor has long been an enemy of the local LDPR, which is suing him for allegedly insulting party leader Vladimir Zhirinovskiy. They have also initiated a recall of Bolyak from the Council of Europe, where he represents Russia.

The day after the broadcast, Bolyak scolded Seti-NN at a press conference, where he said the TV company would be prevented from covering the work of his administration. Additionally, Bolyak categorically denied collaboration with the RNE and again blamed Seti-NN for unfavorable coverage of his words. He also called on other mayors in the oblast as well as law enforcement agencies and the Union of Journalists to boycott Seti-NN. This is the second incident in which an executive branch official has barred Seti-NN from covering his administration. The first incident took place with the oblast government (see *EWI Russian Regional Report*, 12 November).

Meanwhile, the federal Ministry of Justice has begun investigating the relationship between Bolyak and the RNE. Of paramount concern is why the mayor would give the fascists access to state-owned real estate. Zhirinovskiy has asked the Federation Council to investigate the case. Of course, former First Deputy Prime Minister and Governor of Nizhnii Novgorod Oblast Boris Nemtsov would have to be investigated as well, as a long-time backer of Bolyak. The LDPR has filed a protest with the Glasnost Defense Committee about Bolyak's statements in regard to Seti-NN. - Yuri Rodygin in Nizhnii Novgorod

GORNO-ALTAI PRESIDENT SURVIVES TOUGH FIRST YEAR. The Gorno-Altai Republic elected Semen Zubakin president on 14 December 1997. He is the only regional leader who is a member of Yegor Gaidar's Russia's Democratic Choice (DVR) party. Given the

enormous difficulties of the last year, Zubakin has faced many challenges establishing himself as an effective leader. It was especially hard for him to define and articulate who his main allies would be. Now Zubakin must maneuver his way through the influential groups within the republic's elite, each with firmly defined positions. Such groups have dominated the past two parliamentary sessions seeking the right to name the powerful finance and economics ministers, among other key positions. The battle reached a climax this fall when several of the oppositionist groups came together and published an appeal asking Zubakin to resign. A coordinating council, made up of representatives of nearly all opposition groups, held numerous consultations among its members and with Zubakin and his team. Ultimately, the president and his government won a vote of confidence at the 23-25 September session of the republican assembly, the El Kurultai.

The main opposition leader is Yuri Antaradonov, who lost to Zubakin by 2 percent in the 1997 elections. Antaradonov, a leader of the region's indigenous people, recently stepped down as head of an organization called Altai's Ecological-Economic Region and announced his voluntary resignation as the republic's deputy prime minister because he felt it was not possible to work under pressure. He believes that the personal and business relations between the current leaders cannot help but have a negative impact on inter-ethnic relations. Moreover, he asserts that only the tolerance of the indigenous people prevents conflict in the region.

The situation has been difficult in the economic sphere as well. The economic crisis in South East Asia has affected the economy of Gorno-Altai Republic in a very direct way: South Korea is the main buyer of stag antlers which can be used to make medicinal products. These exports are the primary source of currency for the republic's budget. The yield for antler products was low in 1997 and hardly any antlers have been sold in 1998. Thus, if before 1997 the republic had some hard currency reserves, they are now depleted. Discussions between republican President Semen Zubakin and Prime Minister Yevgenii Primakov regarding possible financial help from the center to Gorno-Altai as a depressed region ended on a positive note. However, workers in the agrarian sector (more than 70 percent of the population) have still not received their 1997 salaries as promised by Zubakin. Public sector employees have not been paid since March 1998.

On 5 November republican radio announced that cattle belonging to a collective farm in the republic's Kosh-Agachsk district bordering Mongolia, China, Kazakhstan, and Tyva was being seized in order to pay off the farm's debts to the federal budget. The cattle are the only property that can be taken away from the collective farmers and sold for profit as meat. Collective farm workers have no way to make tax payments. Given the desperate nature of the situation, the republican legislature, El Kurultai, decided to halt such practices in the future. - Svetlana Tyukhteneva in Gorno-Altai

YAKUTSK MAYOR WILL NOT SEEK REPUBLICAN PRESIDENCY. Yakutsk Mayor Ilya Mikhailchuk, elected about a year ago, has decided not to use his position as a springboard for advancing his political career. He has introduced a bill to the republican parliament which would prevent the mayor from running for elected office until his term expires. Mikhailchuk feels that "an executive should work the entire term prescribed by law." Observers

suggest that the underlying reason for the mayor's proposal concerns his own personal ambitions in the 2001 elections for president of the Republic of Sakha (Yakutiya).

Brushing aside the accusations, Mikhalchuk stated that "the social and political activities of local government--holding receptions, frequent meetings with workers-- are not political games, but part of an administration's activities." Regarding the amendment, he stated that "some will not be pleased that plans to place 'their' man in power have been infringed." None of the mayor's recent predecessors have served to the end of their term-- Vice President of Yakutiya Spartak Borisov, Russian Deputy Minister for Nationality Issues and Federal Relations Aleksei Tomtosov, and former Presidential Chief of Staff Pavel Borodin. - Oleg Yemelyanov in Yakutsk

ELECTIONS 1999/2000

REGIONAL ELITE BACK LUZHKOVA IN TVER

by Boris Goubman, Tver State University

TVÉR--Moscow Mayor Yurii Luzhkov's movement Otechestvo (Fatherland) founded a branch in Tver, successfully spreading its influence even further in Russia's regions. The movement held its founding congress in the oblast on 10 December. As in many other regions, the movement, whose leader is one of the strongest candidates for the upcoming presidential elections, was supported by the oblast and city administrations. The presidential representative in the oblast also clearly supports the movement's presence. The members of the group's presidium noted this support at the meeting, where First Deputy Governor Viktor Opekunov, Tver Mayor Aleksandr Belousov, Chairman of the oblast Legislative Assembly Vyacheslav Mironov, and Presidential Representative Tamara Karyakina were present. Naturally, some of the most notable business leaders also expressed their support for the formation of Otechestvo's branch in the oblast. Some of them were included in the presidium, for example Evgenii Morozov (Intersfera), Liliya Kornienko (Volzhskii Pekar), Sergei Kiselev (Tsentrosvar), and chairman of the Tver Union of Industrialists and Entrepreneurs Sergei Potapov (Melkombinat). Of municipal leaders, the heads of Konakov and Olenin raions were present to pledge their loyalty to Otechestvo.

In Tver, as in many other regions, political leaders and aspiring politicians consider Otechestvo a locomotive for supporting their positions or competing for new posts (*Izvestiya*, 10 December). In Tver it is obvious that Governor Vladimir Platov and his potential opponent, Tver Mayor Aleksandr Belousov, view Otechestvo as a means for strengthening their respective chances for winning the next gubernatorial election. This was obvious as a struggle for the movement's leadership ensued between Belousov and Opekunov, the governor's front man and ultimate victor. It is well known that Governor Platov actively works with the right of center parties, but Otechestvo, although it proclaims left of center tendencies, considers him essential for maintaining the movement's position in Tver.

Various public and political organizations expressed their desire for representation in the movement's regional council. Although he generally opposes such encroachments, Opekunov

promised to keep tighter discipline in the ranks than was in the Communist Party of the Soviet Union.

In the end, nine people were elected to the movement's council, including Opekunov, Belousov, Mironov, and Potapov. Opekunov was elected chair of the movement by a large majority. Mayor Belousov was a distant second and openly voted for his opponent. On 11 December the movement was registered with the federal authorities. The movement will certainly encounter great difficulties functioning on the regional level as a new party of power. It is likely that soon Tver will be an example of a region where the regional elite is competing with each other within the framework of "Otechestvo."

IRKUTSK VICE-GOVERNOR HEADS LUZHKOV'S PARTY BRANCH. Vice-Governor Geli Zherebtsov has become the chair of the Irkutsk branch of Otechestvo (Fatherland), a party set up by Moscow Mayor Yurii Luzhkov to boost his prospects in the next presidential elections. Zherebtsov was elected at the 11 December founding conference of the regional branch. The main goal of the conference was to elect its leadership and select delegates to the movement's national conference on 19 December in Moscow.

Representatives of various social organizations and movements in Irkutsk present at the gathering unanimously endorsed the new movement's charter, which embodies its fundamental ideas in the slogan, "Developing the state through improving the life of every individual!" The movement's participants consider the active revitalization of domestic production as the only real way to prosperity.

After his election Zherebtsov said that the new movement will face many challenges, especially from the mud-slinging and information blockade in the central mass media. Judging by their representation at the regional conference, Irkutsk journalists will be more supportive of the new movement than their Moscow colleagues. - Teleinform in Irkutsk, *Novosti Kompanii i Rynkov*, 11 December 1998.

OTECHESTVO OPENS IN YAROSLAVL. The political organization Otechestvo (Fatherland) held its founding conference to establish a regional branch in Yaroslavl, bringing together thirty-four delegates. Yaroslavl Governor Anatolii Lisitsyn supported Moscow Mayor Yurii Luzhkov's idea of creating an organization that would combine a healthy amount of patriotism and political centrism, capable of rebuilding a great Fatherland. The conference participants adopted the Otechestvo charter and program and appointed Yurii Koshchin to create the oblast branch. The entire oblast administration came together for this purpose. The meeting began with a moment of silence for slain State Duma Deputy Galina Starovoitova. - Ilya Kravcheko in Yaroslavl

FORMER BACKER SLAMS LEBED FOR POOR LEADERSHIP

by Pavel Avramov

KRASNOYARSK -- On his half-year anniversary as Krasnoyarsk Krai governor, Gen. Aleksandr Lebed suffered a major political blow. In an NTV interview aired on 7 December,

Anatolii Bykov, chairman of the board of Krasnoyarsk Aluminum Plant (KrAZ) and the vice president of Bank Rossiiskii Kredit, told reporters that supporting Lebed was a big mistake. Bykov had been the main supporter of Lebed's candidacy, providing him with significant funding. The general's election, Bykov continued, has led to outsiders running the krai's affairs and made the region a stepping stone for Lebed's presidential ambitions in 2000.

On the same day, Lebed responded to Bykov's statements by saying that his administration has been busy establishing law and order in the region. He cited several deputy governors and other highly placed officials from the previous administration who are currently under investigation on corruption charges. After his press conference, Lebed left the region for a trip to Montreal, Canada.

What makes this latest clash so notable is the contrast with the days of Lebed's campaign and those just after his election. At that time he and Bykov often appeared side by side in public, showing off their seemingly solid partnership. Bykov not only funded Lebed's campaign but he also helped run it. For instance, Lebed received favorable coverage from TVK, a local television broadcaster partially owned by Bykov. People close to Bykov were not surprised by his latest move, however. As early as this spring it was clear that two such powerful individuals could not coexist for very long (see *EWI Russian Regional Report*, 12 November).

Bykov, 38, has a nation-wide reputation as one of the leaders of Russian organized crime in Krasnoyarsk Krai. A former boxer, he studied physical education and briefly taught gym in a secondary school. By many accounts, in the mid-1980s Bykov took advantage of the turmoil surrounding perestroika to create one of the first criminal organizations in the region, a group that has been accused of many bold murders. Shockingly, his group cooperated with some of the law enforcement officials in the krai at the time, including the current chairman of the krai's Legislative Assembly, Aleksandr Uss. Along with his other colleagues, Uss believed in "fighting crime with crime," or using one criminal group against others. Bykov's main accomplishment, which he loudly advertised, was pushing the so-called "Chechen Mafia" out of the Krasnoyarsk market.

The krai has paid a high price for this partnership. Bykov managed to acquire a controlling stake in KrAZ as well as several other lucrative pieces of formerly state-owned real estate in the region. He also bought the allegiance of high level officials like Uss, as well as some Moscow bureaucrats. Consequently, Bykov has become one of the most influential entrepreneurs in the krai, and two years ago he ventured successfully into politics. Bykov seems to succeed in electoral politics despite some of his unappealing characteristics, including a face scarred by his boxing career and speech impediments. Yet, his generosity and image as a decisive leader have handsomely made up for his shortcomings.

It was only a matter of time before Lebed and Bykov clashed, and the recent crash of Rossiiskii Kredit finally set off the collision. The bank was one of the main sponsors of Lebed's campaign for governor: some sources claim that it donated as much as \$10 million to the cause. Since the election, Lebed has been drawing on the bank's middle managers to staff his krai administration. Many of these "Moscow boys," as Bykov disdainfully calls them, come to Krasnoyarsk from the capital for a short time to gain some experience running a regional government, with an eye toward eventually staffing President Lebed's administration. As soon

as the bank was hit by the crisis, Lebed distanced himself from Rossiiskii Kredit, and Bykov's outburst followed shortly thereafter. As one local expert said on Bykov's TVK recently, "Lebed's rule in Krasnoyarsk Krai has been a total fiasco."

On 8 December, Bykov told the press that the krai administration has been investigating KrAZ for criminal connections. "There is no mafia at the KrAZ!" Bykov proclaimed, and threatened to launch an initiative to recall Lebed from office. The krai's Legislative Assembly recently adopted a law providing for recall procedures, with Lebed's endorsement and approval.

CENTER-PERIPHERY RELATIONS

YELTSIN FIRES VLADIVOSTOK MAYOR, BOOSTING HIS POPULARITY

by Yevgenii Popravko

VLADIVOSTOK--Many Russians have become used to the political ramifications of President Boris Yeltsin periodically regaining his health. On an almost regular basis Yeltsin fires various officials immediately after he returns to the Kremlin from sick leave. This time, the president briefly returned to the business of running the country on 11 December and signed a decree removing Vladivostok Mayor Viktor Cherepkov and authorizing Primorskii Krai Governor Yevgenii Nazdratenko to appoint an acting mayor until the next election. The decree cites the fact that Cherepkov's term in office expired in July 1998 as well as numerous requests by heads of local governments.

Rumors about the possibility of such a turn of events began creeping around Vladivostok as early as October, after Nazdratenko visited Moscow and met with Prime Minister Yevgenii Primakov and several officials from the presidential administration. Nazdratenko himself vehemently denied the connection between his visit to Moscow and Yeltsin's decision. Cherepkov's former deputy and now one of his staunchest foes, Yuri Kopylov, called on the public to sign petitions asking for the mayor's removal. The public response was lackluster, although 78 industrial leaders did send such a petition to Primakov.

However, observers agree that the Kremlin made a rash decision in removing Cherepkov, because in doing so it openly sided with Nazdratenko in the ongoing feud between the mayor and the governor. Yeltsin fired Cherepkov in 1994 for alleged bribery and it took the mayor two years to have the courts reinstate him. This time he has even more grounds for a court appeal and even greater popular support in Vladivostok. Speaking at a 13 December rally, Cherepkov told his supporters that he does not intend to comply with the decree, which "violates four articles of the Constitution, and three articles of the federal law on local government." These documents prohibit federal authorities from meddling in the affairs of local government and stipulate that a mayor's term ends when the newly elected mayor is ready to assume office. Cherepkov refused to resign until a new mayor is elected and reminded Yeltsin that he is not the president's employee and only answers to the people who elected him.

Now the city's government is divided. Cherepkov's supporters have barricaded themselves in the mayor's offices, although he himself is hospitalized. His deputy Nikolai

Beletskii is acting in his name. The krai administration has appointed Yurii Kopylov as its own acting mayor, and he is basing his operations in the Frunze raion administration building. The krai has ordered banks to stop any kind of transactions with Cherepkov's regime and Kopylov made himself a new mayor's seal. Mayoral elections are scheduled for 17 January. Cherepkov fears that the authorities will either cancel the elections or arrest him before they take place.

In the September elections Cherepkov's name was removed from the ballot several hours before the voting started because election officials accused him of using his office for campaign purposes. As a result, the majority of the electorate voted against all other candidates, rendering the elections invalid. Undoubtedly, Yeltsin's decree will only boost Cherepkov's popularity, which was dwindling until now due to the cold season and the mayor's inability to provide the city with enough heat. The embattled mayor has been cultivating his image as the nation's conscience and an uncompromising crusader against organized crime. In his numerous speeches, Cherepkov has promised in a very pompous manner to help free Russia from the rule of mafia gang leaders.

Speaking at a press conference shortly after Yeltsin's decision was made public, Nazdratenko said that he considers the presidential decree legitimate and does not think the courts will overturn it. In 1996 Yeltsin revoked his own 1994 decree removing Cherepkov not due to the court ruling, but for political reasons, the governor said. Such statements by the governor show that he now enjoys some support in Yeltsin's inner circle. Nazdratenko is skeptical about the prospect of holding mayoral elections in January. Instead he suggested that the city elect a new legislature, which then can either elect one of its own members as mayor or hire a city manager instead. In contrast, the presidential representative in the region, Viktor Kondratov, and the Krai Duma Speaker Sergei Dudnik refused to comment on the legality of Yeltsin's decree, but suggested that the feud must be solved once and for all at the polls by Vladivostok voters.

ZHIRINOVSKY TO RUN FOR SVERDLOVSK GOVERNOR. Vladimir Zhirinovskiy, the leader of the ultra-nationalist Liberal-Democratic Party of Russia (LDPR), has announced that he will compete in the August 1999 gubernatorial elections in Sverdlovsk Oblast.

Observers are used to clownish outbursts from Zhirinovskiy, but this time he might be serious. Zhirinovskiy had earlier announced that he would run in the Leningrad Oblast elections to fill the seat vacated by First Deputy Prime Minister Vadim Gustov, but those elections have been postponed. The LDPR's interest in Sverdlovsk Oblast is logical: the party enjoys a fairly high rating in the region and its influence is growing. According to one of the regional party leaders, a number of mayors in small oblast towns and several enterprise leaders have already joined the LDPR ranks.

Officially, Zhirinovskiy will kick off his campaign at the 19 December party conference, which is projected to bring together some 600-800 people, including several high-level oblast officials. The oblast's minister of labor and social policy is a prominent LDPR member. Zhirinovskiy will likely run the campaign in his usual loud style, and many Moscow image-makers will be involved. He will target rural areas of Sverdlovsk Oblast, which are traditionally poor and therefore susceptible to extremist and populist propaganda.

Yet it is unlikely that Zhirinovskiy could actually attract a majority of the votes; his party ratings across the region are still fairly low. The real question is how much his participation will affect other candidates. One thing is certain: Zhirinovskiy will bring his vibrant personal charisma to the campaign, something that most local politicians lack. - Dmitry Strovskiy in Yekaterinburg

CHUKOTKA'S PRODIGAL DUMA DELEGATE FINALLY REPORTS HOME. In May the residents of Chukotka elected Vladimir Babichev to the State Duma (see *EWI Russian Regional Report*, 4 June). This week he met with journalists from the newspaper *Krainii Sever*. The first question asked has been on everybody's mind for a long time: Why, in the course of the last half a year, has the region's elected deputy not come out to Chukotka? Babichev openly answered that he had no accomplishments to report back to his constituents, and he was too ashamed to show his face in the okrug. The country was at a standstill in the summer and fall. The prime minister was replaced twice, a serious battle ensued in the Duma, and finally in August the financial markets crashed. Only in November did finances begin to flow again, giving Babichev the impulse to go Chukotka. The funds allocated by the federal government in the form of deliveries of food and fuel oil, compensation for electricity, housing subsidies, aid to depressed regions, were finally sent to the region. Aid was also granted to the Bilibinsk Atomic Power Station from a separate source.

Of course, the entire volume of money promised has not materialized. The federal budget at present is not in the position to settle its accounts with all of the regions, but according to Babichev, Chukotka will receive three fourths of the intended sum, which is better than other regions. A bill dealing with the north currently in the Duma will give additional benefits to Chukotka.

Babichev promised that he will return to Chukotka in the future, claiming "Chukotka will not be cast away." Stressing the positive, he noted that there is real potential for economic development in the region. - Sergei Vasilyev and Yuri Prygov in Anadyr

MOSCOW REPRESENTATION DRAINS KURSK BUDGET. A year and a half ago Kursk Governor Aleksandr Rutskoii asked the oblast Duma to approve a \$4.6 million bank credit for the administration to buy a \$1.9 million residence near the Kremlin. The legislators unquestioningly approved the transaction and Rutskoii refurbished the building as an oblast representation in the capital. Journalists then discovered that the residence was bought for an exorbitant price from a high-level official in the oblast administration. The seller was the prominent Chechen businessman Musa Idigov, who was serving as first deputy governor for economics at the time of the transaction. It was then revealed that the building had been used as collateral with Moscow's Inkombank in order to obtain the credit. Although the oblast owes a huge amount of money to Inkombank, it turns out that it does not even own the building in question. The building housing the governor's employees, journalists discovered, was at a different address, although still near the Kremlin. Every month the oblast was paying a considerable amount of money for maintaining apartments for 46 of the governor's employees.

For a long time neither journalists nor taxpayers heard anything close to an intelligible explanation of what was going on with the oblast building in Moscow. Finally, at the oblast Duma meeting on 28 November, Rutskoii asked the deputies not to be upset. He then

announced that the number of Moscow-based oblast employees would be cut from 46 to 3 and that the debts owed to Inkombank, which went bankrupt and lost its license following the financial crisis that began in August, would be addressed. Ruskoi claimed that, "There is nothing out of the ordinary going on here." Idigov received his money, though. One wonders if he is the only one. - Sergei Sarychev in Kursk

SPECIAL REPORT

DAGESTAN: A SOCIETY UNDER PRESSURE. Russian ethnographer Tamara Sivertseva provided some interesting insights into the threats to social stability in Dagestan in a talk at Harvard University's Davis Center for Russian Studies on 7 December -- the same day the decapitated bodies of four kidnapped British/New Zealand telecom engineers were found in neighboring Chechnya.

Sivertseva, a regular visitor to Dagestan for many years, said that "abduction is now an everyday event" in that republic. Over the past year the practice of kidnapping for ransom, already endemic in Chechnya, has spread to Dagestan. Favorite targets are the relatives of rich Dagestani businessmen, but foreigners are also vulnerable. An American teacher, Herbert Gregg, was seized in Dagestan on 12 November (see *EWI Russian Regional Report*, 12 November). Kidnap victims are usually sold to gangs in Chechnya, who negotiate with relatives for their release. Payments of up to \$25,000 are common.

The wave of kidnapping is a result of the collapse of Dagestan's economy; the spread across the border of the disorder in Chechnya; and the vacuum in law and order that has opened up since the collapse of the Soviet Union. As an ethnographer (and scholar in the Academy of Sciences Institute of Eastern Studies), Sivertseva was able to put these phenomena in their sociological context.

Dagestan is a polyethnic society with a complex layering of group identities. Traditional village culture remained remarkably intact in Dagestan throughout the Soviet period. Loyalty to one's family and clan served to stabilize people's identities, career expectations and political behavior. There have been some changes in traditional values. For economic reasons, most families now restrict themselves to one or two children (in part because they cannot afford to pay the bribes needed to buy a decent higher education). Television is popular in every village, especially the well-known American and Mexican soap operas. (The district in the capital, Makhachkala, where the rich criminal bosses live is known colloquially as "Santa Barbara.") Since the collapse of state socialism Dagestanis are, said Sivertseva, "groping in the dark, trying to find their way on a new and unknown path," and are "fearful that they may be losing their centuries-old traditions."

In addition to clan identities, Dagestan's 1 million inhabitants belong to a plethora of ethnic groups, the largest of which are the Avars, Kumiks, and Lezgins. No less than 14 languages serve as the language of instruction in Dagestan's schools - not to mention dozens of local dialects. Citizens thus have a hierarchy of identities: family, village and ethnic group; and above that awareness of belonging to the family of Dagestani or, more broadly, North Caucasus peoples.

These clan and ethnic identities are embedded in respect for Islam, which survived the Soviet era despite the repression (such as the destruction of local saints' tombs in the 1920s). Even in the Soviet period, educated Dagestanis had some mastery of Arabic in order to read the Koran, and the language has experienced a resurgence since 1991. Islamic influence was also strengthened by the fact that, as the collective farms were broken up over recent years, control over land use was handed over to the Muslim communities or Jamad. Fundamentalist sects such as the Wahhabis have tried to penetrate the region, but are viewed with suspicion since their orthodox interpretation of Islam challenges the adaptations of Islam to local Dagestani traditions, which has taken place over the centuries.

These robust ethnic identities existed in parallel to Dagestanis' political identities. Dagestanis valued the order imposed by the USSR (photos of Stalin adorned many kitchen walls until recent times), and the Soviet period is still regarded with a certain nostalgia. Fifty percent of the republic's population support the Communist Party (another 40 percent decline to support any political party). Democracy is regarded rather ambivalently. The national movements that have sprung up along ethnic lines are the most likely rallying point for democratic parties. Such politicization of ethnic identity could, however, trigger a spiral of conflict - over land, over political posts - which could plunge multiethnic Dagestan into chaos.

Until 1995 Dagestanis were content to stay within the Russian Federation. However, their attitude has changed in the wake of Russia's invasion of Chechnya and the devastating economic collapse that has befallen their republic. Even before the slump of the past few years, perhaps 40 percent of the labor force had gone north as seasonal workers during the summer. The reduction in this seasonal work, plus the end of subsidies for federally sponsored industries (such as defense plants) has left Dagestan's economy in dire straits. Recorded cash incomes are among the lowest of any Russian region. The village economy is faring slightly better than that of the cities.

Increasing economic desperation has fueled the rise of powerful criminal gangs, abetted by the large number of weapons in the hands of the population and the spill-over of criminal and political armed conflict across the Chechen border. Russian soldiers and border guards patrol the frontier with Dagestan and operate road-blocks throughout the province, but Moscow does not seem to have a strategy for reversing the economic decline or creating a stable political system in the republic. - Peter Rutland

ECONOMIC ISSUES

ICN SUBSIDIARY HALTS PRODUCTION IN CHELYBINSK. On 15 December ICN-Polifarm, a subsidiary of ICN-Pharmaceuticals in Chelyabinsk Oblast, ceased production of capsules and tablets. Workers were sent on forced leave, although they keep two-thirds of their salaries (the levels provided for by Russian legislation). According to ICN-Polifarm's General Director Andrei Zhvakin, this is a planned break with the primary goal of reducing expenses and cutting losses. The lack of payments from public sector clients, the population's reduced purchasing power, the constant increase in the dollar's value against the ruble, and stricter demands from creditors regarding cash payments have all contributed to Polifarm's losses.

The enterprise's sales have fallen by more than 50 percent. Today it is clear that Polifarm will not be able to meet its planned \$25 million volume of sales for 1998. Furthermore, at present the company's sales are lagging behind the pace set in 1997 when sales reached a record of \$22.46 million. Therefore, in order to keep the financial situation from deteriorating and to prevent stockpiling of unsold products, ICN Pharmaceuticals decided to temporarily close some of its Russian enterprises. Production also has been halted at ICN Oktyabr in St. Petersburg (see *EWI Russian Regional Report*, 24 November). Ceasing capsule production alone has allowed Polifarm to save 450 thousand rubles in raw materials, and the total savings will amount to \$200 thousand. Only the most essential units of the enterprise are still in operation, as well as financial and technical services. Yet, even they are working only four days a week. The enterprise plans to resume its normal work schedule on 11 January. For 1999 Polifarm hopes to implement its program for producing medicines that currently must be imported and introducing a new line of tablet and syringe products as well as widening its distribution network and its network of pharmacies. - Igor Stepanov in Chelyabinsk

LENINGRAD OBLAST GRANTS LAND TO CATERPILLAR FOR PLANT. The company Caterpillar-Tosno, a Russian subsidiary of America's Caterpillar, signed an agreement to lease land to construct a factory for producing road-building technology in the Tosno district of Leningrad Oblast. The tri-partite agreement was signed by Acting Governor Valerii Serdyukov; the mayor of Tosno Ivan Khabarov; and General Director of Caterpillar-Tosno Gilbert Holmes. According to the agreement, the company will lease 24 sq. hectares of land for 49 years with the option of extending the lease. At present the company has laid the foundation for a future production complex. The factory should launch operations at the end of 1999. Serdyukov emphasized that the factory will produce from one to three thousand units of road equipment per year and up to 20 thousand tons of parts by December 1999. There are 150 people working on the factory's construction at present and the crew will increase to 450 before construction is completed. On 7 December Serdyukov met with U.S. Senators Jack Reed and Chuck Heigel to discuss the oblast's investment climate and the Caterpillar project. Overall in 1998 Leningrad Oblast received \$80 million in foreign investment. Nearly \$200 million is expected in 1999. - Roman Zotov in St. Petersburg

SHAREHOLDERS FIGHT TO CONTROL PERM MOTORS

by Andrei Suslov

PERM--The battle over control of the Perm Motors company, a major industrial holding, has become so intense that only arbitration could resolve the conflict. The company's current board was elected in the end of June 1998. The chairman is Aleksandr Kalin, usually described as an agent of the UNEXIMbank-controlled Interros. Viktor Kobelev became general director in September. However, the board reversed itself on 24 November and called for change in the plant's top management, appointing Vladimir Satyukov as the acting chairman. Refusing to recognize the board's legitimacy, Kalin and Kobelev declined to surrender their authority. The

board then met on 30 November and petitioned the federal Ministry of Economics and Gazprom, asking them to increase their respective roles in plant management.

In an interview with the newspaper *Zvezda*, one of the board members confided that during a recent meeting with Deputy Prime Minister Yuri Maslyukov, there were talks of forcing a Perms Motors subsidiary, the Perm Motors Plant (PMZ), to surrender its controlling stake to the government. Although PMZ is a constituent part of Perm Motors, it owns 31 percent of the mother company's shares. In turn, Interros and its American partner Pratt & Whitney control the majority stake in PMZ. The board member interviewed by *Zvezda* was convinced that Interros is simply a puppet of Pratt & Whitney. The new management is betting on Gazprom because the gas monopolist is prepared to commission 1,700 engines from Perm Motors, which would keep the company working for the next ten years. Apparently, the old management has refused not only to give up its power, but even to allow the new managers to enter the premises.

What has caused the board to reverse itself and turn against the people it appointed only several months ago? Evidently, the board was unhappy with the policies of Kalin and Kobelev, who allegedly tried to protect the interests of Interros at the expense of other shareholders. Specifically, Gazprom, as one of the shareholders, does not like the idea of shifting Perm Motors' assets to banks controlled by Interros. Shareholders also resent the sale of 27 percent of the stake in Proton, one of the strategic enterprises in the holding, to the Americans.

It is quite possible that Gazprom will decide to take the initiative and push Pratt & Whitney out, since the Americans have been late with their planned investments. When they received their shares in PMZ, they promised to invest \$120 million. So far they have made \$15 million worth of direct investment, and the next tranche has been delayed indefinitely. Many feel that the only way to survive is to rely on Gazprom's contract. While Interros and Pratt & Whitney together invested about \$23 million, Gazprom gave \$40 million to finance research and development for the project. Gazprom is more interested in modernizing the plant, which makes it a more attractive as a partner than PMZ's majority shareholders. Finally, if Gazprom does commission the engines from PMZ, it would create new jobs and boost output growth by 4-5 times. The aviation market, the traditional venue for Perm's engine makers, does not come close to sustaining PMZ's productive capacities.

The next shareholders meeting is scheduled for 25 December, where a new board might be elected and the situation might be clarified. According to Deputy Governor Gennadii Tushnolobov, both sides are right and wrong at the same time. The fired managers have no grounds for complaining about the way they have been treated since today Perm Motors suffers from large tax and wage arrears. Only an independent audit either by the Audit Chamber or by the Presidential Administration can clear things up. The governor is planning to petition for such an inspection, Tushnolobov said. (*Kapital*, 7 December)

A TALE OF TWO CAR MAKERS IN TATARSTAN

by Midkhat Faroukshine, Kazan State University

KAZAN--Tatarstan's two major vehicle producers, KamAZ and ELAZ, demonstrate how differently the economic crisis has affected some of the republic's key enterprises.

The giant KamAZ truck plant suffers from a number of ills. The greatest one by far is its debt to its numerous creditors and to the federal and regional governments. In total KamAZ owes over 4 billion rubles in credits and taxes. Creditors are suing KamAZ, and their claims are at least ten times larger than the amount of money the company is trying to collect from its own debtors.

Now the Kazan customs office is holding \$40 million worth of Japanese equipment destined for KamAZ. The company has only paid \$15 million on the contract, which was at one time backed by the Russian government, but even the equipment covered under that payment has not been released. Counting the fines for late payments to both the Japanese company and the customs office, KamAZ currently owes an amount about equal to the value of the contract. The customs office is threatening to auction off the confiscated equipment or send it back to Japan if KamAZ does not pay up.

Meeting in Moscow on 1 December, the main shareholders discussed restructuring the company's debt. The shareholders were supposed to agree on a scheme to convert the debts into promissory notes, which could later be converted into KamAZ shares. Among the largest shareholders are the federal property fund and various banks, including Sberbank and Vneshtorgbank. KamAZ's main creditors are the European Bank for Reconstruction and Development (EBRD) and the American company Kohlberg, Kravis, Roberts & Co (KKR). The Republic of Tatarstan owns only 9 percent of the shares, as does the company itself. The shareholders approved the proposed scheme in principle.

However, some creditors were unhappy with the decision and some, including the federal and republican authorities, liked the proposed business plan. Others, like Vneshtorgbank, the EBRD and KKR refused to endorse the restructuring scheme until a more workable business plan is devised. The final round of negotiations will take place on 17 December in Naberezhnye Chelny, the company's home city. Tatarstan's President Mintimer Shaimiev has called on KamAZ to come clean with its financial obligations and prepare a realistic business plan before that date. Other sources report that the EBRD, which has loaned \$100 million to KamAZ, was the only creditor that disapproves of the share swap plan. Its representatives explained that they do not expect the plant to recover in the foreseeable future.

Another challenge facing KamAZ is the declining rate of output. Thousands of KamAZ employees will be laid off in the next year. In 1997 KamAZ produced 12,500 trucks, but in the first 11 months of 1998 it had made only 2,400 trucks, including 800 in November. Whereas KamAZ made 177 million rubles in October, it was planning to raise its November revenues to 240 million rubles and earn 300 million rubles in December. To stay self-sufficient it would have to make at least 360 million rubles every month. The situation is further deteriorating because of the conflict between Chairman of the Board Ravil Muratov, who is also the first deputy prime minister of Tatarstan, and General Director Ivan Kostin. They disagree on management and personnel issues.

In contrast, Tatarstan's other large car manufacturer, ELAZ, is faring much better. Having formed a strategic partnership with General Motors, ELAZ is assembling Chevrolet-Blazers. The next step is to automate the assembly process. The partners also want to begin

assembling Opel-Vectra cars at the ELAZ plant. Foreign firms in the timber processing, chemical and pharmaceutical industries have also expressed interest in building production facilities on the company's premises. The success of ELAZ has trickled down to other local enterprises, including KamAZ.

A free economic zone, "Alabuga," will soon open in the city of Yelabuga, the home of ELAZ. Companies within the zone will be granted tax holidays on all taxes except income tax and payments toward pension, medical and social security funds. Foreign companies working in the zone will be exempt from customs duties on imported goods that would be used in production.

SAUSAGE PRICES GROW STEEPLY, AS DO LOSSES IN IRKUTSK. This week the Irkutsk meat-processing company raised prices 20 percent. Due to the plummeting ruble exchange rate, the company has lost 30 million rubles. According to the firm's general director, Nikolai Vinichenko, the 20 percent increase in prices does not compensate for the loss. Production remains unprofitable and salaries have been slashed by a third.

However, the primary problem is a lack of livestock. There is no meat in Russia, Vinichenko claims, and to buy meat from Mongolia, the company would need to raise the price of its products by 40 percent. The company tried to stabilize prices and solve the livestock problem by using new recipes for making sausages out of chicken meat. However, the quality of the product decreased, forcing the firm to return to its old recipe.

The enterprise directors are very pessimistic. Orders have already fallen by 40 percent. Vinichenko thinks that up to 500 workers will be out of work in the near future. He confessed that his enterprise is responsible for increases in the price of meat in neighboring regions. When Mongolian imports became too expensive, the company began to buy up meat in the republics of Buryatiya and Khakasiya, as well as in Krasnoyarsk Krai, and nearly exhausted their meat reserves, causing prices to go up. -- Teleinform in Irkutsk, *Novosti Kompanii i Rynkov*, 4 December 1998.

NEW SALES TAX COULD HURT CAR SALES IN SAMARA. The Samara Oblast Duma is discussing plans to introduce a 5 percent sales tax in the region. As representatives of the VAZ dealers association told legislators, should the tax be adopted, oblast car sellers will have to take their business elsewhere.

The idea of introducing a sales tax in the Russian regions came from the federal government. While the State Duma adopted the law authorizing this levy in principle, it is up to each region to set the local tax. Samara legislators want to set the maximum rate of 5 percent for all cash sales of consumer goods and services. Only a short list of goods deemed as "socially important" will be exempt, including basic foodstuffs, medicine and social services. This list is still under discussion and some items might still be dropped. Although the tax exemption will free about half of all the goods traded in the oblast from the levy, the regional budget will still raise 800 million rubles a year in revenue.

As all other consumer goods, automobiles will be taxed at the full 5 percent rate. Local VAZ dealers do not like this idea at all and they decided to lobby members of the Duma aggressively. They claim that individual dealers can easily shift their operations to other regions

such as Moscow with less punishing taxes. They reminded the legislators that a similar experiment in Perm Oblast several years ago resulted in the virtual collapse of the car market in the region. Recall that today over 500 dealerships work with the AvtoVAZ car manufacturer, and sell each vehicle with a 5-7 percent markup. Large dealers sell 500-1,000 cars a month, and up to half of the transactions are concluded in cash, which would make them liable for the tax. Moreover, the winter is a traditional down time in car sales. The proposed sales tax, the dealers claim, will make their business in Samara Oblast virtually impossible.

Instead, the VAZ dealers association suggested that Duma members set the sales tax at only 1 percent, but this idea met weak support in the legislature. After all, Governor Konstantin Titov already has spoken out against setting a favorable 3 percent tax on car sales. The oblast administration seems to be determined not to grant AvtoVAZ or its dealers any preferential treatment and has said that the dealers' arguments are largely baseless. Titov's financial advisors are probably counting on the prohibitive costs of shifting dealerships to other regions. They also argue that only a small fraction of all car sales take place as cash transactions and a customer willing to spend 60,000 rubles on a car will surely not be deterred by a mere 3,000 ruble tax. On the other hand, it is likely that Russia might gain a national sales tax beginning 1 January, although its rate might vary anywhere from 1 to 10 percent. Despite the administration's determination, the issue is still open to debate. Naturally, some legislators, particularly deputies from the city of Togliatti, where AvtoVAZ is based, will be sensitive to the dealers' arguments. - Andrei Perla in Samara

TOMSK PRIORITIZES TIMBER, SMALL BUSINESS. The Tomsk Oblast administration has announced a major policy shift in its economic priorities for the next two years. After many years of stagnation, the timber industry will top the list of oblast priorities, followed by small business.

The shift in industrial policy priorities does not mark a departure from developing the traditional spheres, such as the energy complex. Yet, when half of the tax receipts come from only one sphere, like oil extraction, the budget situation is unstable. Thus, the recent travails of the oil industry, with prices on the international market dropping substantially, caused major problems for the entire oblast.

The timber industry was chosen as a top priority because of its enormous potential. Nagovitsin said, "Timber is the only realistic option. Some production facilities are already in existence and the market demands more than we can supply." At the same time, all lumber enterprises in Tomsk Oblast are currently idle. It is costly to invest in unprofitable production, and not everyone will receive funding. Nagovitsin stated, "The foreign market is much richer than the domestic market. This means that we need to raise export-oriented production."

The second part of the program provides for the support of small business. The administration is prepared to confiscate unused property from large enterprises and lease it to small businesses. The status of a "social enterprise" will be introduced for companies that will have tax privileges in order to maintain workers' jobs. After the commission's discussions, the program will be introduced for approval in the oblast Duma.

At the last minute Tomsk Oblast Governor Viktor Kress cancelled a trip to Switzerland. He was supposed to discuss an aerial bridge between Russia, the United States and Canada

through the north pole with UBS bank. He cancelled because of a disagreement between the federal government and the Siberian Accord interregional association on this project. - Andrei Bondarenko in Tomsk

FOREIGN TIES

OMSK OBLAST FACES CHALLENGES IN ENERGY AND GAS SUPPLIES

by Valerii Chukhomlin, Omsk State University

OMSK--According to the weekly *Voskresenie* (3-10 December), the Omsk Oblast administration held a special meeting to review progress in executing the regional program to develop natural gas supplies in 1997-98 and map out priorities for 1999. Under the old system, the oblast derived its heat mostly from burning fuel oil (*mazut*) and coal, and virtually no gas. The Omsk Oil-processing Plant used to process 60 percent of crude petroleum into oil products. Fuel oil comprised the remaining 40 percent. After the plant was significantly modernized, the company gained more efficient processing technologies and is now able to turn 87 percent of crude petroleum into oil products. Naturally, the proportion of fuel oil has declined.

Each winter the city of Omsk requires 10 thousand tons of fuel oil daily for its heating needs. Every ton of fuel oil costs 1,000 rubles, while the plant cannot produce more than 6 thousand tons a day. Coal cannot make up for the resulting gap, and burning gas seems to be the only solution. Another reason to develop the oblast's gas supplies has to do with the economic crisis in the country, including the crisis in the fuel and energy sector. Every year the oblast imports 8 million tons of coal from Kazakhstan. Until now the two sides operated under a special agreement with President Nursultan Nazarbaev, but now coal extraction in Kazakhstan is run by Americans, who do not have much patience with Russian barter practices and the elaborate system of mutual debt cancellations that take the place of cash payments. Consequently, the oblast now must spend 2 billion rubles every year (or one quarter of the regional budget) to foot the energy bill, and this number is likely to grow in the future. Thus, switching to natural gas is a matter of life and death for Omsk Oblast.

Governor Leonid Polezhaev stressed that supplying the oblast with gas within three years is the only way to keep it afloat without hiking rents and utility prices for impoverished consumers. The oblast program provides for a gradual increase in gas consumption to 3.5 cubic meters a year. Over 100,000 residential apartments will be supplied with gas, and 1,600 kilometers of the gas pipeline network will stretch over the oblast. Such an aggressive gasification campaign should enable the oblast to drop its annual coal consumption by 105,000 tons and the fuel oil consumption will decrease by 193,000 tons. The oblast will save 75 million rubles, 65 million of which will be saved directly by the oblast budget. Many strata of the oblast population will benefit, specifically teachers, physicians, and other public sector employees, as well the underprivileged.

Given the great importance of the program for every oblast resident, the oblast administration held its meeting with the goal of sharing experience and adjusting the 1999 budget

appropriately. The officials present at the meeting focused on three aspects of the program. First, they considered the questions of financing it. The oblast needs to build a centralized gas pipeline system as a backbone of a region-wide distribution network. Of course, the government does not have the money to fund such a capital expense. The officials discussed possibilities of attracting private capital and investment from the savings accounts of local citizens. Today the population has invested merely 3 million rubles, which is far from enough. One way to attract local savings is to create government-insured investment instruments.

Another way to make the program attractive is to contract local enterprises to make the necessary equipment. This measure would prove more popular than importing machinery from other regions at the time when local industry is standing idle. Many local enterprises would more than welcome such an opportunity to create more jobs and pay off tax arrears in the form of output.

Last, but not least in its importance, was the discussion of careful and economical use of the gas. Some work toward developing energy-saving systems will be done in 1999.

REGIONAL PROFILE: ST. PETERSBURG

Governor: Vladimir Yakovlev

Vladimir Yakovlev won the city's gubernatorial elections on 2 June 1996, the eve of the presidential elections. Although he placed second in the first round, he defeated the incumbent, Anatolii Sobchak, in the run-off by a slim margin of about 27,000 votes. During the bitterly fought campaign, Yakovlev, who had served as Sobchak's first deputy, presented himself as a good manager rather than the supporter of any particular ideology. While Sobchak used his international fame to serve as an ambassador for the city, the core of Yakovlev's electoral platform emphasized industry, construction and transport. He also expressed support for medium and small businesses and attracting investors in municipal short-term bonds.

Only a few months after being elected governor, however, Yakovlev ordered a rent and municipal services rate increase, which resulted in a drastic decline in his popularity and sparked open public protests. An initiative group even tried to hold a referendum on impeaching him. Despite this challenge, in July 1997 he was invited to a Russian government commission on housing reform. Now Yakovlev is the chairman of the Federation Council Economic Policy Committee (December 1997).

To burnish his image as a non-partisan leader, he maintains balanced relations with various political parties. For instance, in January he signed a joint statement with the leaders of local political parties calling for a combined effort to solve the city's problems. The participating parties included local branches of Our Home Is Russia, Yabloko, Vladimir Zhirinovskiy's Liberal Democratic Party, the Communist Party of the Russian Federation, and the hard-line Russian Communist Workers' Party.

Yakovlev is a close ally of Moscow Mayor Yuriy Luzhkov, who supported his candidacy during the election. He has also been working in close cooperation with Saratov Governor Dmitrii Ayatskov and Nizhnii Novgorod Governor Ivan Sklyarov. In May 1998, *Nezavisimaya*

gazeta listed Yakovlev among Russia's ten most influential regional politicians. Together with many of them, he opposed the reappointment of Viktor Chernomyrdin as the country's prime minister earlier this year.

Other Local Leaders

Presidential representative -- Sergei Tsyplyaev, appointed in August 1992.

Brief Overview

St. Petersburg, Russia's second largest city, is located in the northwestern part of European Russia on the delta of the Neva River, where it flows into the Gulf of Finland. The city was founded as St. Petersburg in 1703 by Peter the Great and was made Russia's capital in 1712. At the beginning of World War I, the city was renamed Petrograd. It was the scene of the February and October revolutions in 1917. In March 1918, the capital was moved back to Moscow. In 1924, the city was renamed Leningrad. The city suffered a 900-day German siege during World War II (Sept. 1941-Jan. 1944). In June 1991, the citizens of Leningrad voted to change the city's name back to St. Petersburg. With its remarkable architecture, St. Petersburg is a major cultural center and boasts numerous educational institutions.

The city is famous for its seaport and highly concentrated military-industrial complex, which has degenerated since the collapse of the former Soviet Union and resulted in many socioeconomic problems, such as high unemployment. Local government has been fairly successful in dealing with those problems, due to a significant inflow of both foreign and domestic investment.

In February, local authorities issued a series of tax breaks to lure investment. The benefits include reductions in city profit taxes if the profits are reinvested or used to pay bank credits for the initial investments. Additionally, investors who plowed more than \$50 million into their projects between 1 January 1992 and 31 December 1999 are free from property tax through the year 2000. Those investing between \$25 million and \$50 million will pay only half of their property tax.

These and other measures attracted significant foreign investment from such companies as fast food giant McDonald's, oil companies Royal Dutch Shell and Neste, and upscale hotel chains like Radisson SAS, Hilton and Intercontinental. The city has also received \$150 million from the EBRD for construction of a terminal at Pulkovo airport and \$300 million from the World Bank for reconstruction of the historical downtown. In 1997, St. Petersburg was second in the country according to direct foreign investment -- \$98.4 million, or 2.53 percent of the country's total, and 8th according to capital investment (9,189.8 billion rubles, or 2.66 percent).

Basic Facts

Population (as of 1 Jan. 1997): 4,778,900 (3.24% of Russian total)

Urban population (1989 census): 100% (Russia overall: 73.0%)

Student population (1996): 449 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 25.97% (Russia overall: 25.78%)
Percent of population with higher education (1989 census): 22.0% (Russia overall: 11.3%)
Percent of population working in (1993): Industry: 31.5% (Russian average: 29.9%); Agriculture: 0.5% (12.8%); Trade: 10.1% (9.1%); Culture: 21.2% (13.6%); Management: 2.3% (2.3%)
Average monthly personal income in July 1998: 997.2 new rubles (Russian average: 891.7 new rubles)
Average monthly personal expenses in July 1998: 899.8 new rubles (Russian average: 684.9 new rubles)
Average monthly subsistence requirement in 1996: 512 new rubles (Russian average: 438 new rubles)
Consumer price index (as of July 1998): 96 (Russia overall = 100)
Industrial production as percentage of all Russian production (Jan. -Aug. 1998): 2.32%
Proportion of loss-making enterprises (as of July 1998): 31.5% (Russia overall: 50.4%)
Number of enterprises which have wage arrears (as of 1 Sept. 1998): 603 (0.45% of Russian total)
Agricultural production as percentage of all Russian production (1996): 0%
Number of private farms (as of 1 Jan. 1997): 0 (0% of Russian total)
Capital investment (1996): 8,698.1 billion rubles (Russia overall: 370 trillion rubles)
Sources of investment (1996): federal budget: 9.1% (Russian average: 9.2%); regional budget: 13.2% (9.6%); enterprises: 63.0% (66.3%)
Number of joint ventures (as of 1 Jan. 1997): 1,709 (10.63% of Russian total)
Fixed capital investment in joint ventures and foreign companies (1995): 871,700 million rubles
Number of small businesses (as of 1 July 1998): 111,800 (12.87% of Russian total)
Number of enterprises privatized in 1996: 126 (2.52% of Russian total), including those which used to be municipal property: 0% (Russian average: 67.1%); regional property: 75.4% (14.3%); federal property: 24.6% (18.6%)
Number of telephones per 100 families (1996): in cities: 88.4 (Russian average: 48.7); in villages: 0 (19.7)

According to a 1998 survey by *Ekspert* magazine, the city is ranked 2nd among Russia's 89 regions in terms of investment potential and 1st in terms of investment risks. A 1998 survey by Bank Austria ranked the city 2nd in terms of investment climate.

Electoral History

1996 Gubernatorial Election

Yakovlev: 21.6%/47.5% (first round/second round)

Sobchak (incumbent): 29%/45.8%

Boldyrev: 17%

Turnout: 44.20% (second round)

1996 Presidential Election

Yeltsin: 49.62%/73.86% (first round/second round)
Yavlinskii: 15.15%
Zyuganov: 14.94%/21.09%
Lebed: 14.01%
Zhirinovskiy: 2.15%
Turnout: 62.06%/65.11% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Yabloko: 16.03%
Communist Party of the Russian Federation: 13.21%
Our Home Is Russia: 12.78%
Russia's Democratic Choice: 12.37%
Party of Workers' Self-Government: 6.51%
Congress of Russian Communities: 5.13%
Communists -- Workers' Russia: 3.79%
Liberal Democratic Party of Russia: 3.42%
Women of Russia: 2.75%
In single-member districts: 1 Russia's Democratic Choice, 5 Yabloko, 2 independent
Turnout: 60.52% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 71.61% "No" -- 28.39%

1993 Parliamentary Elections

Russia's Choice: 26.99%
Yabloko: 21.20%
Liberal Democratic Party of Russia: 18.02%
Communist Party of the Russian Federation: 7.69%
Women of Russia: 5.04%
Democratic Party of Russia: 3.98%
Party of Russian Unity and Concord: 3.74g%
Agrarian Party of Russia: 0.89%
In single-mandate districts: 4 Russia's Choice, 1 Free Democratic Party of Russia, 1 Russian National Unity, 3 independent
From electoral associations: 3 Yabloko, 2 Communist Party of the Russian Federation, 3 Liberal Democratic Party of Russia, 1 Democratic Party of Russia, 1 Russia's Choice
Turnout: 52.02% (Russia overall: 54.34%)

1991 Presidential Election

Yeltsin: 67.23%
Ryzhkov: 10.59%
Zhirinovskiy: 5.65%
Tuleev: 3.99%

Makashov: 5.09%

Bakatin: 3.40%

Turnout: 65.11% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; T. Matiyasevich, N. Mogel, S.A. Nagaev, M. Rossmann, L.I. Smirnych, and A. Woergoetter, *Russia: Regional Risk Rating*, Vienna: Bank Austria, 1998; *Ekspert*, 19 October 1998; *Roadmap to Russian Regions*, Salomon Brothers, 1997; *Goskomstat, Regiony Rossii* [Regions of Russia], Moscow, 1997; *Central Electoral Commission, Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii* [Elections of the top executives of the federation subjects of the Russian Federation], 1995-1997, Moscow: Ves mir, 1997; *Goskomstat, Sotsialno-ekonomicheskoe polozhenie Rossii: janvar-avgust 1998 goda* [Socio-economic situation in Russia: January-August 1998], Moscow 1998.

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BREAKING NEWS

POLITICS

LUZHKOV FOUNDS POLITICAL PARTY. After a string of regional conferences, Moscow Mayor Yurii Luzhkov held the official founding congress for his Otechestvo (Fatherland) political party on 19 December, just in time to register for the December 1999 State Duma elections. *Izvestiya* (22 December) commented that he cannot immediately count on the support of the governors. Of the 68-member party central council, 54 seats are for non-Muscovites. However, this number does not include any governors, mayors, or other officials from the regions.

LUZHKOV BLOCKS EXTREMIST CONGRESS... On 15 December, Moscow Mayor Yurii Luzhkov forbade Aleksandr Barkashov's Russian National Unity (RNE) from holding its second congress in Moscow on 19 December. RNE, which uses a modified swastika as its symbol, is one of Russia's most extreme nationalist groups. Luzhkov warned that he had the authority and strength to implement the decision. Additionally, the mayor said that he intended to file a suit against Barkashov for inciting inter-ethnic conflict. In an interview with NTV broadcast on 16 December, Barkashov said that he would bring 100,000 men "prepared to defend their civil rights and liberties at any cost" to Moscow, *Kommersant Daily* reported on 18 December. For the time being, the RNE has postponed its congress indefinitely (*Nezavisimaya gazeta*, 19 December).

...WHILE ABDULATIPOV CALLS FOR WIDER CRACKDOWN. Nationalities Minister Ramazan Abdulatipov accused some political leaders of blaming the country's crisis on certain ethnic groups and suggested holding responsible those regional executives who allow such statements in their regions. The Ministry of Justice pointed out that RNE is registered in 22 regions which means that many regional executives could face problems if Abdulatipov's motion were carried out. The Ministry of Justice has not registered RNE at the national level. *Izvestiya*

(18 December) suggests that the federal government could use a crackdown on political extremism to force wayward governors back into line, thereby strengthening its hold on the regions.

FIRST KARACHAEVO-CHERKESSIYA ELECTION SHAPES UP. The former commander of Russia's ground forces, Vladimir Semenev, is the favorite to win the Republic of Karachaevo-Cherkessiya's first presidential elections set for 25 April 1999. The republic is the only Russian region that has not elected its leader. Semenev is likely to win based on an electoral coalition of ethnic Karachai and Cossacks. The Karachai make up 39 percent of the population and the Russians make up 40 percent. Semenev's main opponent will be Cherkessk Mayor Stanislav Derev, the former director of a local vodka factory whose taxes make up 25 percent of the republican budget and 50 percent of the city's budget. Although he is an ethnic Cherkess (who make up only 8 percent of the population), he is considered capable of winning many votes. Although Derev and incumbent President Vladimir Khubiev have clashed in the past, they are considered close because they have generally been able to work together (*EWI Russian Regional Report*, 29 January). Khubiev has ruled the region for 20 years and is currently extremely unpopular. (*Kommersant Daily*, 16 December)

ECONOMICS

FIVE REGIONS CONTRIBUTE MORE THAN HALF OF RUSSIA'S TAXES. In November the State Tax Service collected 18 billion rubles, up 29 percent from the month before. More than 70 percent of the tax payments were made in cash. Five regions contributed more than 50 percent of the payments: Moscow (30.8%), Moscow Oblast (9.3%), Khanty-Mansii (4.6%), Kemerovo (4.5%), and St. Petersburg (3.8%). (State Tax Service Press Release, 10 December)

GOVERNMENT ORDERS REGIONS TO PAY SALARIES. The Russian government on 17 December ordered the regions to pay current salaries and one month worth of back salaries by 5 January. If the regions do not pay, Prime Minister Yevgenii Primakov threatened to take control of their finances. Some regions will not be able to pay up and the government has already decided to take over their income and expenditures. The center will be able to offer 500 million rubles in aid, but this money will go to regions where public sector salaries are less than 40 percent of the region's income. Meeting the deadline will be difficult for many regions since they are now spending considerable sums on heating and electricity to protect against winter cold. Overall debts owed to public sphere workers are currently 16 billion rubles. (*Nezavisimaya gazeta*, 18 December)

BUSINESS BRIEFS

-- The Czech Republic's **SKODA** carmaker will begin assembling cars at Izhevsk's (**UDMURTIYA**) Izhmash in the summer of 1999. The deal worth more than 500,000 DM is the largest to be signed since the financial crisis began 17 August. The plant plans to produce

5,000 Skodas in 1999 and up to 80,000 a year by 2004. The cars will cost \$7-8,000 each, a relatively moderate price that should be accessible to Russian consumers. Skoda sold about 9,000 imported cars in Russia during the first six months of 1998. Skoda's main competitor will be Doninvest's Assol, a Rostov-oblast assembled version of the Daewoo Lanos. (*Kommersant Daily*, 18 December) Skoda's earlier plans to work in Smolensk Oblast fell through.

-- **RENAULT** is expected to assemble its first Megane Classic in **MOSCOW** in March. The venture had hoped to start as early as September 1998, but difficulties bringing the foreign components through customs caused delays. The cars are expected to cost \$14-15,000. (*Kommersant-Daily*, 16 December)

PATTERNS OF REGIONAL DEVELOPMENT

VLADIVOSTOK REMAINS DIVIDED IN MAYORAL STRUGGLE. Vladivostok continues to face the dual power of two competing mayors. Yurii Kopylov, appointed by Governor Yevgenii Nazdratenko to govern the city, has presented his deputies, prepared his own stamp, and continues to seek access to the city's finances. The krai administration prohibited banks from conducting financial operations on orders from Mayor Viktor Cherepkov, but Cherepkov warned the banks that they would have to return all money transferred on orders from Kopylov. Since 12 December Cherepkov's supporters have been holed up inside the mayor's offices, barricading the building from inside the main entrance. For nearly a week the mayor's building has been without light, heat, or telephone connections. Kopylov's administration claimed that, "Whether you believe it or not, this was just an ordinary breakdown of electrical and telephone cables." Since he cannot gain access to the mayor's offices, one central newspaper christened Kopylov the "vagrant mayor."

The krai authorities are trying to distance themselves from the difficult task of removing Cherepkov from power. Governor Nazdratenko feels that the presidential representative to the region, General Kondratov, should handle the situation since Cherepkov was removed via presidential decree. Kondratov thinks that it is Nazdratenko's job since, in accordance with the presidential decree, appointing an acting mayor and thus solving the city's problems, is entrusted to the governor.

Last week Vladivostok's procurator announced to the media that those participating in the blockade were breaking the law and thus could be subject to criminal prosecution. A police assault on the mayor's office was expected on 18 December, drawing another large crowd of Cherepkov supporters to the building. The arrival in the city of State Duma member Telman Gdlyan, boosted their spirits. Gdlyan became famous in the late 1980s for investigating official corruption in the high reaches of the Communist Party. Gdlyan's group will look into the situation and hopes to find the real underlying cause for the president's decree removing Cherepkov from office. The decree was issued without Yeltsin's signature, bearing only his office's stamp, and it did not pass through a series of necessary department checks. Several have already voiced suspicions that unidentified groups paid to secure the decree's appearance.

- Yevgenii Popravko in Vladivostok

AUDIT SHOWS LENINGRAD OBLAST MISUSED FUNDS. The Leningrad Oblast Legislative Assembly Accounting Chamber (KSP) has accused the oblast government of squandering a syndicated bank loan. The oblast received the \$50 million credit in May for a three-year term at 11 percent interest. The KSP accused the oblast government of using the money to cancel old debts instead of putting it towards the investment goals outlined by the Legislative Assembly on 23 September 1997. Chairman of the oblast government's Finance Committee Aleksandr Yakovlev asserted that because of the financial crisis and in accordance with a decision made by former governor Vadim Gustov (now Russian deputy prime minister), 93 percent of the credit went to restructuring former, more "expensive" debt. He explained that the decision was probably adopted urgently because the oblast had no other money to cover its debts.

The Finance Committee intends to challenge the audit results and a final decision is expected in mid-January. Now, several officials from the oblast government's presidium think that the oblast is effectively bankrupt and is no longer participating in the investment process. The oblast government is already discussing its next default, which will take place at the end of December. In Fall 1998 the city of St. Petersburg could help the region through the mutual cancellation of debts, but now no one can bail out the oblast and the Finance Committee is unlikely to find any new source of income. - Marina Makova in St. Petersburg

SAMARA ECONOMISTS TIE DEVELOPMENT PREDICTIONS TO INFLATION RATE. The Samara Oblast administration has drafted four scenarios outlining the oblast's economic and social development for 1999-2001. Regional observers claim that Samara is the first region to take such a step. In addition to being unprecedented, the document is controversial because the oblast economists who drafted it directly contradict federal calculations in predicting such key indicators as the minimum inflation rate next year. The main difference among the four scenarios is the average inflation rate for the period in question.

The first, so-called "optimistic," scenario assumes a 2 percent monthly inflation rate. In the second, "pessimistic," scenario, inflation goes up to 5.5 percent, while it is 8.8 percent in the third, "super-pessimistic," scenario. Only the first scenario coincides with the federal government's expectations, as articulated in the draft budget for 1999, which predicts a 30 percent annual inflation rate. The rate of inflation will determine all the other components of the oblast's economy, the regional planners assume. For example, with low inflation it would be possible to generate at least some growth. However, an inflation rate of 5.5 percent would lead to a 4 percent drop in production, while an 8.8 percent inflation rate would send output down 8 percent.

However, the Samara Oblast administration hopes to achieve a fourth, "optimal," scenario, which would be made possible by lowering the value-added tax (VAT) and the profit tax. Oblast experts reason that if the State Duma lowers these taxes, consumer demand for a number of domestic goods will increase, as will the rate of paying off debts, including salaries. Additionally, a lighter tax burden might revitalize enterprises essential for the oblast's health: the AvtoVAZ car manufacturer, electric power producers, oil refineries, and food processors. Lower taxes will increase investment in the oblast economy by 30 percent in the next three years, the planners predict.

The planners' warn that oblast residents will particularly suffer from high inflation, even if salaries are paid on time. Oblast economists stipulate that in order to preserve social stability, real incomes must not fall by more than 10 percent in 1999. To achieve this goal, the oblast must obtain the right to index pensions (by 30-40 percent, on average) and wages of public sector employees (25 percent). Even if the federal government complies and lets the oblast make these adjustments, more than 28 percent of the population will remain below the official poverty line, making them effectively unable to buy even the official minimum amount of food products, which is today worth 500 rubles a month. Before the 17 August collapse about 20 percent of oblast residents fell into this group. If the oblast is not be able to index pensions, up to 50 percent of the population will find themselves below the poverty line, substantially raising the possibility of social discontent. Only the federal government stands in the way of indexing pensions, and Samara's oblast pension fund can handle the new payment burden. However, it is not likely that the federal government will allow indexing in one region, when it cannot even meet its current obligations across the country. - Andrei Perla in Samara

FOOD PRICES SKYROCKET IN KURSK, ADMINISTRATION HELPLESS.

Residents of the city of Kursk are wondering why their food prices rising so rapidly. In a matter of one week the price for ten eggs went up twofold. Five days ago they cost 9 rubles, but today the price tag says 20. Commenting on the causes of price inflation, the head of the oblast's trade committee blamed the August crisis and the subsequent plunge of the ruble's exchange rate in relation to the U.S. dollar. Imports became more expensive, and thus disappeared from the domestic market. The infamous "Bush legs" (imported American chicken legs) are two and a half times more expensive than they were before. The oblast officials also claimed that the collapse of the ruble had caused prices to go up for domestically-produced goods as well.

The administration is trying to influence the market by urging leading retailers to buy their produce directly from producers, bypassing middlemen. Administration officials have already approached directors of egg factories and asked them to supply 200,000 eggs daily, enough to meet the oblast's needs. The administration's price control department has already worked out a deal with the egg factories whereby they agreed to sell their product virtually at cost (12 rubles per ten eggs), with only a 1 ruble markup. Most consumers could pay this price.

However, the same scheme did not work for butter, because of the generally higher prices for milk. This means that even if factories sell butter at cost, the wholesale price per kilogram would still be 46-48 rubles, and with a reasonable minimum markup the price would reach 52 rubles, well beyond the means of most Kursk residents. Even the price control department is helpless here, paralyzed by market conditions. Governor Aleksandr Rutskoi told the public in his TV appearance that the only way to control food prices is to close down the oblast's borders and declare independence from Russia. However, he acknowledged, this is not a realist option today. - Sergei Sarychev in Kursk

YABLOKO ENDORSES GUBERNATORIAL CANDIDATE IN YAROSLAVL. The Yaroslavl branch of Yabloko held its regional conference in the city of Uglich last week. The delegates decided to support the candidacy of oblast Duma Spekaer Sergei Vakhrukov for

Yaroslavl Oblast governor in 1999. Yabloko's leader Greigorii Yavlinskii attended the conference and told the delegates that he is counting on a victory in Yaroslavl. Although in other regions Yabloko often has to fight an uphill battle and can never be sure of victory, it has the upper hand in Yaroslavl. Yavlinskii attributes the party's good chances to the impressive personal qualities of its candidate, as well as the fact that the Yaroslavl branch is one of the party's strongest regional organizations in the country. He also promised to employ all the party's resources, both locally and in Moscow, to help Vakhrukov win. Anatolii Lisitsyn, the current governor, has worked with Russia's Democratic Choice, Our Home is Russia, and now has lent support to Moscow Mayor Yurii Luzhkov's new Otechestvo party. - Anton Mavrin in Yaroslavl

ELECTIONS 1999/2000

LUZHKOVS STEPS UP ACTIVITY IN VORONEZH. Preparations for the December 1999 State Duma elections have already begun in Voronezh. Although the democrats have not taken any further steps to build a broader coalition after the assassination of St. Petersburg State Duma member Galina Starovoitova, Moscow Mayor Yurii Luzhkov founded a regional branch of his Otechestvo (Fatherland) party.

Many politicians see Otechestvo as a platform for advancing their own political careers, and there was intense political competition to win the chairmanship of the Voronezh party chapter. During the struggle, the local media was filled with contradictory information.

The process of gathering support for the party began about two months ago. Aleksei Nakvasin, a member of the Oblast Duma and the chairman of the Voronezh State Television and Radio Company played the crucial role in this process. Initially his protegee, the relatively unknown Kochetov claimed the leadership of Voronezh's Otechestvo branch. However, a week later the press announced that Otechestvo's coordinator in Voronezh would be Dmitrii Rogozin, one of the co-founders of the party on the federal level. The Muscovite Rogozin is best known as the leader of the Congress of the Russian Communities (KRO), which competed in the 1995 State Duma elections with a party list led by Yurii Skokov and Aleksandr Lebed. Significantly Nakvasin backed Rogozin as well. Observers explain his change in loyalties by suggesting that Kochetov and Rogozin probably could not agree on "the distribution of powers and future dividends" expected from leading Luzhkov's party in the region (*Novaya Gazeta v Voronezhe*, December 15, 1998).

Although the media was not allowed to attend Otechestvo's founding meeting in Voronezh, reports indicate that there were only ten people present. The small gathering elected four leaders and chose ten delegates to the founding congress held in Moscow on 19 December. Among the co-founders were the ex-Governor Aleksandr Kovalev, Oblast Duma member Yurii Titov and Head of the Russian Association of Fist Fighters Sergei Kazbanov.

The press also reported that Voronezh Mayor Aleksandr Tsapin asked Rogozin in private to include two managers from his administration in Otechestvo's regional founding assembly. Governor Ivan Shabanov also expressed interest in cooperating with Luzhkov's party. Shabanov tried to communicate his support through Nizhni Novgorod Governor Ivan Sklyarov, a close Luzhkov ally, who had recently visited Voronezh (*Novaya Gazeta v*

Voronezh, December 15, 1998).

At this point, it is not clear if Otechestvo will become the new focal point for the opposition to Governor Shabanov. Rogozin, who has expressed his loyalty to Shabanov and the Communists on several occasions, seems to counter the participation of politicians opposed to Shabanov's administration (Kovalyov, Titov). - Andrei Muchnik in Voronezh

YABLOKO NOW KEY OPPOSITION PARTY IN VOLGOGRAD. Party identification played a strong role in the 13 December Volgograd regional legislative elections, just as it did in the St. Petersburg elections. (The RRR will publish a detailed account of the St. Petersburg elections in January.) The Communist constituency has long voted on the basis of party labels rather than personality. Now the votes cast for Yabloko demonstrate the readiness of the democratic electorate to do the same. Yabloko leaders in Volgograd have already blamed independent democratic candidates for splitting the pro-reform vote and allowing the Communists to win, even though on the eve of the elections, nobody predicted that Yabloko would do so well. Yabloko is now the leading opposition political force in Volgograd, and will be able to unite local democrats in future elections (beginning with the State Duma elections set for December 1999) by pointing to the results of the December 1998 elections. Yabloko leaders may even form an alliance with Volgograd Mayor Yuri Chekhov for the September 1999 mayoral campaign.

As for the future of the local duma elections, some local observers now fear that the Communist legislature will change the regional electoral law. The Communists will seek to abolish the current system in which one third of the legislature's members are elected every two years, thereby postponing the next campaign for as long as possible. - Ivan Kurilla in Volgograd

PROTEST VOTE LIKELY TO SHAPE ULYANOVSK ELECTIONS

by Sergei Gogin, *Simbirskii Kurier*

ULYANOVSK--Although elections will not take place for another year, campaigning is well underway in Ulyanovsk Oblast. Incumbent Governor Yuri Goryachev has been using the local media to trumpet his accomplishments and downplay his administration's shortcomings. Whatever flaws can be found in his policies, the obsequious media blames it either on Moscow or, since 1996, on the new city administration.

Those who have something to lose in the next elections are the most active in the campaign. These are mainly people in power, who now command money, connections, privileges and the media. However, many local observers agree that the next elections will be largely decided by protest voters, not money or the tricks of campaign consultants. According to entrepreneur Isaac Greenberg, one of the leaders of Ulyanovsk's democratic forces, the next elections will differ dramatically from the years past. "People will vote their hearts, they will fear nobody," he said.

Indeed, there is no reason to back the current regime, which has failed to deliver wages to farm workers, pensions to the retirees, and wages to the public sector employees. Greenberg thinks that people will vote for anybody who will promise to provide them with food.

Local political scientist Nikolak Vasin believes that if a strong figure attractive to protest voters emerges on the political horizon, the incumbent governor will be swept aside. Most likely, people will be drawn to this hypothetical candidate not because of his program, but because of his personality.

CENTER-PERIPHERY RELATIONS

CHELYABINSK GOVERNOR POSTPONES 1999 BUDGET. At a 16 December meeting with his deputies, Governor Peter Sumin announced that he had decided not to send his draft budget to the oblast legislature the following day. He explained that that the draft his administration had prepared no longer made sense in light of the draft 1999 federal budget prepared by Prime Minister Yevgenii Primakov. He said that "the rules of the game have changed completely" in the way the federal government deals with the regions. "Yevgenii Primakov introduced the budget to the Duma as an 'honest budget.' Maybe it is honest, but in my opinion, it is not a budget for the Russian Federation, but a budget for the Russian government and the center, which has completely cast off the regions," Sumin said.

According to Sumin, the federal budget for next year does not provide transfers for Chelyabinsk oblast but does allocate funds from Chelyabinsk to the center. "I understand that the federal government must pay for the army, scientific research, the Kremlin, and the White House," Sumin noted, "but we can't forget that the Urals, Volga, and the Far East also need to survive." If the federal budget is adopted in its present form, the oblast will lose 11.1 billion rubles to the center. Regional budgets will lose all value-added tax (VAT) revenue and 25 percent of the income tax, all of which before remained in the regions. The introduction of a sales tax in October of this year clearly is not enough to compensate for these losses. These changes leave only 7.5 billion rubles for the oblast. So the oblast can forget about having a balanced budget in 1999; instead it is likely to have an overall deficit of about 3.6 billion rubles.

The oblast administration is also facing criticism regarding the region's industrial output. The total volume of production for the first eleven months of this year dropped 15 percent, the worst showing of all Ural regions. The deputies of the Legislative Assembly did not accept the forecast for the socio-economic development of the oblast in 1999 presented by Deputy Governor Igor Serbinov on 17 December. Almost all of them were unhappy with the economic results for the year. Sumin himself confessed that the numbers were clearly insufficient. He claimed that the end of metal exports to the Asian market and the 17 August financial crisis were the primary reasons for the oblast's difficult economic situation. The drought afflicting neighboring regions also hurt Chelyabinsk.

The proposed federal budget will be discussed at the 22 December meeting of the Federation Council budget committee. - Igor Stepanov in Chelyabinsk

KOMI'S CHIEF LOBBIES CENTER FOR SUBSIDIES, TAX BREAKS. Chief Executive of the Komi Republic Yurii Spiridonov met with Russian Prime Minister Yevgenii Primakov on 7 December, Komi TV reported on 12 December. The main topic of discussion was Spiridonov's suggestions for changes in the federal Tax Code to take into account the special circumstances of the northern territories. As a result of the current system, goods

produced in the north are 35 percent more expensive than in the rest of Russia. Several government-mandated employee benefits drive up costs, and then, to make matters worse, the government taxes these benefits. Spiridonov claims that Primakov welcomed his suggestions and promised to have these changes made in the Tax Code.

The other important agenda item at the meeting was the state of the coal industry in the republic. Spiridonov feels that Russia needs a government-run structure on the ministerial level to directly manage the coal industry. So far the various departments and private companies that dominate the sector have failed to solve the industry's structural problems. As a result, Russia lacks a comprehensive national coal policy, and every region does as it pleases. Primakov has ordered several ministers to visit the republic and investigate this matter. The prime minister himself is likely to visit the republic in the near future.

Next on the agenda was Komi's economic development program, which has been severely cut in the last year. Now the republic is again under federal patronage, as Primakov signed into law a federal program to develop Komi's economic and social sphere. The federal government will finance bauxite and manganese extraction and building new railroad links. Spiridonov also gave his wholehearted support to the new government team and said that the country now should let it work. In this light, he does not like the political games in the State Duma, including the recent anti-Semitic remarks by Gen. Albert Makashov. Spiridonov judged Makashov's outbursts as threatening to the very fabric of the country's stability.

In conclusion, Komi's chief executive said that although he participated in the regional conference of Moscow Mayor Yurii Luzhkov's new movement Otechestvo, he is still a loyal member of former Prime Minister's Viktor Chernomyrdin's Our Home is Russia (NDR). "I cannot belong to any political organization, according to our Constitution," Spiridonov said. "The Chief Executive is the only citizen whose rights are limited. However, I do not burn any bridges, simply because I do not belong to any grouping. But I will always support those who want to join forces," he concluded. - Yurii Shabaev in Syktyvkar

ECONOMIC ISSUES

ICN HALTS PRODUCTION ACROSS RUSSIA. The American ICN-Pharmaceuticals has decided to suspend production at all of its Russian subsidiaries from 20 December through 15 January. Employees of the St. Petersburg based ICN-Oktyabr will be granted a paid leave of absence. ICN says that this is a cost-cutting measure made necessary by rapidly dropping profits as a result of plunging sales. During the down time, ICN will work out new relations with its Russian distributors, who in total owe the company \$34 million. One idea is to organize an in-house distribution network based on ICN's other Russian subsidiary, Farmsnabsbyt. Another idea is to sell medicines directly to customers through ICN-operated pharmacies in the regions. Other ICN companies in Russia will be dormant during the period in question as well, including ICN-Tomsk Chemical and Pharmaceutical Plant, ICN-Farbiofarm in Marii-El, ICN-Kursk Medicine Plant, and ICN-Polifarm in Chelyabinsk. - Marina Makova in St. Petersburg

SHELL OPENS IN ST. PETERSBURG. The Russian division of Shell officially opened two gas stations in St. Petersburg, one on Constitution Square and one on Ulitsa Yu. Fuchika.

These are the first gas stations the British-Dutch group Royal Dutch/Shell has opened in Russia. Building the stations cost the company nearly \$4 million, \$600,000 of which went for ecological safety measures. Opening the two stations was Shell's first step in carrying out a plan to construct 25 gas stations over a two-year period. The project should be finished close to schedule. According to the date set in the agreement between the Petersburg administration and Shell, the remaining stations will be under construction no later than October 1999. - Marina Makova in St. Petersburg

ITALIAN BANKS FINANCE PACKING MATERIAL PLANT IN TYUMEN. A consortium of Italian banks has decided to grant Tyumen Oblast a \$36 million credit for building a packing materials plant. The federal government will guarantee the deal, while the oblast administration is responsible for paying off the debt. According to Governor Leonid Roketskii, local producers have to import \$2 million worth of packing materials a year for their perishable goods. Making packing materials domestically will put a limit on capital flight from the oblast and will decrease the loss of agricultural products by 10-20 percent. It will do so by almost doubling the shelf life of regional output. - *Delovye novosti Urala*, 14 December

BURYATIYA'S TIMBER INDUSTRY BETS ON EXPORTS TO ASIA

by Andrei Khodoev, Baikal Institute of Nature Management

ULAN-UDE--The state of economy in the Republic of Buryatiya is very typical of the broader situation in Siberia. Formerly part of the Soviet division of labor among the country's various regions, Siberia had been relegated to the role of a source of cheap raw materials. Subsequently cut out from its former partners in the former Soviet republics, Siberia has become uncompetitive on the world markets, significantly hindering local development.

The timber industry is traditionally an important sector in Buryatiya's economy. Products of the lumber, timber processing and cellulose-paper industries make up 7.6 percent of the republic's total output. Over 64.5 percent of Buryatiya's territory, or 226,600 sq. kilometers, is covered with wood. Experts estimate that the republic has up to 2 million cubic meters of extractable timber reserves. Additionally, the rapid rate of natural rejuvenation of Buryatiya's forests make it possible to harvest large amounts of timber. At the same time, the proximity of Lake Baikal increases environmental costs thereby reducing competitiveness.

In the years of reform, the volume of production in the timber sector has dropped to 25 percent of its previous level, going from 3.3 million cubic meters in 1991 to 800,000 cubic meters by 1997. The republic taps only 25-30 percent of its timber resources every year. At the same time, Buryatiya is exporting timber and timber products at a higher rate, although the share of exports to the CIS countries has declined from 78 percent in 1995 to 28 percent in 1997. Most of the exports, or \$22 million worth in 1997, go to the Asia-Pacific region. However, within this market there have been major shifts, too: in 1995 almost 80 percent of exports were directed toward Japan, but by 1997, almost all exports were shipped to China. Of course, Japan is willing to pay a higher price for timber, 50-60 percent more than China could offer, however the high quality requirements on the Japanese domestic market make it

inaccessible for Buryatiya's timber. Since 1995, exports to China have increased by over 10 times, while the prices have remained fairly steady. Thus, China has become the main consumer of Buryatiya's timber.

The republic's timber industry used to be run by a state monopoly Zabaikal-Les, which was broken up several years ago. By 1997 about 98 percent of companies in the entire sector were privatized. These firms now account for 97 percent of production. The overall problems faced by the industry are typical not only of Siberia, but of Russia as a whole. They include: the deterioration of productive capacities, lack of capital, underdeveloped marketing systems, and the absence of processing enterprises that can add value to the raw materials. The three largest companies (Baikal Timber Company, Arig Us-Les, and Zabaikal-Les) together owe \$23 million to the government in back taxes, although their 1997 trade volume amounted to \$31 million. Enterprises that form these companies use obsolete equipment, which makes for a short product list and low quality output. Another source of problems is the lost connection with the former suppliers and buyers of what used to be one interconnected production chain. Finally, Buryatiya's timber producers lack a workable marketing and sales scheme.

State intervention has brought little benefit. Administrative punishments of rapacious middlemen have been less than successful. It would be impossible to mandate that factories turn out high quality products due to the inherently outdated technological base of production. There is no hope that the factories will be able to modernize because they lack the capital that kind of investment would require. In October 1998 Zabaikal-Les proposed creating special economic zones jointly with Korea, China, Western Europe and neighboring Irkutsk Oblast. Foreign partners were very interested in importing modern processing machinery and then selling the timber abroad. However, none of these lofty goals were realized.

Under these circumstances, the government of Buryatiya decided to take on the role of middleman by forming a state timber export company. President Leonid Potapov ordered the Chamber of Commerce and Trade to create a special expert center to evaluate the quality and prices of export timber. The ministries of economics and industry have been asked to develop plans for one or several timber export companies and for a raw timber exchange. A single state timber export company would be in charge of monitoring the world market, seeking out potential clients, selling the timber, transporting and insuring it, and paying all customs duties. On the one hand, it would take care of many problems the private sector now faces, but private producers are not happy with this decision at all. They fear that the new structure will be empowered to set export quotas, impose price limits, control hard currency flows and distribute revenues. The only winners would be the republican budget and personal fortunes of some unscrupulous bureaucrats, who will surely try to profit from additional regulations. There might be more visible order, but crime and corruption in the sector will increase as well.

KOMI SEARCHES FOR WAYS TO COMPLETE BELKOMUR RAILROAD.

Construction of the Belkomur railway connecting Perm with Arkhangelsk through Syktyvar, thus establishing a direct route to the northern port from the Urals, began in November. Many Russian regions and individuals are interested in completing this ambitious project.

At a 9 December meeting held by Komi Republic's first vice-president, Aleksandr Okatov, a group of TESIS consultants presented the results of their six-month study on the

Belkomur line. The foreign specialists examined the railway's demand for cargo transport, technical conditions for building new sections and reconstructing existing ones, and prepared a business model for Belkomur.

The TESIS group will now prepare an investors' conference that will be held no earlier than February or March 1999. They estimate that the project's overall cost will be \$2.5 billion, and suggested looking for potential funding sources from among company stockholders, Russian and foreign governments, and private foreign investors. However, representatives of TESIS have made it clear that foreign states will most likely demand a guarantee for their investment from the Russian Finance Ministry. Private investors will get a different sort of guarantee -- permission to develop businesses in the region where the railway is being built. According to the consultants, this is the most desirable investment source since it will stimulate economic activity.

The foreign specialists calculate that Belkomur's construction could be completed by 2014 under ideal conditions, but are skeptical of the project's viability (*Respublika*, 11 December). But the leaders of Komi and Arkhangelsk have a different opinion. The leadership of both regions are prioritizing the project and have spoken of the necessity of completing it soon. They feel that the project's stated completion date is not accurate and suggest that the northern part of the railway be built in the next few years. Therefore, Okatov suggested that the TESIS consultants prepare separate finance procedures for the northern and southern segments. TESIS experts will give their final report on the economic aspects of the project and the volume of necessary investment by mid-January 1999. Regardless of what the experts say, the leaders of Komi, Arkhangelsk, and Perm intend to continue with the project and hope that the necessary funds will be sought. - Yuri Shabaev in Komi

FOREIGN TIES

CABINET, GOVERNORS WOO FOREIGN INVESTORS

by Yelena Kuznetsova

Federation Council Spokeswoman for St. Petersburg Governor Vladimir Yakovlev

MOSCOW -- On Monday, 14 December, the Consultative Council on Foreign Investment met for the tenth time to discuss restoring investor confidence in Russia. Foreigners' willingness to invest has been undermined by the federal government's default on its debt obligations. The council was created four years ago as a consultative body under the Russian government. It is composed of high-level government officials, governors and directors of large companies. Council members tried very hard to persuade foreign investors that they are making every effort to stabilize Russia's economic situation and create an investor-friendly climate.

Prime Minister Yevgenii Primakov described his team's anti-crisis plan, including the super-frugal draft budget about to be introduced to the State Duma. Deputy Economics Minister Vladimir Kossov named several specific laws, either adopted or under consideration, that would improve Russia's foreign investment climate. Among them, Kossov mentioned the law on leasing and amendments to the production sharing law that give additional guarantees to

foreigners involved in joint venture exploration of natural resources. The law on foreign investments contains a special "grandfather clause" that guarantees companies no changes in business climate within the first seven years of starting operations in Russia.

Finance Minister Mikhail Zadornov informed the meeting that the first part of Russia's new Tax Code will come into force on 1 January. It will reduce certain taxes and remove heavy penalties currently incurred by those who neglect to pay taxes. Specifically, the Code reduces the value-added tax (VAT) as well as companies' contribution to the salary fund. Beginning next year Russia will begin adopting international accounting standards, under the GAAP system.

Representatives of foreign companies welcomed the government's desire to continue constructive dialog with investors. At the same time they complained about the traditional problems encountered by entrepreneurs in Russia, such as the unstable economic situation, poorly defined and constantly changing legislation and exorbitant taxes. Companies also lose money due to differences between Russia's and internationally accepted accounting systems.

Governors actively participated in the meeting, eager to convince foreign business people that their regions need investment. They emphasized that not only the federal government, but also regional authorities work hard to create a business-friendly climate. For instance, Sverdlovsk Oblast Governor Eduard Rossel described the high concentration of industrial enterprises in his region, many of which need major and speedy restructuring, especially in the defense sector. At the same time, the oblast has been able to attract only \$500 million in foreign investment, a drop in the bucket for such a large region. The general lack of foreign interest has prompted regional authorities to take additional steps to stimulate investment, such as pledging 10 percent of the oblast budget to compensate any investor who loses money at the fault of the administration. Fortunately, they have not had to tap into this fund yet. Rossel suggested that many of the unfinished projects in the oblast could be transferred to foreign ownership in the form of a partial stake in future investment ventures.

Overall, local legislation varies widely from one region to the next. Some regions choose to lower taxes in order to attract foreign investors, whereas others care more about securing short-term revenue gains and raise taxes. As a result, much depends on regional policies.

St. Petersburg Governor Vladimir Yakovlev warned foreigners against treating Russia as a centralized and monolithic entity. Russia hosts a whole panoply of economic models and foreign investors should pick regions that correspond most closely to their own expectations, he said. St. Petersburg has its own council on foreign investment, where the city's leaders and investors discuss everyday problems. When the crisis struck in August, the governor called the council into session and promptly informed its members that the city plans to make good on all of its obligations. As a result, not a single investor has left the city, he claimed.

Last July Yakovlev's government approved a whole package of legislation providing tax holidays for companies with large investments in the city economy. Property and other city taxes have been lowered. Furthermore, the city pledged not to raise tax rates in the next three years. Special support will be granted to investors with interests in the industries on the top of St. Petersburg's priority list, the governor said, including export-oriented production and import-substituting sectors (food and light industries), energy production, tourism and the service

sector. An additional investment incentive, Yakovlev said, is simplification of the registration process. Today investors must go through Moscow for every permit. One of the roots of weak investor interest in Russia is the archaic centralized system of administration, he said.

Representatives of multinational corporations present at the meeting expressed their eagerness to work in the region, and some of them have had relevant experience already. For example, Michele Trincia, chief representative of FIAT, told of the help his company received in its regional expansion from the working group on foreign investment in the regions. The group helped organize trips to the regions, allowing investors to interact directly with regional authorities and study the investment potential of each region in detail. Trincia emphasized the importance of regional authorities for successful business in Russia.

At the conclusion of the meeting, Primakov endorsed the idea that the council should meet on a regular basis. He scheduled the next meeting for 3 October 1999.

OFFICIALS SUSPECT FOREIGN OWNERS OF TRYING TO CLOSE A NIZHNI GLASS PLANT. The Nizhni Novgorod Oblast anti-monopoly committee has reason to believe that foreign owners of the Bor Glass Plant might harm the long-term future of the enterprise. Normally this would be an internal matter for the plant's management and employees, but the entire city of Bor depends on the plant's wellbeing, so the state is playing a more active role. A year ago 80 percent of the company's stake was transferred to the Belgian Glaverbel, a subsidiary of the Japanese firm Asahi, one of the world leaders in glass manufacturing (*EWI Russian Regional Report*, 25 September 1997). At first the deal seemed mutually beneficial: the Japanese would gain a foothold in the Russian market, while investment in the plant would make Bor's product more competitive on the market.

However, recent experience shows that sometimes foreign investors do not want to develop their newly acquired asset, and instead attempt to put it out of business, thus removing a domestic competitor for their own products. To prevent such a scenario, the oblast anti-monopoly committee normally requires all foreign investors to report on the state of the plant and the changes under way. Yet, in this case, the committee has not seen any reporting yet, in part because of bureaucratic confusion: the oblast committee was under the impression that this matter was in the purview of the federal anti-monopoly committee, but apparently Moscow believed that regional managers were handling the issue. When the oblast committee finally posed the question to the foreign investors, it received roundabout answers, blaming their lack of reporting on vague technical reasons.

Meanwhile, the information that the committee does have from its own sources gives considerable cause for concern. In the last several months the enterprise's volume of production has declined, but production costs have increased, making its products more expensive and less competitive on the market. The danger now is that foreigners will do the same to the Bor Glass Plant, as they have allegedly done in other places in Russia: the Segez Paper Plant in Kareliya or the Balakhna Paper Plant, where some Russian observers argue that the foreign owners had to be forced out before the situation improved. However, this does not have to happen in Nizhni Novgorod Oblast. For now the anti-monopoly committee has to make a fair assessment of real investments made into the plant's production and real output rates. Only then can a decision be made. - Yuri Rodygin in Nizhni Novgorod

SVERDLOVSK GOVERNOR VISITS IRAN, FORGES ECONOMIC TIES. During his three day visit to Tehran earlier this month, Sverdlovsk Oblast Governor Eduard Rossel met Iranian Vice President Golyaremza Agazade, who coordinates the activities of all government ministers. The two leaders discussed possible venues of cooperation. The Iranian government believes that strong ties can be formed between the two countries' regions, so Agazade was happy to see Rossel bring concrete proposal to the table.

Businessmen accompanying Rossel met with their Iranian counterparts at the local Chamber of Commerce and Trade. Governor Rossel told the Iranian entrepreneurs that Sverdlovsk Oblast could help Iran build atomic and heat power stations, supply equipment for the Isfahan Steel Mill, and assist in the construction and launching of the titanium plant in Kahundja. He also mentioned other possible projects, for example a joint venture to make railway cars, deliveries from the Urals of rolled sheet metal, aluminum, nonferrous metals and machinery for oil extraction. The Russian ambassador in Tehran said that no delegation from a Russian region had ever brought such serious proposals to Iran before.

The two parties agreed to establish four working groups to coordinate contacts in the areas of industry and mining, science and education, commerce and trade, and culture and tourism. Each group will have two co-chairs, one from each side. The following Sverdlovsk entrepreneurs became co-chairs of their respective groups: Borisk Frolenko, general director of Ural-NITI, Leonid Smirnov, director of the Urals Metals Institute, Aleksei Alekseev, president of the oblast union of traders, and Sergei Skuratov, general director of Urals Airlines. The working groups met for two days in a row, ultimately signing several protocols stating their intent to cooperate further. As a direct result of the groups' work, Rossel signed an agreement with the governor of the Iranian province of Khorasan on economic and cultural cooperation.

Additionally, the two sides agreed to organize on-going trade shows in Yekaterinburg and Meshed and noted the need for direct airline flights between the two cities. Rossel's government will help cities in Khorasan obtain steel sheeting, nonferrous metals, asbestos, sleeper cars, timber, machine tools, and medical and electric equipment from the Urals. In turn, the Iranians will deliver fruit, food products, ceramic tiles, porcelain, electric appliances, leather goods, wool and various consumer goods. - *Delovye novosti Urala*, 7 December

KOMI REPUBLIC SEEKS TRADE LINKS WITH IRAN. On 17 December the Chief Executive of the Komi Republic Yurii Spiridonov spoke at a press conference on his recent trip to Iran at the head of a large delegation. The main goal of the visit was to develop cooperative ties with the country. Today trade between Komi and Iran is worth only \$8 million, and optimists hope that it will grow by 4-5 times at a minimum. Iran mainly imports paper produced at the Syktyvkar Timber Complex through Austria and Germany. Spiridonov wants to avoid middlemen and deliver Komi paper to Iran directly. European markets today are saturated with paper products, so it is not profitable to sell there. In contrast, Asian countries need both paper and timber industry specialists. By January the two sides will sign contracts to deliver large quantities of timber to Iran and will share expertise. Additionally, Komi oil extraction specialists familiar with high tech equipment will visit Iran to offer technical know-how. There will also be a direct flight between the republic and Iran (*Gorodskie vedomosti*, 19 December). The

republican government today believes that the Asian markets hold a lot of promise for Komi producers and are ripe for expansion. India is next on the list of potential partners with which the Komi Republic will try to develop economic ties. - Yuri Shabaev in Syktyvkar

OUR IRKUTSK CORRESPONDENTS HIT THE ROAD

SIBERIAN AMAZONS RACE THROUGH CHINA, MONGOLIA; PLAN TO CIRCLE THE GLOBE. At the initiative of the Ulan-Ude Women's Environmental Club "Baikal Amazons," an automobile race took place on the territories of Russia, China and Mongolia in August 1998. The club's motto, also adopted for the race, is "Women behind the wheel!" Aside from the direct reference to driving a car, this motto has a feminist connotation, implying women's leadership in running the country, business, families, etc. However, the "Amazons" want to distance themselves from the feminist movement, claiming that "men are Amazons' best friends." The "Baikal Amazons" never shun men's help in any undertaking. For instance, four men accompanied the twelve women during the race: a mechanic, a security guard, a camera operator and translator.

Eleven cars made the trip, including six UAZ jeeps, four Zhigulis, and one Toyota-Carib. There were two teams from Irkutsk and four from Ulan-Ude. The original plan provided for a route through Beijing to the Yellow Sea and then back across the Gobi desert. However, Mother Nature had other ideas, and floods in China thwarted the Amazons' plans. As a result, the route was much shorter, but at the same time much more challenging given the difficult Mongolian road conditions. The racers took twenty days to cover 4,000 kilometers of Chinese and Mongolian territory driving in areas where light cars usually don't go.

The team filmed the entire trip and broadcast the results in Irkutsk on 17 December, after a successful premiere in Buryatiya. Meanwhile, the Amazons are already planning new adventures, for example, a race around the world in 2000. First, they have to find sponsors for this undertaking. As the recent race showed, amazons have the rest of what it takes: singleness of purpose, a will to win and some measure of recklessness. A large car manufacturer would be the perfect sponsor. The Siberian women drivers believe their efforts would boost the sales of any carmaker. - Elena Veselkova (Teleinform) in Irkutsk

Teleinform's very own Elena Veselkova and Marina Yeryushina are members of the Baikal Amazons. For further information about the club and their auto rally, please contact them at: root@telef-s.irkutsk.ru

REGIONAL LINKS

INTERNET SITE SHOWS SVERDLOVSK OBLAST'S POTENTIAL. On 15 December Sverdlovsk Governor Eduard Rossel formally opened a new web site called the "Export Map of Sverdlovsk Oblast" which displays the potential of the Urals on the internet at <http://www.midural.ru/ek>. So far the site shows information on 200 leading enterprises of the 78,000 working in the oblast. Now, interested investors across the globe can access information on various sectors and send their commercial proposals directly to the respective

enterprises. The oblast's export map allows Ural enterprises to display their products to Russian and foreign buyers in full detail, including technical characteristics. Besides viewing the products, interested partners can also conduct negotiations and conclude a contract without leaving their offices. According to Rossel, this project significantly widens the sales market for oblast enterprises. (*Vechnii Yekaterinburg*, 17 December)

CORRECTION: Due to a translation error, last week the RRR incorrectly stated that a member of the Liberal Democratic Party of Russia (LDPR) was serving as the minister for labor and social issues in Sverdlovsk Oblast. In fact, the federal minister for labor and social issues, Sergei Kalashnikov, is a member of the LDPR.

REGIONAL PROFILE: SAKHALIN OBLAST

Governor: Igor Farkhutdinov

Igor Farkhutdinov was elected governor of Sakhalin Oblast on 20 October 1996. He defeated numerous opponents, including opposition candidate Anatolii Chernyi, gaining a plurality of 39.47 percent of the vote in the first round of the election. Farkhutdinov heads the local branch of former prime minister Viktor Chernomyrdin's bloc Our Home Is Russia, and Chernomyrdin personally campaigned for his ally in Sakhalin, promising to introduce various development programs in the oblast.

From 1991 until he was appointed governor in April 1995, Farkhutdinov had served as mayor of the oblast's capital city, Yuzhno-Sakhalinsk. His predecessor, Yevgenii Krasnoyarov, the oblasts' leader since 1993, resigned under a cloud of allegations that he misused federal aid intended for the victims of an earthquake in the southern Kuril Islands in 1994. Farkhutdinov himself drew praise for his handling of the disastrous May 1995 earthquake in the city of Neftegorsk, in northern Sakhalin. After being appointed governor, Farkhutdinov petitioned the presidential administration to permit holding direct gubernatorial elections.

Farkhutdinov has not been vocal in national politics, mostly focusing on attracting foreign investment and federal subsidies to the region. He has achieved a moderate degree of success in these measures. However, earlier this year he accused the federal government of collecting too much money from his oblast in the fees it charges for various services and prices for natural monopolies and demanded that all money collected by inspectorates be given to the regional budget until it could be determined how the money was being spent. He also has declared that the disputed Kuril islands belong to Russia and said that he would prepare an oblast law on the region's border.

Other Local Leaders

Chairman of the Oblast Duma -- Boris Tretyak, former State Duma deputy, elected in the fall of 1996.

Presidential representative -- Viktor Kamornik, member of Our Home Is Russia movement, appointed in October 1993.

Brief Overview

Sakhalin Oblast includes Sakhalin Island and the chain of the Kuril islands that lie off the shore of Khabarovsk Krai in southeastern Siberia to the north of the northernmost Japanese island Hokkaido. The Kurils, forming the southern border of the Sea of Okhotsk, stretch from Kamchatka Peninsula to Hokkaido. Possession of these territories has been a subject of dispute between Japan and Russia for more than a century. Japan held the southern Kuril islands from 1855 until the end of World War II. Sakhalin was chiefly used as a prison colony by tsarist Russia; Japan won control over the southern half of the island in 1905, and lost it to the Soviet Union in 1945.

The region is rich in mineral resources, such as oil, gas, coal, and ferrous, non-ferrous, and precious metals. It also has access to abundant supplies of fish and other seafood. Over 80 percent of regional GDP comes from the mining, forestry, timber-working, cellulose, and fishing industries, as well as from exploration of the oil and gas field in the Sea of Okhotsk. The deposits are estimated to amount to 1.23 percent of the country's total hydro-carbon deposits. The Sakhalin-1 and Sakhalin-2 projects are among the few defined by production sharing agreements, which made them attractive for investment. Foreign companies such as Exxon, Mitsui, Mitsubishi, and Shell are involved in these projects. Many others have expressed interest in participating in other Sakhalin oil and gas related enterprises. In 1997, Sakhalin received 46.9 million dollars in direct foreign investment, the seventh largest (1.2%) among the country's 89 regions.

Basic Facts

Population (as of Jan. 1, 1997): 633,500 (0.43% of Russian total)

Urban population (1989 census): 85.1% (Russia overall: 73.0%)

Student population (1996): 56 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 22.58% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 11.2% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 28.7% (Russian average: 29.9%);
Agriculture: 7.4% (12.8%); Trade: 11.0% (9.1%); Culture: 10.0% (13.6%); Management:
2.2% (2.3%)

Average monthly personal income in July 1998: 1,130.9 new rubles (Russian average:
891.7 new rubles)

Average monthly personal expenses in July 1998: 589.7 new rubles (Russian average:
684.9 new rubles)

Average monthly subsistence requirement in 1996: 731 new rubles (Russian average: 438
new rubles)

Consumer price index (as of July 1998): 183 (Russia overall = 100)

Industrial production as percentage of all Russian production (Jan.-Aug. 1998): 0.28%

Proportion of loss-making enterprises (as of July, 1998): 65.4% (Russia overall: 50.4%)

Number of enterprises which have wage arrears (as of Sept. 1, 1998): 575 (0.43% of Russian total)

Agricultural production as percentage of all Russian production (1996): 0.42%

Number of private farms (as of Jan. 1, 1997): 862 (0.31% of Russian total)

Capital investment (1996): 1,562.5 billion rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): federal budget: 19.0% (Russian average: 9.2%); regional budget: 4.5% (9.6%); enterprises: 53.9% (66.3%)

Number of joint ventures (as of Jan. 1, 1997): 94 (0.58% of Russian total)

Fixed capital investment in joint ventures and foreign companies (1995): 50,898 million rubles

Number of small businesses (as of July 1, 1998): 4,000 (0.46% of Russian total)

Number of enterprises privatized in 1996: 17 (0.34% of Russian total), including those which used to be municipal property: 100% (Russian average: 67.1%); regional property: 0% (14.3%); federal property: 0% (18.6%)

Number of telephones per 100 families (1996): in cities: 45.0 (Russian average: 48.7); in villages: 33.6 (19.7)

According to a 1998 survey by *Ekspert* magazine, the oblast is ranked 65th among Russia's 89 regions in terms of investment potential and 67th in terms of investment risks. A 1998 survey by Bank Austria ranked the oblast 29th in terms of investment climate.

Electoral History

1996 Gubernatorial Election

Farkhutdinov (incumbent): 39.47%

Chernyi (NPSR): 27.20%

Dolgikh: 9.44%

Bersenev: 7.21%

Litvin: 4.42%

Maksutov: 1.50%

Turnout: 33.69%

1996 Presidential Election

Yeltsin: 29.86%/53.38% (first round/second round)

Zyuganov: 26.91%/38.81%

Lebed: 18.67%

Yavlinskii: 9.24%

Zhirinovskiy: 9.06%

Turnout: 63.46%/62.08% (Russia overall: 69.67%/68.79%)

1995 Parliamentary Election

Communist Party of the Russian Federation: 24.61%

Liberal Democratic Party of Russia: 15.32%

Yabloko: 6.76%
Women of Russia: 6.14%
Party of Workers' Self-Government: 5.53%
Congress of Russian Communities: 4.78%
Communists -- Workers' Russia: 4.51%
Our Home Is Russia: 4.08%
In a single-member district: 1 Communist Party of the Russian Federation
Turnout: 57.79% (Russia overall: 64.37%)

1993 Constitutional Referendum

"Yes" -- 62.38% "No" -- 37.62%

1993 Parliamentary Elections

Liberal Democratic Party of Russia: 36.86%
Women of Russia: 10.43%
Russia's Choice: 9.60%
Communist Party of the Russian Federation: 8.91%
Party of Russian Unity and Concord: 8.35%
Yabloko: 7.62%
Democratic Party of Russia: 6.55%
Agrarian Party of Russia: 1.43%
In a single-mandate district: 1 independent
Turnout: 49.70% (Russia overall: 54.34%)

1991 Presidential Elections

Yeltsin: 54.91%
Ryzhkov: 18.20%
Zhirinovskiy: 8.12%
Tuleev: 5.49%
Bakatin: 5.05%
Makashov: 3.82%
Turnout: 69.96% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; T. Matiyasevich, N. Mogel, S.A. Nagaev, M. Rossmann, L.I. Smirnych, and A. Woergoetter, *Russia: Regional Risk Rating*, Vienna: Bank Austria, 1998; *Ekspert*, 19 October 1998; *Roadmap to Russian Regions*, Salomon Brothers, 1997; *Goskomstat, Regiony Rossii* [Regions of Russia], Moscow, 1997; *Central Electoral Commission, Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii* [Elections of

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