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## **BREAKING NEWS**

### **POLITICS**

**PUTIN APPOINTS NEW MINISTER OF FEDERAL AFFAIRS.** Acting President Vladimir Putin has begun adjusting the presidential staff and cabinet to better suit his preferences. The cabinet change likely to have the most significant impact on the regions was the dismissal of Vyacheslav Mikhailov as the Minister of Federal Affairs and Nationalities in favor of Aleksandr Blokhin, the Russian Ambassador to Azerbaijan. Putin's choice of Blokhin was clearly related to the latter's pre-diplomatic career. Prior to serving in Azerbaijan, Blokhin was secretary of the Supreme Soviet's committee on the development of local government and then became the director of the Ministry of Foreign Affairs department on regional relations.

However, beyond professional qualifications, for Putin it was most important that he fill this key ministerial post with a loyal individual to whom he could entrust the Chechen campaign in the crucial period running up to the March presidential elections. In particular, Putin sought someone not closely affiliated with former Prime Minister Yevgenii Primakov or other influential groups, but who would pursue policies congruous to his own hard-line approach. Mikhailov's history as an active proponent and organizer of peaceful negotiations to end the 1994-1996 Chechen conflict was clearly inconsistent with Putin's strong emphasis on military might. With Blokhin in place, the Ministry of Federal Affairs and Nationalities will likely follow Putin's directives more closely.

In presenting Blokhin to the ministry, Putin said that Russia could not be a "powerful, great state" if the problems in the ministry's purview were not resolved. He claimed that problems of federalism affect everything, including the military, economy, and social sphere. He even went so far as to describe the ministry as "system-forming." ([www.nns.ru](http://www.nns.ru)) Traditionally, this ministry has been relatively weak.

Following Blokhin's appointment, on 10 January Putin demoted First Deputy Prime Ministers Viktor Khristenko and Nikolai Aksenenko. Aksenenko will maintain his post as Minister of Railroads while Khristenko will serve as a deputy prime minister. Putin filled the first deputy prime minister spot with Minister of Finance Mikhail Kasyanov. Minister of Emergency Situations Sergei Shoigu, was promoted to the post of deputy prime minister in addition to maintaining his current position. The restructured cabinet has only one first deputy prime minister and seven deputy prime ministers.

Putin also dismissed Kremlin property manager Pavel Borodin, offering him a consolation job as state secretary of the Russia-Belarus union. Given Borodin's background in various Kremlin business and property scandals it is no surprise that Putin opted to release him. Ironically, as *The Moscow Times* pointed out on 11 January, Putin's first job in the Kremlin had been as a deputy to Borodin. Deputy property manager, Vladimir Kazelkon was promoted to replace Borodin. (*Izvestiya*, 10, 11 January)

**DUMA REELECTIONS SET FOR 26 MARCH.** The Central Electoral Commission announced that repeat elections will be held on 26 March (the same day as the Russian

presidential elections) for the eight single-member seat districts that failed to elect deputies on 19 December. The districts affected are Primorskii Krai District 50, Kamchatka Oblast District 87, Leningrad Oblast District 99, Moscow Oblast Districts 108 and 110, Sverdlovsk Districts 162 and 165, and St. Petersburg 210. In all of these districts results from 19 December polling were declared invalid since more votes were tallied "against all" than for any one candidate. (*Nezavisimaya Gazeta*, 11 January)

## **ECONOMICS**

**BALTICA DIRECTOR MURDERED IN ST. PETERSBURG.** In the early morning of 10 January Deputy General Director of the Baltika Brewing Company, Ilya Vaisman, was shot to death in his St. Petersburg apartment. According to *Izvestiya* on 11 January, the police expect that the murder is connected to Vaisman's activities at Baltika, one of the most prominent businesses in St. Petersburg. In addition to sponsoring several important events in the local community, Baltika also commands influence in local and federal political circles. According to St. Petersburg Governor Vladimir Yakovlev, revenues from Baltika make up nearly 12 percent of the city budget. The company together with the Stepan Razin and Vena breweries spoke out against the previous State Duma's attempt to increase duties on beer production, successfully preventing the measure. Vaisman's murder, regardless of whether or not it was politically motivated, only further highlights St. Petersburg's serious problem with organized crime.

**ST. PETERSBURG COURT UPHOLDS LOMONOSOV DECISION.** In late December the St. Petersburg arbitration court ruled against the appeal filed by the US Russia Investment Fund (TUSRIF) regarding the court's October decision to renationalize the Lomonosov Porcelain Factory, revoking TUSRIF's ownership rights (see *EWI Russian Regional Report*, 14 October). *The Moscow Times* reported on 28 December that Alistair Stobie, Vice-President of Delta Capital Management Inc., which manages TUSRIF, called the court's decision a "travesty of the Russian legal system" and vowed to continue the appeals process. TUSRIF plans to file appeals to the northwest regional arbitration court and the supreme arbitration court.

In pursuing their claim, TUSRIF and Kohlberg Kravis Roberts & Co., which also lost its ownership rights in the October decision, have looked for the support of local politicians. They have met twice with St. Petersburg Governor Vladimir Yakovlev, who promised to speak with Lomonosov workers who feared that they were going to be fired by the foreign owners. Stobie said that TUSRIF plans to continue working on its other projects in St. Petersburg regardless of the Lomonosov outcome. Nevertheless, Stobie expects that the end result will be favorable for TUSRIF. He stated, "I still believe Governor Yakovlev when he says that he is really trying to attract foreign investment to the city. We'll see if his words will turn into action. Otherwise, you will just see us moving to the other, more investment friendly regions."

## **CENTER-PERIPHERY RELATIONS**

**PUTIN REPLACES YELTSIN AS RUSSIAN PRESIDENT.** On 31 December, President Boris Yeltsin resigned and named Prime Minister Vladimir Putin acting president. Putin is now expected to win the office outright in early presidential elections set for 26 March.

In stepping down early to move up the presidential elections, Yeltsin repeated a move that has become common in the Russian regions. During the last year, numerous Russian governors have held early elections to throw their opposition off guard. The governors have always acted to extend their own tenure, while Yeltsin sought to ensure the victory of his chosen successor. Putin's popularity is based on his success in Chechnya. With the situation deteriorating there, Yeltsin resigned to move the elections up as soon as possible. He also wanted to take advantage of the pro-government Yedinstvo's surprisingly strong showing in the State Duma elections.

In theory at least, Putin can be expected to try to restore the Kremlin control over the regions that had been lost during the Yeltsin era. In 1998 he served briefly as the administration's pointman for the regions, following a stint in the administration's Control Commission, where he investigated the misuse of budget funds by regional leaders. He has also pursued a hard-line in Chechnya. In practice, however, he has not been so tough. During the parliamentary campaign, for example, one of the Kremlin's main organizers Ivan Shabdurasulov promised governors relief from federal law enforcement agencies in exchange for their electoral support (see *EWI Russian Regional Report*, 14 December 1999). How he behaves as president, of course, remains to be seen.

Russia's governors are wasting no time in lining up behind the new apparent president. On 12 January a 197-member initiative group to support his presidential campaign was established. Among the members are many regional executives who did not support him in the December Duma elections, including Tatarstan's Minitimer Shaimiev (who backed Otechestvo-Vsya Rossiya in the Duma campaign), Nizhnii Novgorod's Ivan Sklyarov (OVR), Saratov's Dmitrii Ayatskov (Nash Dom-Rossiya), Sverdlovsk's Eduard Rossel (no affiliation), and Novgorod's Mikhail Prusak (NDR) ([www.nns.ru](http://www.nns.ru)).

We provide some initial reaction to Yeltsin's departure and Putin's rise from the regions below.

**PUTIN ADDRESSES NORTH-WEST GOVERNORS IN KARELIYA.** Acting President Vladimir Putin participated in the session of the North-West Interregional Association on 12 January in Kareliya. This visit was his first meeting with a group of governors since he became the acting president. In his remarks, Putin said that it was necessary to emphasize domestic industry and export processed goods rather than raw materials ([www.polit.ru](http://www.polit.ru)). In this regard he was particularly critical of Gazprom and its president Rem Vyakhirev.

For the governors, the meeting with Putin was a chance to address their main concern, the division of the budget between the regions and the center. Kareliya Prime Minister Sergei Katanandov, for example, had many questions about Valaam (a group of islands in Kareliya's Lake Ladoga), rebuilding the border, and reducing export tariffs on forestry products. Putin raised these tariffs in December causing great harm to the republic's forestry industry as a result (for details, see this week's *EWI Russian Regional Investor*.) Even though Katanandov backed Otechestvo-Vsya Rossiya in the Duma elections, he made clear that he supported Putin for

president because the voters had strongly backed his Yedinstvo party in December. He also said that he would maintain good ties with Moscow Mayor Yurii Luzhkov since Kareliya depends on the capital city for many of its orders. He declared that there was no antagonism between Yedinstvo and Otechestvo because they were both part of the "party of power."

Association leader St. Petersburg Governor Aleksandr Yakovlev called the session for the prosaic reason of discussing the development of the region's roads, energy system, and fur industry. On roads, Yakovlev and Komi leader Yurii Spiridonov complained that their regions collect taxes on roads and car ownership, send money to Moscow, and get nothing in return. They called on the Road Fund to reevaluate its policies to spend more money in the regions. Leningrad Governor Valerii Serdyukov agreed, pointing out that roads under local jurisdiction would disappear in 3-4 years if changes were not made. On fur-breeding, Kareliya Deputy Prime Minister Boris Zhitii complained that the Russian agriculture minister had not come to participate in the meeting, saying that it was symptomatic of the ministry's approach to fur-breeding. He argued that the regional fur industry has collapsed and could not be rebuilt without state support. - Boris Matveev in Petrozavodsk

### **KOMI: YELTSIN'S DEPARTURE MAKES LIFE DIFFICULT FOR REGIONAL AUTHORITARIANS.**

Beyond its obvious impact at the federal level, President Boris Yeltsin's voluntary and premature resignation will have a major impact on the future of many regional leaders. In several regions, the local elite have established authoritarian regimes and their leaders have either secretly or openly set up regimes that will allow them to hang on to power for the long term. However, Yeltsin's example will encourage the opposition to the current leaders to consolidate their strength with the goal of guaranteeing a democratic transition of power at the regional level.

In the final analysis, such actions will likely force the exit of such strong leaders as Tatarstan's Minitimer Shaimiev, Kabardino-Balkariya's Valerii Kokov, and Komi's Yurii Spiridonov. All of them came to power in the Soviet era and were the first secretaries of the Communist Party obkoms in their republics. Other leaders who took a different road to power, but ended with essentially the same system include Bashkortostan's Murtaza Rakhimov and Kalmykiya's Krisan Ilyumzhinov. They created monolithic and strictly hierarchical power structures in their regions, pushing the political opposition into the background, and alone deciding all key political, economic, and social questions.

According to the 6 October federal law defining the establishment of regional political institutions (see *EWI Russian Regional Report*, 10 November 1999), regional leaders can serve no more than two terms. Spiridonov was elected to a second term at the end of 1997, when he moved up his election six months to improve his chances of winning. Now his current term will end in 2001 and that should end his career as republican leader. Where the regional leaders could once point to the example of Yeltsin in their efforts to hold on to power, they are now no longer able to do so.

Yeltsin's exit will lead to the serious erosion of the regional authoritarian regimes, if not their destruction. In a telegram which Spiridonov sent to Yeltsin on 4 January, he described the resignation as "well thought out" (*Respublika*, 6 January). Soon however, the regional leaders will recognize the regional significance of Yeltsin's move. - Yurii Shabaev in Syktyvkar

## **PRIMORSKII KRAI: RELATIONS BETWEEN NAZDRATENKO, PUTIN NOT**

**IDEAL.** Primorskii Krai's political leaders have yet to comment on Yeltsin's resignation. Newly re-elected Governor Yevgenii Nazdratenko is in the hospital following gall-bladder surgery and his subordinates have not made their views public. Everyone is expecting a round of firings and appointments as Nazdratenko sets up his new administration. The opposition is also quiet as the krai дума has not returned to work after the holidays.

Nevertheless, Putin is likely to find faithful supporters among the krai leadership. Nazdratenko actively supported Yedinstvo in the 19 December State Duma elections, after backing away from his previous favorite Yevgenii Primakov. Nazdratenko has a talent for backing the candidate of the moment. In May 1999 he announced on local radio that he was supporting Primakov, while in December he was similarly enthusiastic about Putin.

The results of the elections suggest that the Kremlin and the Primorskii Krai administration made an unpublicized pact on cooperation and non-interference. As payment for supporting Yedinstvo, Moscow closed its eyes on any violations during the course of the gubernatorial campaign, which Nazdratenko handily won on 19 December. When Aleksandr Kirilichev, Nazdratenko's main opponent in the race, sent a complaint to the capital listing Nazdratenko's violations, an incident typical for the Nazdratenko era took place. Kirilichev's jeep, occupied only by the driver, was attacked on a Moscow road by two cars. It was pushed onto the sidewalk and crashed into a streetlight. Only the driver's airbag saved him from serious harm.

Nevertheless, many local observers believe that the relationship between Nazdratenko and Putin is far from ideal. Some think that the governor decided to stay in the hospital to avoid having to make a public announcement about his relations with Russia's new leader. The fact that Anatolii Chubais, Nazdratenko's main foe, helped promote Putin to his current position provides the basis for these opinions. Another indicator is that the pro-governor newspaper *Konkurent* (11 January) published a critical appraisal of Putin, noting that his popularity is based on the blood spilled in Chechnya. The article also pointed out that his speeches in Primorskii Krai last year showed that he did not understand the region's problems and that he should understand that he cannot be elected president without the support of strong governors. However, any open antagonism is unlikely to appear in the near future. And, in any case, Nazdratenko supports Putin's crackdown in Chechnya and his calls for establishing a strong state.

On 26 March, Vladivostok will also hold mayoral elections and Nazdratenko's opposition has a strong chance of winning. Nevertheless the governor will do everything he can to ensure that one of his allies wins the city post that controls the lion's share of the regional budget. According to independent sociologists, Nazdratenko actually lost the gubernatorial elections in Vladivostok, winning only due to his support in outlying areas.

Nazdratenko's candidate, acting Mayor Yurii Kopylov, is not in good shape. In contrast to former Mayor Viktor Cherepkov's era, all of Kopylov's promised projects remain on paper. While there have been no massive electricity outages, some regions are not being heated. Moreover, nearly a week after a 5 January snowstorm, Kopylov has not managed to plow the city streets. - Yevgenii Popravko in Vladivostok

**KRASNOYARSK: STRONG SUPPORT FOR PUTIN.** Judging by television interviews, almost all Krasnoyarsk citizens supported Yeltsin's decision to step down and the nomination of Putin in his place. Just a few days after the New Year's Eve announcement, Valerii Kazakov, the presidential representative in Krasnoyarsk began organizing a committee to support Putin. It includes a number of well-known politicians, including former Governor and current Duma member Valerii Zubov and City Council member Yevgenii Strigin. In his New Year's Eve announcement, Governor Aleksandr Lebed announced that he had no intention of running for the presidency this year. - Pavel Avramov in Krasnoyarsk

**DAGESTAN: HAPPY WITH PUTIN.** Dagestan was one of the first regions to form a movement in support of Vladimir Putin's candidacy for the Russian presidency. This group was formed on 11 January in Makhachkala by 105 individuals, five more than required by law. The head of the local group is Dagestan Prime Minister Khizri Shikhsaidov.

The clear support for Putin in Dagestan is good for both the federal and regional governments, according to Eduard Urazaev, the spokesman for the Dagestan State Council and Government. It helps the republic by demonstrating its pro-Russian position and helps Putin by building his image as a politician who does not have an anti-Caucasus bias. Two thousand people, including State Council Chairman Magomedali Magomedov, attended a reception in honor of the group's founding. Immediately after Putin's appointment, Magomedov said that he is a "strong politician who is deeply concerned about the problems of the country and our republic."

Putin has paid special attention to the republic. All of the funds promised by the Russian government to Dagestan to cover the military conflict in the republic during August and September 1999, about one billion rubles, have been paid on time. Deputy Prime Minister Viktor Khristenko, appointed by Putin to repair the damage after the conflict, brought the last installment, about 360 million rubles, at the end of December. On 13 January a team of experts from the Russian government will arrive to monitor the use of federal funds in the republic.

Putin also gained popularity in the republic for his visit on New Year's Eve. While clearly a propaganda move in which a new leader spends the holiday with soldiers in the country's most troubled region, the trip nevertheless had the desired effect. It highlighted the difference between Putin and Yeltsin, who rarely left Moscow. Additionally, Putin announced his sympathy for the Dagestanis who have taken a pro-Russian position in the Caucasus wars. Perhaps they are just campaign tactics, but Dagestanis have taken these gestures as evidence that Putin is the only top Russian politician who truly and actively supports them. - Nabi Abdullaev in Makhachkala

**ULYANOVSK: SACKING OF BORODIN HURTS GORYACHEV.** It is too early to talk about confrontation or cooperation between the regional elite and the Kremlin, especially since Ulyanovsk Governor Yurii Goryachev inexplicably disappeared from view after New Year's Eve. However, we can assume that Putin's decision to fire Kremlin Business Affairs Manager Pavel Borodin upset Goryachev since Borodin was Goryachev's best connection in the Kremlin. They both graduated from the Ulyanovsk Agricultural Institute. The governor also

probably realized that he had acted too hastily when he renounced any connection with Putin's Yedinstvo party last fall. Then Goryachev said that he did not belong to any party or movement and even sued the newspaper *Simbirskie gubernskie novosti*, which had associated him with Yedinstvo.

About Putin, Goryachev said, "[Putin] strikes me as an active man, who is decisive, taciturn, and polite. Thanks to his position on Chechnya, his authority is very high. However, the question is: will he find the strength within himself to counter not only the internal enemy but foreign forces inimical to Russia as well? In the villages, I am often asked, 'Who is ruling us? Earlier we knew that the Politburo was in charge.' Now we are also ruled by the politburo, but it is located in a foreign land and is called the International Monetary Fund."

Other residents of Ulyanovsk have different opinions. Ulyanovsk State University Philosophy Professor Valentin Bazhanov said, "Putin is better than Primakov. It is clear that he would not allow the kind of confrontation with the west that Primakov started."

Chairman of the regional branch of the Democratic Choice of Russia party Nikolai Povtarev said, "I hope that Putin does not repeat the mistakes of the former president who gave too much power to the regions and then almost lost it all. Putin does not need the governors' or bureaucratic support, but popular support, then he'll have free hands."

Communist State Duma member Aleksandr Kruglikov said, "We need to open people's eyes about Putin. He is an inflated figure: they have made a national figure out of a Federal Security Service (FSB) colonel. Is Chechnya a great accomplishment? What have they done to the army and the economy? Did Putin really have nothing to do with this? Yeltsin does not appoint random people to the FSB. If he wasn't the person for the job, Yeltsin never would have appointed him as his successor." - Sergei Gogin in Ulyanovsk

## **GOVERNORS' ELECTIONS**

**TVER GOVERNOR REELECTED.** Tver Governor Vladimir Platov won a narrow reelection victory in the 9 January second round of the region's gubernatorial elections, defeating Communist Vladimir Bayunov by just over 3,000 votes. Approximately 645,000 voters participated (53.11 percent), with just under 300,000 voting for each of the candidates (*Veche Tveri*, 11 January). Following the publication of the results, Bayunov announced that he would file a protest. Both of the competitors come from the city of Bezhetsk, where Bayunov headed the Communist Party of the Soviet Union raikom and Platov was once a factory director.

Bayunov's campaign sought to mobilize the resources of the Communist Party of the Russian Federation and the protest vote. The already bad economic situation in the region has only worsened since the beginning of the August 1998 economic crisis. In the second round, Bayunov also united all of Platov's opposition. He benefited from the financial resources of Moscow-based sponsors, including the Flora-Moskva commercial bank and the Consulting Corp. investment company (*Veche Tveri*, 6 January). Presumably these sponsors offered support in return for allowing them to participate in running the oblast economy if Bayunov were elected. Nevertheless, their help may have backfired as the abundance of Bayunov portraits and other printed campaign material offended the residents of Tver city.



Platov's campaign stressed his role as one of the founders of the Putin/Shoigu Unity bloc. He was the only governor to run on the party list. His broadcast ads, posters, and leaflets highlighted pictures of Platov and Putin together. Platov promised voters radical changes in the way the oblast is run and improved living standards. Several influential newspaper and the majority of the region's radio and television stations actively supported the governor.

While Platov's victory ensures that the Communists will not control the region's highest post, the slim margin of the victory presents Platov with a large number of problems. It is clear that Bayunov won support not only from the traditional Communist/Agrarian electorate, but a much larger share of the population that is dissatisfied with Platov's policies (*Tverskaya zhizn*, 11 January). Since the presidential elections are quickly approaching, the governor must work hard to improve his image and that of the federal authorities in the eyes of the voters. - Boris Goubman in Tver

### **MAYOR TOLOKONSKII WINS NOVOSIBIRSK GOVERNOR'S ELECTION.**

Novosibirsk Mayor Viktor Tolokonskii edged Deputy Russian Economics Minister Ivan Starikov 44.3 to 42.2 percent to win the region's governorship in runoff elections held 9 January. More than 50 percent of the voters participated in the elections and 12.4 percent voted against all candidates.

The three week battle between the first and second rounds was intense as the contenders sought the support of local parties. A Novosibirsk Communist Party of the Russian Federation plenum called on voters to reject all candidates so that the Communists could run their own candidate in repeat elections. The party had hoped to elect former Agrarian State Duma faction leader Nikolai Kharitonov. However, Kharitonov backed Tolokonskii. All of the right-wing parties backed Starikov as did former Governor Vitalii Mukha, who lost in the first round. Mukha's support, however, may have hurt Starikov.

The results of these elections show that the voters' desire for change, reflected in the defeat of the incumbent, has its limits as they elected the mayor rather than a relative outsider. The voters also confirmed their traditional sympathy for the left.

However much Tolokonskii declares that he supports reforms, it is clear that he is a strong "statist" of the left who believes that the oblast's debts will not affect the living standards of the population. The main thrust of his program was generous social support for the region's poorest citizens. For example, Tolokonskii's Novosibirsk city's 2000 budget raises spending on healthcare 4.5 times, promises greater access to free education, and the payment of a wider variety of benefits. Local businesspeople are already used to the existing system and do not want to make any radical changes.

Tolokonskii's main electorate was in the city. In the rural areas, where half of the population lives, Tolokonskii won votes only from those who believe that "he promised to support the urban residents, and maybe he will do something for us."

In contrast, Starikov focused on fiscal responsibility rather than assuring benefits for the population. For example, he conditioned the payment of a number of benefits on the oblast's ability to pay off its debts and its overall economic situation. Novosibirsk voters did not like his traditional liberal-monetarist policies.

The local press accused Tolokonskii of being beholden to Boris Berezovskii and the Chernii brothers, who control the Trans World Group. During his tenure, Governor Mukha drove them from control of the Novosibirsk Electrode Factory and now it is expected that they will be able to return.

Tolokonskii's first tasks will be to ensure the continued functioning of the oblast's and city's executives. During the course of January, he also will have to resolve the problem of oblast debts since the region is on the verge of default. He claims that he will use unprecedented means to address this problem. - Irina Maslennikova in Novosibirsk

**LUZHKOVS MAN SQUEAKS BY SELEZNEV IN MOSCOW OBLAST.** On 9 January General Boris Gromov beat out former Communist State Duma Speaker Gennadii Seleznev in the second round of Moscow Oblast's gubernatorial elections. Incumbent Anatolii Tyazhlov was defeated in the first round on 19 December. Gromov scored less than a 2 percent lead over Seleznev, 48.09 to 46.39 percent. Former State Duma Deputy Mikhail Men ran with Gromov as the candidate for vice-governor. Gromov, a member of Otechestvo-Vsya Rossiya (OVR), is a close ally of Moscow Mayor Yurii Luzhkov and had the support of both OVR and Yabloko. In order to counter Luzhkov's candidate, Acting President Vladimir Putin threw his support behind Seleznev.

After Gromov was declared the winner, Seleznev claimed that the results were falsified and demanded a recount. Both the Central Electoral Commission and the Moscow Oblast Electoral Commission claim that Seleznev's allegation is baseless. Gromov's victory is good news for Luzhkov, as it will help ensure that the Moscow Mayor's popularity remains high in the region. Nevertheless, Gromov's narrow victory margin suggests that he, like his predecessor, may encounter difficulties dealing with local opposition. (*Rossiskaya Gazeta*, 11 January)

Gromov is clearly comfortable in his new role. His website ([www.gromov.tsr.ru](http://www.gromov.tsr.ru)) proudly displays the words "Governor of Moscow Oblast" across its top and provides visitors with the texts of various speeches Gromov has made as well as his opinions on various national and regional issues. In his campaign platform Gromov spoke of raising the income of doctors, teachers, and other public sector workers in Moscow Oblast to that of Moscow City and securing subsidies from Moscow City to help improve Moscow Oblast infrastructure. Gromov also emphasized support to small and medium businesses, creating conditions for increasing salaries and pensions, ensuring social benefits, and improving health care and education in the region.

**ORENBURG: YEDINSTVO GOVERNOR OUT TO COMMUNISTS.** Orenburg Governor Vladimir Yelagin, a member of the Yedinstvo movement, lost in the second round of the region's gubernatorial elections on 27 December to State Duma Deputy Aleksei Chernyshev. Yelagin led the first round of elections held on 19 December, winning 33.5 percent to Chernyshev's 24 percent. Chernyshev pulled in 52.8 percent in the run-off a week later while Yelagin earned only 43.3 percent of the vote. In the State Duma Chernyshev belonged to the Agrarian faction and was chair of the Committee on Agrarian Issues, a position he was expected to retain in the newly elected Duma. Chernyshev's absence in the new State Duma will likely lead to a battle for the agrarian committee seat between the Agrarian Party,

which was represented on both the Communist Party and Otechestvo-Vsya Rossiya lists. (*Izvestiya*, 28 December)

**TAMBOV INCUMBENT LOSES TO FORMER GOVERNOR.** Tambov Governor Aleksandr Ryabov fell to his longtime enemy, Oleg Betin, in the second round of the region's gubernatorial elections on 27 December, pulling in 44.16 percent of the vote to Betin's 50.34 percent. Communist Ryabov defeated Betin, whom Yeltsin had appointed to govern the region, in Tambov's first gubernatorial elections in 1995. Following his 1995 defeat, Betin served as the presidential representative in the region, remaining a visible part of the Tambov political scene. Throughout the campaign Betin had the support of Moscow Mayor Yurii Luzhkov's Otechestvo movement. Before the election Yedinstvo leader Sergei Shoigu visited the region and spoke in favor of Betin's candidacy, which likely helped boost his ratings. (*Izvestiya*, 28 December)

## **1999: YEAR IN REVIEW**

### **KREMLIN IMPROVES POSITION OVER REGIONS BY YEAR'S END**

by Danielle Lussier, EWI

At the close of 1998 Russia found itself simultaneously recovering from the August financial crisis and preparing for the long 1999-2000 electoral cycle. With the federal government deprived of economic resources and seeking the support of the governors, regional executives were set to increase their authority in both their home districts and in relation to Moscow. The picture at the beginning of 1999 was of a weak federal government positioned against increasingly strong and vocal regional leaders. Governors took advantage of this situation to further advance their own agendas. Rather than taking their election cues from the center as in the past when they were appointed directly by the president, the now popularly-elected governors sought to establish regionally-based movements to elect their own representatives to the Duma. Meanwhile, the center sought to reassert control over the regions. The success of the pro-Kremlin Yedinstvo movement in the State Duma elections and President Boris Yeltsin's subsequent resignation in favor of his chosen successor, Prime Minister Vladimir Putin, closed 1999 with a stronger federal center apparently positioned to launch a campaign to bring the regions back under control.

### **Governors Move Elections to Promote Own Interests**

With a few interesting exceptions, 1999 was the year of the incumbent in terms of gubernatorial elections. But even strong chances for victory did not stop sitting governors from resorting to dirty tricks to ensure their stay in office. Regional executives first elected to office in 1995, when Yeltsin made an exception to his overall policy and allowed them to run before the 1996 presidential election, now faced the task of winning reelection. The terms of the governors in Belgorod, Moscow Oblast, Novgorod, Novosibirsk, Omsk, Orenburg, Primorskii Krai,

Sverdlovsk, Tambov, Tomsk, Tver, Udmurtiya, and Yaroslavl all expired in 1999. With the exception of Sverdlovsk and Udmurtiya, all other regional elections were scheduled to take place in December, coinciding with the State Duma elections. However, in February Belgorod Governor Yevgenii Savchenko, concerned over the competition he would face for reelection, managed to convince the oblast legislature to move up the election from December to May, and he subsequently breezed to victory.

Savchenko's success in both moving up and winning his election inspired other regional leaders to follow suit. Omsk Governor Leonid Polezhaev, Novgorod Governor Mikhail Prusak, and Tomsk Governor Viktor Kress all managed to move their elections to September and secure landslide victories. Moscow Mayor Yurii Luzhkov opted to have the election for his post moved up from June 2000 to December to coincide with the State Duma, rather than presidential elections. As expected, Luzhkov easily won another term, earning 71.5 percent of the vote - impressive but down from the 88 percent he won in 1996. Vologda Governor Vyacheslav Pozgalev, who was set to run for reelection in October 2000, convinced the region's Legislative Assembly to move the election to December, which necessitated his formal resignation for the election to occur in accordance with the law. He also won a decisive victory, taking 83 percent of the vote.

Although nearly every attempt to move up an election was challenged in the courts, it seemed that regional leaders had discovered a way to work the electoral system to their advantage. However, too much negligence for legal procedure on the part of St. Petersburg legislators backfired on Governor Vladimir Yakovlev. On 8 October the St. Petersburg Legislative Assembly's pro-governor blocs violated procedural rules and took the vote to move his election up in absence of a quorum. On 11 December the Russian Supreme Court, which had ruled in favor of moving up elections in Belgorod and Novgorod, overturned the Legislative Assembly's decision, postponing the election until 2000.

Of the remaining regional executives who stood for reelection in 1999, incumbents were reelected in about half of the races. Udmurtiya State Council Chairman Aleksandr Volkov was reelected to his position, although he is likely to seek election again in the near future as the region prepares to transform its parliamentary system (the last such regional system in Russia) into a presidential one in accordance with new federal legislation. Sverdlovsk Governor Eduard Rossel, Primorskii Krai Governor Yevgenii Nazdratenko, Yaroslavl Governor Anatolii Lisitsyn, and Tver Governor Vladimir Platov also won another term. Tambov Governor Aleksandr Ryabov, Orenburg Governor Vladimir Yelagin, Novosibirsk Governor Vitalii Mukha, and Moscow Oblast Governor Anatolii Tyazhlov all lost their seats. Tambov voters traded Communist Ryabov for former Tambov Governor Oleg Betin, a Yeltsin supporter, while Orenburg's Yelagin lost out to Communist State Duma Deputy Aleksei Chernyshev. Mukha was defeated by long time rival Novosibirsk Mayor Viktor Tolokonskii and former Afghanistan General Boris Gromov edged out Communist State Duma Speaker Gennadii Seleznev in Moscow Oblast, after the hapless Tyazhlov was eliminated in the first round.

Leningrad Oblast held gubernatorial elections in September to replace former Governor Vadim Gustov, who left the post in September 1998 to join then Prime Minister Yevgenii Primakov's cabinet. After Yeltsin dismissed Gustov in April the former governor tried to reassert his position in Leningrad regional politics. However, he lost the election to Acting

Governor Valerii Serdyukov, who opted to seek the executive position in spite of Gustov's return.

Karachaevo-Cherkesiya, the only region not governed by an elected executive at the beginning of the year, held its first presidential elections in April, destabilizing what had been a quiet republic. The two leading candidates after the first round were Cherkessk Mayor Stanislav Derev, an ethnic Cherkes, and former commander of Russian ground forces, Vladimir Semenov, an ethnic Karachai. Semenov won the runoff with a suspicious 75 percent of the vote to Derev's 18 percent. The second round was conducted amidst multiple electoral violations, provoking vocal protests from Derev's supporters among the region's Cherkes population. After several reviews by the republican and federal supreme courts, Semenov's victory was confirmed and he was allowed to take office in October. To settle the dispute between the Karachai and Cherkes communities, Prime Minister Vladimir Putin announced that a referendum will take place on 22 October 2000, at which time the republic's voters can choose whether or not to keep Semenov and whether to split the republic into Cherkes and Karachai units, as desired by the Cherkes.

### **Governors Seek to Further Consolidate Power through Federal Elections**

In addition to waging aggressive reelection campaigns in their home districts, Russia's regional elite collectively were one of the most active players on the federal electoral stage as well. Russian regional leaders began mobilizing for the 1999 State Duma and 2000 presidential elections already at the end of 1998. In December 1998 Luzhkov formed his Otechestvo movement, which he envisioned as the new party of the regions. However, many regional leaders believed that Moscow's success has been achieved at their expense, and resentment toward the capital's leadership was strong. Luzhkov's chances of successfully establishing a regionally-based movement appeared weak, leaving plenty of room in the political spectrum for other movements to take hold.

At the end of January Samara Governor Konstantin Titov announced the creation of a new regional movement, Golos Rossii, which initially seemed to have the backing of several regional executives throughout Russia. However, fractures within the group of rather diverse signatories began to appear almost immediately after the bloc was formed. When Tatarstan President Mintimer Shaimiev and St. Petersburg Governor Vladimir Yakovlev proposed their Vsya Rossiya movement in April, most of the regional leaders who had joined Titov as an alternative to Luzhkov jumped to the new organization. Additionally, with Shaimiev at the head, Vsya Rossiya attracted the leaders of many ethnically-defined republics and autonomous okrugs. Golos Rossii quickly lost its regional base and eventually joined the right-wing coalition Soyuz pravykh sil. When Primakov agreed to head an Otechestvo-Vsya Rossiya (OVR) merger in August, its success seemed inevitable. However, the union of these two relatively diverse movements created various problems on the local scene that ultimately impeded the bloc's overall success.

The Kremlin tried to take advantage of the increasingly important role regional executives were playing in the electoral game by creating its own regional movement, Yedinstvo, which appeared on the scene only in September. At first Yedinstvo seemed to be a collection

of weak governors who were dependent on federal subsidies for their survival and appeared to have little chance of success. However, with the backing of Prime Minister Putin, who had become popular for his anti-terrorist campaign in Chechnya, the bloc scored a surprising victory in the December elections.

The failure of the Otechestvo-Vsya Rossiya alliance and the victory of Yedinstvo demonstrated that in 2000 the governors would not be able to take the Kremlin on their own and in defiance of the interests of former President Yeltsin. Yedinstvo's success in the December elections assured the victory of Putin, rather than a governor-sponsored candidate, in the 2000 presidential elections.

### **Center Seeks to Reassert Control over Regions**

Moscow began to see its power over the regions slipping away after the August 1998 financial crisis. This trend continued well into 1999 as Yeltsin's health problems slowed him down and he passed additional responsibilities over to his constantly changing prime ministers. The Primakov-led government was unable to bring the regions back under control as Yeltsin had hoped. Although originally it seemed that Primakov, who advocated directly subordinating governors to federal authorities, would institute a crack down on regional executives, this did not happen. Rather than coming down hard on regional executives, Primakov earned their respect and support. Primakov's more subdued management style proved attractive to the governors, who found that it complimented their own quest for an increased share of the power.

Vadim Gustov, first deputy prime minister responsible for regional policy under Primakov, was considered rather ineffective in his role. Without the backing of any specific ministry, Gustov lacked the resources and tools to exert any real influence over regional policy. Gustov's dismissal in April in favor of former Chechnya war hawk Sergei Stepashin marked the Kremlin's attempt to reassert its authority over the regions. Feeling threatened by Primakov's growing popularity throughout the country, Yeltsin dismissed him shortly thereafter and placed Stepashin in the top position. Yet, Primakov's dismissal only served to further increase his standing in the regions and for many months it seemed that a governors-backed Primakov presidency would succeed Yeltsin.

The rather calm regional reaction to Primakov's dismissal was testimony to the fact that Russia's governors had learned to rely less on the federal government and the individuals who work in it. Stepashin's dismissal from office three months after he took over only confirmed this trend. Stepashin, too, had failed to bring regional leaders back under the Kremlin's sphere of influence. His dismissal resulted in part from his failure to prevent the Otechestvo-Vsya Rossiya merger from taking place. Regional leaders barely took notice of Vladimir Putin's appointment. Having endured four cabinet shake-ups in the past year and a half, governors had become used to dealing with transient and ineffectual federal leadership.

Although Yeltsin named Putin his successor, there was little expectation that his tenure would be any longer than those of his predecessors. However, Putin's appointment came at a time when there was greater occasion to impose order from the center, with the conflict in Chechnya providing the new prime minister an excellent opportunity to take a commanding role. Putin's handling of the Chechen campaign caused his popularity to soar beyond any other

prominent actors on the federal stage. The imminence of a Putin presidency brought him support from across the spectrum of regional leaders who wanted to make sure that they have good relations with the new national leadership.

In addition to renewing support for the center in the regions, Yeltsin's team also sought to improve center-periphery relations by normalizing existing practices in legislation. In June Yeltsin signed a new law regulating center-periphery relations. The law institutionalized the process of signing power sharing treaties and defined a mechanism for resolving disputes. In October Yeltsin signed another law on political institutions in the regions, which essentially codified already existing practices, including those which have allowed regional executives to exert considerable control over regional and local legislatures and mayors. The law demonstrated the center's awareness that its ability to force regions to reform existing governing structures was virtually nonexistent. It showed that the center was simply trying to preserve the status quo before the elections and was no longer prioritizing the establishment of democratic institutions in the regions.

### **Governors Exert More Authority in Home District, Federation Council**

Having lost its grip over the regions, the center was no longer in position to effectively interfere in regions' internal affairs. Without such attentive oversight, governors were able to impose more direct influence over their regions' political and economic development.

The battles between governors and the mayors of regional capitals continued throughout 1999. The main basis of the disputes was economic as governors and mayors fought over the precious tax revenue generated by regional capital cities. While over the past couple of years the federal government attempted to counter the governors' increasing powers by strengthening local government, this tactic was virtually abandoned in 1999, leaving local officials to fend for themselves against their stronger regional counterparts. This made it possible for many regional executives to take a harder stance against local governing structures. Regional executives and legislatures continued to pass unfunded mandates at the expense of local budgets, rousing protests from local leaders. The battle between Novosibirsk Governor Vitalii Mukha and Novosibirsk Mayor Viktor Tolokonskii remained intense as Mukha tried to secure more income for the regional budget at the expense of the city. By doing so, Mukha hoped to discredit Tolokonskii, who appeared to be the governor's strongest challenger in the December gubernatorial elections. Mukha's efforts were insufficient to sustain his position and he lost in the first round, while Tolokonskii moved on to win the run-off. Similar arguments engulfed the governors and mayors of numerous other regions.

Although federal law mandates the establishment of popularly elected local government, without a federal watchdog to keep them in check, regional executives were successfully able to limit the authority of local government structures in order to better fulfill their own agendas. Local governments are effectively subordinate to the regional executives in Komi, Bashkortostan, Tatarstan, and North Osetiya, and the governors of Kursk and Voronezh have craftily pushed for legislation and procedures to bring local governments under their control.

In 1999 the governors also began to use their collective force in the Federation Council to assert themselves more aggressively, particularly against the center. While in the past the

Federation Council had generally supported the president, in 1999 the body began to act as a counterweight to Yeltsin's rule. The clearest example was the dispute over Procurator General Yurii Skuratov, who was investigating high-level corruption. The senators refused to accept Skuratov's resignation first in March, then again in April, believing it to have been coerced by Yeltsin. This was one of the first times the Federation Council voiced such strong opposition to the president, demonstrating the confidence regional leaders had gained at entering into open confrontation with the Kremlin.

### **Domestic Production and Tax Collection Improve**

Russia's economic course in 1999 was largely determined by the August 1998 financial crisis, which slashed the value of the ruble and threw the regions into survival mode. The weak ruble made imports too expensive and thus freed up the market for domestic producers, causing a growth in production. This spurt, however, seemed to be petering out by the end of the year. Many regional budgets actually ended the year in the black. Nevertheless, governors continued to exert strong control over regional economic affairs.

Russia overall collected 46.2 percent more taxes during the period between January and May 1999 than during the same period in 1998. The increase in tax revenue resulted from both the rise in production and price increases. Regions registering high levels of industrial growth tended to have higher levels of tax collection. An important component to the improved tax collection was the adoption of sales taxes in many regions to replace a variety of minor taxes that had been more difficult to collect. According to the Tax Ministry, 67 regions had sales tax income during the first five months of 1999. Overall, the revenue generated by the sales tax added much more to regional budgets than the smaller local taxes that it replaced. In Chuvashiya, Ivanovo, Kurgan, Ulyanovsk, Bryansk, Mordoviya, Buryatiya, Marii El, and St. Petersburg, the sales tax was responsible for more than 10 percent of the regional revenue. Nevertheless, some regions, such as Vladimir Oblast, found that the sales tax did not generate the revenue officials had hoped for since so many goods and services were exempt from the tax. Additionally, several regions, including Leningrad Oblast and Moscow Oblast, decided not to introduce sales tax since the federal government did not reduce the value-added tax (VAT) as had been promised. Though the new sales taxes and imputed taxes helped boost budgets in many regions, the maintenance of the VAT and the high level of the imputed taxes caused a severe strain on small businesses, forcing many to close their doors.

Russia's 1999 tax success was also in part due to the rising price of oil on the world market, which generated sizeable revenue from export duties. While this helped pad the treasury and fund the Chechen military campaign, the result was less advantageous for the regions, which suffered from gasoline shortages and price hikes. Russian oil companies preferred to sell their oil abroad for hard currency rather than give it to domestic customers at lower prices, which they may or may not even pay. These consequences hit the regions in the height of the tourist and harvesting seasons. The growing tendency of regional officials to adopt protectionist measures only served to further exacerbate the situation. For example, the Saratov Oblast administration imposed price controls on oil products after the August 1998 crisis,



leading to an extreme shortage in gasoline supplies. By summer of 1999 farmers in parts of the region had to halt their work for lack of fuel.

Governors imposed price controls and export limits on various other products aside from gasoline. The poor harvest in 1998 contributed to rising grain prices in 1999. This situation was further exacerbated by another bad growing season in 1999. The rising prices and the increase in black market trade in the grain sector from 15 to 25 percent caused many regions to adopt measures safeguarding their food supplies. According to former Agricultural Minister Viktor Semenov, 36 regions, including Orenburg, Novosibirsk, and Kursk, instituted restrictions limiting grain exports. Kirov and Volgograd authorities extended price controls on essential goods and services, Khabarovsk and Tyumen imposed price regulations on food, and Sverdlovsk instituted price controls on medicine.

In addition to these traditional methods of state economic regulation, many regional leaders sought to extend their control over regional business development. Sverdlovsk Governor Eduard Rossel issued a decree preventing shareholders in key oblast companies from removing directors without first gaining his approval and needled his way into bankruptcy proceedings in the region by establishing an oblast controlled management company. Chelyabinsk Governor Petr Sumin announced that he was granting political protection from possible bankruptcy to the 200 firms that were most important to the region's economy.

While many regions struggled with the economic difficulties of key regional enterprises, others were faced with looming foreign debt repayments. The weaker ruble made it extremely difficult for cash-strapped regions to service their foreign debts and many prominent provinces teetered on the edge of default throughout the year. Leningrad Oblast failed to make foreign loan payments in May and November. Nizhnii Novgorod was late on a Eurobond coupon payment in April and defaulted on a coupon payment in October. Fortunately for the region, the creditors did not force Nizhnii Novgorod to repay the bond in full, but agreed to restructure the debt. Moscow City appeared as if it might default on some of its foreign debt, yet secured resources to make its 2000 payments by purchasing a large portion of its own Eurobond below cost and taking it out of circulation.

Although the crisis has led to a decrease in the amount of foreign direct investment going into Russia, a greater share of the funds are going to the regions beyond Moscow's ring road. Regions such as Leningrad Oblast, St. Petersburg, Moscow Oblast, Krasnodar Krai, Irkutsk Oblast, and Sverdlovsk Oblast marked an increase in the amount of foreign investment they have garnered. However, in spite of this positive trend, foreign investors found it harder to work in the regions in 1999 with the Russian courts standing against them on several occasions. The bankruptcy of Sidanko and the renationalization of the Lomonosov Porcelain Factory served as strong warning signals of the risks investors confront on the Russian market.

### **Regions Show Mixed Response to Russian-Belarusian Union**

Russia's precarious economic position, the uncertain character of its future governance due to the scheduled State Duma and presidential elections, and increased tensions between Moscow and the west placed the country under an international magnifying glass in 1999. Regional leaders had fewer opportunities to promote their own foreign economic initiatives as foreign

investors exhibited more prudence and hesitancy in the Russian market as they awaited the outcome of elections. The chill in Russia's relations with the west as a result of the Kosovo and Chechen wars did not help.

Russia's most significant foreign policy initiative in 1999 was the signing of the treaty to establish the Russian-Belarusian union. The extent to which existing relations between Russia and Belarus will change as a result of the treaty remains unclear. While many regions that have sought increased trade ties with Belarus support the union for the economic benefits it is likely to bring, some regional leaders have been critical of the union. The presidents of Tatarstan, Bashkortostan, and Ingushetiya all stated that they will demand that their republics be given equal status to Belarus if the union is actually formed.

Although in general the regions were perhaps less active outside of Russia's borders than in 1998, several regions continued to pursue cooperative initiatives with foreign governments. As part of the Russian-Chinese summit in February, several Russian and Chinese regions, including Primorskiy Krai, Bashkortostan, Altai Krai, and Novosibirsk, signed cooperation agreements with Russia's southern neighbor. Voronezh Oblast signed a five-year interregional cooperation agreement with Lugansk Oblast in Ukraine. A number of regions also continued to work successfully with foreign aid programs. For example, Kaliningrad Oblast secured an EBRD credit for reconstructing the region's water treatment system and the World Bank agreed to implement a program in Komi Republic to resettle unemployed residents and residents who are unable to work from the region's far northern territories.

### **Renewed Conflict in the Caucasus**

The mounting internal conflict within Chechnya as well as the republic's perpetual economic depression gave rise to increased crime and violence along the Chechen-Russia border zone. In August a group of Wahhabi fighters commanded by Shamil Basaev and field commander Khattab invaded and captured several villages in Dagestan. After three weeks Russian forces were able to regain control of the territories. However, this event, as well as explosions in two Moscow apartment buildings and one in Volgograd in September attributed to Chechen terrorists, strengthened Moscow's resolve to finally defeat the Chechens. In contrast to the Russian-Chechen war of 1994-96, Russia's October bombing attack against Chechnya and the subsequent invasion received almost unanimous support throughout Russia, quickly and conveniently boosting Putin's popularity. By the end of the year, however, it looked as if Russian troops were having difficulty taking Grozny, indicating another long and painful conflict.

In addition to the Chechen-based conflicts, violence also erupted in the traditionally peaceful Karachaevo-Cherkesiya. The region's first popular elections for the regional executive pitted the republic's two namesake groups, the Karachai and Cherkes against each other, with the Cherkes threatening to secede and create their own republic. The on-going conflict between the two groups left the region largely ungovernable for most of 1999. A referendum set for October 2000 will determine whether or not the region splits into two separate parts.

### **Conclusion**

Though difficult economic circumstances coupled with weak federal leadership paved the way for regional executives to exert their interests against the Kremlin more forcefully in 1999, the height of the governors' climb to power may have been reached. By the end of the year the center had successfully established a sizable pro-Kremlin faction in the Duma and placed a forceful new leader in the president's chair. If the economy slowly continues to improve, the Kremlin will be well positioned to reassert its authority over the country. Nevertheless, the ongoing Chechen crisis and the uncertain ability of the new State Duma and president to design and implement lasting reforms will continue to test both the center's and regions' strength.

## **PATTERNS OF REGIONAL DEVELOPMENT**

**ULYANOVSK REELECTS PRO-GOVERNOR SPEAKER.** Sergei Ryabukhin was reelected chairman of the Ulyanovsk Oblast Legislative Assembly at the newly elected assembly's first session this week. His reelection indicates that the oblast parliament is continuing its pro-governor position.

Ryabukhin's reelection was predictable considering that the number of oblast administration supporters in the new Legislative Assembly has increased in comparison with the previous assembly. Ryabukhin, who is viewed as a capable and forward-looking politician, has always used his line of "constructive collaboration" with the oblast executive powers. This is evidenced by the assembly's work over the past four years, which has followed the political line of Ulyanovsk Governor Yuri Goryachev. Ryabukhin and Goryachev have also voted the same in the Federation Council.

Of the 19 deputies elected to the Legislative Assembly, 4 can be considered in opposition to the governor, 2 members of the Communist party and 2 Federal Security Service (FSB) workers. Six districts failed to elect representatives due to the high number of protest votes in the elections. Local observers feel that the results of these races suggest that the people are completely dissatisfied with the policies of the oblast administration and will elect representatives in vocal opposition to the oblast leadership in new elections. The four opposition deputies spoke in favor of postponing speaker elections until the deputies from these six districts are elected. Clearly they expect to gain more allies in the repeat elections. - Sergei Gogin in Ulyanovsk

## **LEGAL ISSUES**

**MORDOVIYA COURT RULES AGAINST REPUBLICAN MINISTRY OF JUSTICE.** On 29 December a Mordoviya district court ruled that the republican Ministry of Justice must re-register the Presidential Party of Mordoviya (PPM). This decision was reached after a year-long conflict between the party and the regional government, which served to highlight contradictions between regional and federal law.

The conflict between Vasilii Guslyannikov, chairman of PPM, and the Mordoviya Ministry of Justice began in July 1998 when the authorities effectively sought to disband all independent organizations. Many organizations quietly dissolved, but PPM did not want to curtail its activities. It managed to comply with all of the Ministry's requirements except one.

Due to a lack of financial resources, PPM was unable to maintain branches in the majority of the republic's raions, a condition prescribed in republican law. However, the republican legislation contradicted the Russian Constitution, Russian federal law on social-political organizations, and the International Pact on Political and Civil Law. As a result of violating republican law, the Ministry of Justice suspended PPM's activities in October 1998. After Guslyannikov cited the contradictions in the republican and federal laws before the court, the Ministry of Justice recalled its suit.

In June 1999 PPM held a party congress, amended its charter in accordance with recommendations from the procurator and the Ministry of Justice, and instructed the party leadership to prepare documents for re-registering the party. On 30 June the Ministry of Justice refused to re-register the party because it still lacked a sufficient number of regional branches and called for changes in the charter. On 8 July Guslyannikov appealed to the Ministry of Justice with a request to review the registration's denial and received an answer that the period for re-registration had expired.

The court's decision was a victory not only for PPM, but for the integrity of the law and democratic standards in the regions as well. Upholding the law in the courts is an important component of civil society development, which is necessary for Russia's integration into the world community. - A. Antonov in Saransk

## **REGIONAL FOREIGN POLICY**

**BASHKORTOSTAN TO COOPERATE WITH MOSCOW ON CIS AFFAIRS.** On 1 December the Bashkortostan Cabinet of Ministers signed an agreement on cooperation with the Russian Ministry for CIS Affairs. The agreement regulates cooperation between the two sides regarding Russia's foreign economic policy. According to the agreement, the ministry will offer Bashkortostan consultative and legal help in its relations with the CIS states and cooperate to include Bashkortostan in international integration programs and projects involving the CIS. The Bashkortostan Cabinet in turn will seek approval from the ministry for its projects involving international and foreign economic relations with CIS countries and introduce proposals for projects on model laws for unifying the legislative base of CIS countries in regard to international cooperation, border relations, customs legislation, and other issues. The term of the agreement is five years with automatic renewal for another five-year period. - *Biznis novosti urala*

## **AGRICULTURAL SECTOR**

**OVERVIEW: RUSSIAN AGRICULTURE MIRED IN CRISIS.** Agriculture is the worst performing sector of the Russian economy. Things were bad under the czars and the Communists and have only deteriorated in post-Soviet Russia. The country was once a major exporter of food, but is now dependent on imports. Large tracts of land that were once under cultivation are now being allowed to return to the wild. Russian regions dominated by agriculture production are some of the poorest in the country.

Grain output is a key concern since domestic production apparently does not meet the Russian annual demand for 74 million metric tons of grain. The size of the shortfall is not clear because many of the figures describing agricultural output are conflicting. According to Bloomberg on 17 November, Russia harvested 57.8 million tons of grain in 1999, up from 51.9 million tons in 1998, one of the worst years for the country since the 1950s due to drought conditions. Small private farms supplied 5 million tons of this output. However, a report from the Bank of Finland claimed that the actual output was even smaller at only 53 million tons (Russian and Baltic Economies, 31 December 1999). Yet, some producers say that the harvest could have been as high as 62 million tons because farmers routinely underreport true production to avoid paying taxes on it.

In 1999, the US and EU delivered approximately 5 million tons of food aid to Russia. In September 1999, wheat deliveries reached their highest point since 1992, when the west sent huge amounts of aid to prop up Russia's struggling infant state. Russia also buys grain on the international market. These aid programs are controversial because it is unclear how much grain Russia really produces and whether it really needs the aid. Often the food imports disrupt local markets and make it even more difficult for Russian farmers to meet their country's needs.

Russian agriculture suffers from a number of problems. There is relatively good legislation on transferring land from the large collectives to the people who work it, but this legislation is poorly implemented. Most agricultural workers are afraid to take advantage of privatization because they prefer the security of working in a large collective to going it alone. Even when they do, land owners are afraid to make changes because they fear that the privatization will be reversed. Journalist Serge Schmemann found many of these problems in tracing the history of one Kaluga Oblast village in his *Echoes of a Native Land: Two Centuries of a Russian Village* (see *EWI Russian Regional Report*, 14 May 1998). Land reform has been tried in a few regions, such as Saratov, but these experiments are now largely forgotten.

Outdated equipment means that the country cannot distribute and store much of the food that it produces. Russia lost an estimated 3 million tons of the crops it harvested in 1998. In some cases, farm products can be artificially expensive when regional governments limit the amount of produce that can be shipped outside their region.

In his 1998 study *Agriculture and the State in Soviet and Post-Soviet Russia*, Stephen Wegren argues that reform has effectively impoverished the agricultural sector. Many of the inefficient economic organizations and relations from the Soviet era were frozen into place in the 1990s. State policies have effectively blocked non-state actors from making private agriculture a success (see the concise description of this book in the *AAASS NewsNet*, January 2000).

The consequences of these problems are appalling. While there is no real fear of widespread starvation, Russians' health has deteriorated partly as a consequence of the low access to nourishing foods. The country also remains dependent on outsiders for crucial elements of its food supply.

While there is no sign of improvement currently on the horizon, perhaps the post-Yeltsin political environment will create some openings. One result of the 1999 State Duma elections was the weakening of the Communist and particularly conservative Agrarian Party. The Agrarians split on the eve of the elections, with the larger share joining the ultimately unsuccessful Otechestvo-Vsya Rossiya alliance. In the aftermath of the elections, it remains

unclear if the Agrarians will be able to form a faction in the new Duma. Now that the Agrarians have a smaller voice in the State Duma, the Putin government may be able to push through more agricultural reforms.

For statistical purposes, the agricultural sector is divided into three main groups. "Agricultural enterprises" include large collectives such as the old state and collective farms which have now been turned into joint stock companies. Most of the population works on "individual plots," pieces of land given to them where they grow fruits, vegetables and other products. "Farms" designate land which individuals can own or rent to produce agricultural products. In 1997, the large collectives produced 54 percent of agricultural output in value terms, individual plots produced 44 percent, and farmers produced 2 percent (*Rossiya v tsifrakh 1998*, Goskomstat).

Below we present a number of case studies from a variety of Russian regions. For an earlier report on agriculture in Novosibirsk, see *EWI Russian Regional Report*, 10 November.

**CHELYABINSK: REFORM PLANS YET TO BE IMPLEMENTED.** The Chelyabinsk Oblast governor's collegium has adopted a program for developing land reform during the period 2000-2002. The plan is meant to be a next step in the reform process that was begun in 1991. During the course of the last decade, the reforms have put in place a number of changes. The state monopoly on land ownership has been abolished. Two hundred fifty-four state and collective farms have been reorganized, privatizing 2.9 million hectares of their land. More than 236,000 workers from these units have become owners of the land that they work. 5,600 farms have been established occupying 382,600 hectares of land. Individuals have gained access to land. The basis of a market for land sales is being established.

Nevertheless, in spite of these advances, the reform as a whole is being implemented slowly, unsystematically, and inconsistently. The changes affect mostly agricultural land, but there is little land privatization in the cities. This prevents investment and hinders the movement of people to meet the needs of growing cities and markets. In the agrarian sector, reforms are only partially implemented and land owners are not using all of the rights available to them. The result is that grain output is not as high as it should be. The necessary financial, material, and personnel changes have not been implemented, particularly in the last two years.

The three year program will seek to address these issues. It now must be approved by the oblast's Legislative Assembly. The plan requires an investment of 75.5 million rubles, including 23 million rubles from the 2000 budget. The anticipated return will be 493 million rubles.

The governor's collegium is also discussing a plan to better coordinate energy use in the agricultural sector. At the beginning of the 1990s, energy made up 10-15 percent of the cost for agricultural products, but now it makes up half the cost, according to Chelyabinsk State Agro-Engineering University Rector Vasilii Blednykh. The program plans to audit current usage, examine how to introduce energy saving methods, and find a way to satisfy both energy providers and consumers. While the oblast leaders think this is a priority project, the current plan needs further development and it is not clear where financing will come from. - *Biznis-novosti Urala*

### **KOMI: SOME FARMERS DOING WELL, MANY SUFFER FROM HIGH TAXES.**

One of the main problems for contemporary Russia is the development of its agricultural sector. Agricultural inefficiency was obvious even to the Soviet officials and they made many attempts to improve the situation. However, these efforts were largely fruitless and the vast majority of the collective farms were characterized by poorly organized production methods, unprofitability, and extremely low labor productivity. The reforms in the country in the 1990s brought new directions in agriculture, but it is not at all clear that progress is being made. Practically all state agricultural enterprises (in Komi there were only state enterprises under the Communists) were transformed into collectively owned enterprises. Private farmers appeared in all parts of the republic at the beginning of the decade, often without the support of the local authorities. Nevertheless the republican officials loudly boasted about the farmers brilliant chances to change the future. Unfortunately, these statements had little to do with the real situation on the ground.

At the Ninth Conference of Farmers that took place in April 1999 in Syktyvkar, speakers pointed out that almost all state aid to the agricultural sector goes to the collective sector. Only a few individual farmers could receive state credits to develop their productive capabilities. In 1999 farmers had been promised 600,000 rubles from the budget. In the previous three years, the state had only given them 831,000 rubles. Moreover on 1 January 1999 the state owed the farmers 1.5 million rubles for deliveries of milk and meat.

Three years ago the republic adopted a program to stimulate the development of private farming, but it has not been implemented. Most farmers in the republic see no use for the republic's Union of Farmers and now rely only on their own resources.

Two examples are illustrative of the situation. Sergei Dvoeglazov is a farmer in village of Vodnyi pod Ukhtoi. During the last four years, he has produced 160 tons of meat and more than 100 tons of milk. In 1999 he sold the population 400 piglets. The major pig farms in the region have been closed and people come from great distances to buy a pig from him. Many families keep the piglets from spring to fall and then slaughter them for meat because they cannot afford to buy meat in the stores.

Dvoeglazov is extremely critical of the official authorities' position toward farmers, particularly the state's fiscal policies. The tax police recently sent him a bill for a house that he built this year that burned down before he even had a chance to move in to it. On top of the taxes he also has to repay the money he borrowed to pay for the construction. The state owes him more than 100,000 rubles for improvements he made to the land. However, it remains unclear if this sum will ever be paid to the farmer. Despite everything, Dvoeglazov continues to work and hopes that he will be able to handle his problems.

Another relative success story is the farmer Nikolai Parnev, who is the head of the Tulys farm in the Udor Raion. Thanks to his entrepreneurial talents, he has no debts to pay off, an extremely unusual situation in Russia. He managed to received subsidies from the tight raion budget. Today he has 60 head of cattle, 23 dairy cows, and calves. The calves are in great demand among rural residents, but their 800 ruble cost makes them an expensive purchase.

Parnev began his career by taking over a farm that was no longer needed by a wood processing plant. He now employs barter methods to cut his losses and reduce his tax burden. He has set up a deal with the raion unemployment agency that unemployed people could receive

milk at his farm using rationing coupons. The agency paid the farmer in cattle feed. From another agency he received cabbage which he sold in his stores for real money. He helped a local printing press pay off its property tax and received a shipment of office supplies which he was also able to sell in rural stores.

Parnev would like to begin selling processed goods in addition to the raw materials he sells now. However, realizing these plans requires an investment of 340,000 rubles, a sum that he does not have. The Economics Ministry and the Foundation to Support Small Business have not supported these efforts.

Parnev quickly understood that the only way to succeed in agriculture is to have income from some other form of business. He set up his own chain of stores, began trucking goods into the region, and helps neighboring farmers sell their goods. In the future, he plans to expand his network of stores. But the expansion depends on the support of the raion head. In particular, it is not clear if he will be able to use store space that is currently not being used or be able to carry out his deals through barter exchanges (*Respublika* 21 April).

Today's farmers face a considerable amount of uncertainty. Many farmers have begun to reregister as private entrepreneurs because the new civil code does not recognize farmers as a separate legal category. The trend line is clear. In 1998 128 farms went out of business and only 70 new ones started up. At the beginning of 1999, there were 557 farms in Komi Republic, an extremely small number for such an extensive territory (417,000 square kilometers).

The constantly changing conditions for farmers is well illustrated in the case of Lyudmila and Vasilii Izyurovii who have a farm in Pezmog, Kortkerosskii Raion. Both were trained as agronomists and therefore decided to ask for a plot of land and a share in the property of a state farm. In terms of equipment they received an old tractor and three tons of potatoes.

During the four years the couple has worked as farmers, they have had to resolve a number of problems, particularly with the tax police. Thanks to a bumper crop they harvested 20 tons of potatoes in the first year of their work. In the second year, the farm began to take off and they were able to purchase livestock. They worked long hours, including in a collective farm which did not even pay them.

Although the family could expand the farm, they fear that high taxes will force them to close it. The land tax comes to 10 minimum wages (a common accounting unit in Russia) per hectare. They have more than 16 hectares, but are thinking of dropping 11 of them. Additionally, the farmers must pay the state 40 percent of their income. Also since 1997, they must pay 28 percent of their income into the Pension Fund. (Private farmers face more difficult conditions here because collective farms only have to pay 20.6 percent to the Pension Fund.) Of the 40 registered farms in the region, only three fourths actually sell their products at market. The rest only produce for their families.

Many more people would like to become farmers, but believe the conditions for registering are too difficult. In addition to high taxes, farmers often lack information about the legal base and government guarantees for farming. The main problem, however, is selling their produce since there is no organized mechanism to do this. There is also no way for the farmers to receive credits. In short, the state has done little to help farmers and as a result farmers are turning away from the land and farming as a profession. - Yuri Shabaev in Syktyvkar



**KURSK: EGG PRODUCER STANDS OUT.** The Rus egg-producing agricultural cooperative was the only enterprise in Obovanskii Raion that made a profit in 1998 and 1999. And its profits are quite large. This enterprise has thrived because it has learned to live on the basis of its own resources. It has also benefited from the leadership of Aleksandr Loktionov, who joined the enterprise after serving as a raion-level bureaucrat. Loktionov combines a subtle analysis of economic trends with a professional knowledge of his field. He is a good organizer and has a powerful understanding of human psychology.

Loktionov's decision to work in Rus demonstrates his leadership skills. He moved to the village of Rudavskii, Rus's home, from Obovani, the raion center where he was born and grew up. This move strongly raised his standing in the eyes of his subordinates. Almost every other former and current collective farm chairman or state farm director has set up or is currently preparing "an escape route," either building a home in the raion center or Kursk itself, so that they can avoid a life in the countryside. The sly Loktionov probably took this into account when he decided to live in a village. Today Rus is known across Russia.

The most important aspect of the egg business is the quality of the feed given to the chickens. In Kursk Oblast, the feed producers are monopolists, such as the Kurbakinskii Feed Factory in Zheleznogordkii Raion. The feed producers traditionally did not pay much attention to the quality of their product because the poultry farm consumers had no other suppliers. The farms were losing money because of the deceitful activities of the factory. However, Loktionov took action to solve this problem. First, Rus itself added the necessary supplements to the feed it bought locally to improve its quality. Then it began to buy feed in another oblast, from where it now gets 80 percent of its supplies. The Kursk monopolist is now trying to win Rus back as a customer, promising to improve the quality of its feed.

In 1996, Rus's chickens were each producing 160 eggs a year, in 1998, the figure rose to 264. The plant hopes to ultimately achieve a rate of 300. (The chickens in the Irkutsk plant described below produce at the rate of 330 per chicken a year.) - Sergei Sarychev in Kursk

**IRKUTSK: EGG PRODUCER RAPIDLY EXPANDING.** Until recently about 80 percent of Irkutsk Oblast's agricultural enterprises were losing money. Of the region's 308 large-scale collectives, only 39 were profitable. However, in 1999, a full two-thirds of the region's agricultural producers made money. Moreover, local farmers are beginning to produce crops not seen in many years, including watermelons, *dyna* (a type of melon), and tobacco.

Agricultural enterprises working in Usol Raion have proven the most successful. Now the region is hoping to receive a 100 million ruble federal grant to expand production.

The Belorechenskoe egg farm is one of the clear success stories of the region. It is one of Russia's leading egg producers and ranks second among the country's 300 most effective agricultural enterprises. The enterprise not only works well on its own, but also makes credits available to other enterprises in the region.

It is constantly increasing the size of its output. In 1998, the plant achieved the dream of General Director Gavriil Frantenko and began producing one million eggs a day. Now production is 1.1 million. The plant is now meeting international productivity standards because

its chickens each produce 330 eggs a year. The installation of modern equipment and computer technology means that the plant is 15 years ahead of other plants in the region.

Belorechenskoe handles all of its own marketing, distinguishing it from competitors. Usually eggs pass through the hands of so many middlemen that their prices are extremely high by the time they reach consumers. Belorechenskoe decided to cut out these middlemen. First, it sold its eggs directly to consumers from company cars. Now it has built a network of kiosks. Its distribution network reaches throughout the entire region. - Yekaterina Vorobeva (Teleinform) in Irkutsk

**KURSK: LACK OF ALTERNATIVES HOLDS MONEY-LOSING COOPERATIVE TOGETHER.** The Novaya zhizn cooperative of the Tim Raion specializes in growing wheat, barley, oats, and some livestock. In 1999, as in the last seven years, the cooperative lost money. According to Chairman Valentina Pozhidaevaya, of the 3,200 hectares available, only 200 were planted. The harvest was transferred to the oblast produce fund, but by the end of November the farmers had not been paid. For 2000, the cooperative only has enough seed to plant 200 hectares again.

Of the 400 cattle and 1200 calves the cooperative owned in 1992, only 98 cattle remained in 1999. The 14,000 pigs have completely disappeared during the last decade. Only the frame of the former pig sty remains.

The members of the cooperative have not been paid in seven years. The workers survive on the products they sell from the garden plots (milk, meat, potatoes). Why do they remain in the cooperative? Mostly from habit. Also the cooperative can still supply some equipment and fuel. Outside the cooperative it is difficult to obtain credits to work independently. - Sergei Sarychev in Kursk

## **NOVGOROD: SUCCESSES AND FAILURES IN AGRICULTURAL REFORM**

By Petr Alekseev, Chairman of the Novgorod Oblast Administration Agriculture Committee

NOVGOROD - Novgorod has been carrying out agricultural reform since 1992. It has sought to restructure the agro-industrial complex, create a diversified economy, transform the ownership of the region's land and the means of production, encourage more cooperation, and form a market infrastructure. One of the major changes has been in the ownership of land. Among the new entities are private farms and shares in larger agricultural enterprises. Now 95 percent of the agricultural land has been transferred to the mutual funds of agricultural enterprises. More than 71,000 people own this land. The oblast has also recorded 37,000 land deals.

At the beginning of the reform era there were 207 collective and state farms in the region. Now there are 270 registered agricultural enterprises of different types. During the last two years 98 agricultural enterprises were reregistered because they could not survive financially in their previous incarnation. As a result of this work, 46 new enterprises were registered, usually on the basis of a cooperative form of property. The reorganized enterprises maintained control of their equipment, cattle, and their members continue to work.

One example of this restructuring is the OOO (limited responsibility joint stock company) Kamenskoe enterprise (Borovik Raion), which was created on the basis of TOO Travkovo. Travkovo originally was a state farm during the Soviet era. During the first stage of reform in 1992-3, the Travkovo state farm was divided into 30 private farms and the collective farm Travkovo, which received 2,700 hectares of land. Most of the original collective farm's unusable land and equipment went to the new collective. The owners were 387 individuals, 236 of whom were pensioners. The new farm could not survive in the new conditions. As its cattle stock shrunk it lost money. Finally, when Travkovo was on the edge of bankruptcy, the private farmer Viktor Kruzhilin agreed to take over Travkovo in the form of a new enterprise called Kamenskoe. Forty-nine individuals founded the new enterprise and it is now economically viable. During the last two years, the farm has doubled its productivity. The secret to the enterprise's success was Kruzhilin's reform program. He inventoried all of the enterprise's activities and eliminated the least-productive. He also increased worker discipline and responsibility.

Restructuring these enterprises does not always produce the desired result. The Iskra plant was reorganized along the lines of the Nizhnii Novgorod model. The plant had to go through restructuring when the productivity of its animals and crops dropped, the workers lost interest in the plant. On the basis of the enterprise, 9 private farms were created and the OOO Iskra. An auction was held selling off much of the property. The proceeds of the auction allowed the restructured Iskra to keep some of the old enterprise's common property, including its shops, garage, oil depot, grain storage facilities, and milk trucks. Now other farmers pay to use these facilities. Unfortunately, under this form of restructuring the new Iskra had to take on all of the debts of the old enterprise. Without financial support, it has not been able to turn a profit. Its staff has shrunk from 70 to 58. During the first nine months of 1999 it continued to lose money.

Alongside the large agricultural enterprises, there are some private small-scale farms. This type of farming reached its peak in 1993-1994. At the beginning of 1995, there were 2,894 farms. However, the weak equipment base, price disparities, the inability of customers to pay for food, and a series of other problems caused major problems for this sector. Last year there were only 1,453 such farms. They produced less than 2 percent of the region's overall agricultural output. An example of a successful farm is Gorodok, which was founded in 1994. It has specialized in growing potatoes and cabbage. This year it had a bumper crop of a Dutch strain of cabbage, which it sold in Novgorod and Murmansk oblasts. The farmer Aleksandr Dekhtyar has become successful specializing in the production of milk, potatoes, and vegetables.

**DAGESTAN: FARMERS LIVE ON GARDEN PLOTS.** According to Dagestan's Economics Ministry, the number of private farms in the republic has dropped by 50 percent since the farming boom of the early 1990s, and now these farms only produce 5-7 percent of the republic's overall agricultural output. Even though Tetrapak is working in the wine-producing city of Derbent, there is a canning plant in Kasumkent, and the Steklovolokno plant is beginning to produce glassware, most farmers have little opportunity to process their products.

Additionally, there is not a stable legal base the farmers can rely on. The law on private farming adopted several years ago does not work, banks do not provide credits to buy equipment, and low farm produce prices do not allow the farmers to cover their current expenses or sell their products at a profit. The question of land ownership is constantly debated. The press is always publishing discussions of whether the land should be sold, given away, or left in state ownership. In a 1993 referendum, the majority of Dagestanis voted against turning land into private property. Water is also freely available, meaning that it is used inefficiently.

Given all these problems, it is hard to foresee good times for farming. Today, in fact, most farmers live off of what they can sell from their personal gardens. All of these products are produced by hand using ancient techniques. Individuals simply cannot afford to buy or lease modern equipment.

It is difficult to find a successful enterprise in the region because the successful farmers are afraid to talk. They fear that they will be ripped off or the tax police will come to harass them. Therefore they prefer to remain silent. - Zaira Abdullaeva in Makhachkala

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**BREAKING NEWS**

**POLITICS**

**YAKOVLEV FAILS TO MOVE UP ELECTIONS AGAIN.** St. Petersburg Governor Vladimir Yakovlev failed once again to follow the increasingly popular trend among regional executives and move up his gubernatorial election. Although Yakovlev tried to join the six governors who moved up their elections in 1999, the vote taken by the St. Petersburg Legislative Assembly in October to move the city's gubernatorial elections to December to coincide with the State Duma elections lacked the necessary quorum. As a result, the Russian Supreme Court overturned the decision (see *EWI Russian Regional Report*, 14 October 1999, 14 December 1999). Following Yeltsin's resignation, Yakovlev tried to move the elections up to coincide with the Russian presidential elections on 26 March, but once again Yabloko, the Boldyrev Bloc, and independent deputies in opposition to the governor boycotted the assembly to prevent Yakovlev's supporters from mustering a quorum before the 70-day pre-election deadline expired.

According to the city charter, the gubernatorial election should take place on the first Sunday in April, however for this to happen the city assembly must officially set the date this week, which is unlikely to occur. Rather the election might be scheduled to coincide with the official end of Yakovlev's tenure on 21 May. If the Legislative Assembly fails to set a date before Yakovlev's term expires, the city's electoral commission will determine when the election takes place. Potential challengers to Yakovlev could include Deputy Chairman of the Russian Audit Chamber Yuri Boldyrev, Legislative Assembly Deputy Igor Artemev (head of the Yabloko faction), State Duma Deputy Sergei Stepashin, Deputy Prime Minister Valentina Matvienko, First Deputy Finance Minister Aleksei Kudrin, Railroads Minister Nikolai Aksenenko and former St. Petersburg Mayor Anatolii Sobchak.

Acting President Vladimir Putin has already announced his support for Yakovlev's reelection. *Kommersant Daily* reported on 15 January that Putin had suggested that Yakovlev move up the election in September. Both served as deputies to former Mayor Anatolii Sobchak. Ironically, Putin was in charge of Sobchak's campaign when he was defeated by Yakovlev in 1996.

Kirov Oblast, Khanty-Mansi Autonomous Okrug, Saratov Oblast, Yamal Nenets Autonomous Okrug, and the Jewish Autonomous Oblast have already moved up gubernatorial elections to coincide with the 26 March presidential elections. Legislatures in Volgograd, Voronezh, and Arkhangelsk will not move up their elections (see related stories in this issue.)

**KATANANDOV SUPPORTER HEADS KARELIYAN PARLIAMENT.** The Kareliya Legislative Assembly's House of Representatives elected a new speaker to replace Valentina Pivnenko, who was elected to the State Duma from the republic's single member district in December's elections. Deputy chairman Vladimir Shilnikov will serve as the chamber's new speaker and thus become a member of the Federation Council. Shilnikov, who will have to leave his position as Communist Party of the Russian Federation (KPRF) republican committee first secretary in order to take up this position, is considered loyal to Kareliyan Prime Minister Sergei Katanandov. However, according to *Nezavisimaya Gazeta* on 18 January, he is a more independent politician than other members of Katanandov's team.

## **ECONOMICS**

**VYBORG FACTORY REACHES AGREEMENT WITH FOREIGN OWNERS.** After a nearly 2-year standoff, on 15 January the Vyborg Cellulose and Paper Combine finally reached an agreement with its foreign owners, Alsem UK, which purchased the factory from Nimonor Investments in June 1999, and about 100 Alsem guards were allowed to enter the factory. The standoff between the workers collective and its foreign owners had become more intense over the past several months, and in October Justice Ministry troops tried unsuccessfully to seize control of the factory, which resulted in armed conflict with several casualties (see *EWI Russian Regional Report*, 21 October 1999). The agreement signed by the workers collective and Alsem had the support of about 2,300 of the plant's 2,500 workers. Alsem agreed to keep 2,550 jobs in the factory, with employees maintaining the positions that they held when the company was privatized. Alsem also agreed to pay off wage arrears and maintain salaries for

enterprise employees no lower than minimum standards established by Leningrad Oblast. Reaching an agreement was particularly timely as next week the region's arbitration court planned to begin investigating the legality of the Combinate's privatization, which, given the same court's precedent in overturning the privatization of the Lomonosov Porcelain Factory, could have proven disastrous for Alsem (*Izvestiya*, 18 January). Now it is not clear what action the court will take. Although Alsem is registered in the UK, it is owned by local vodka producer Aleksandr Sabadash. In December he bought a 35 percent stake in the Astoria hotel (see *EWI Russian Regional Investor*, 2 December 1999).

**ARKHANGELSK SEEKS TO BOOST TIMBER INDUSTRY.** Arkhangelsk Oblast Governor Anatolii Yefremov and Federal Forest Industry Service of Russia (Rosleskhoza) Director Valerii Shubin have signed a joint resolution addressing forestry management and the effectiveness of timber usage in Arkhangelsk. The deal will give Arkhangelsk greater control over its forest resources.

According to Rosleskhoza, one of the reasons for the oblast's ineffective use of forest resources is the low volume of wood purchases and their low prices. This is in part due to the practice of leasing forest sections, limiting the scale of their development. Another significant problem is insufficient financing for managing the timber sector. Rosleskhoza and Arkhangelsk Oblast plan to prepare documents outlining concessions for approval by the government that will help attract investment for developing the region's timber industry. The region will also seek ways to increase the level of sales, perhaps by offering incentives to those leasing forest areas to further maximize their industrial potential. (*Izvestiya*, 15 January)

**SVERDLOVSK GOVERNMENT SEEKS TO CONTROL OBLAST ENTERPRISES.** Sverdlovsk Governor Eduard Rossel has moved one step closer to bringing oblast industry under his direct control. On 13 January the Sverdlovsk Oblast government issued a decree recommending that stockholders in important oblast enterprises coordinate their activities with the oblast administration when removing a general director from his position. The 385 enterprises addressed in the decree, including the Nizhnii Tagil Metallurgical Combinate (NTMK), the Pervouralskii Pipe Factory, Uralmash, Severskii Pipe Factory, and Sverdlovenego, are expected to give the oblast ministry for managing state property their reasons for removing a general director and provide information on their replacement candidate. If the enterprise in question is the primary industry in a company town, then the governor must give his approval in the matter. (*Vedomosti*, 14 January)

**MOSCOW CITY PREPARES TO SELL LAND.** The Moscow City Duma adopted a law on selling land for private ownership which authorizes an experiment in land sales in Zelenograd beginning 1 January. According to Moscow City First Deputy Prime Minister Oleg Tolkachev this experiment is the first step allowing Moscow legislators to determine the conditions for land sales. (*Izvestiya*, 17 January)

## **PUTIN AND THE REGIONS**

**ROSSEL SEEKS IMPROVED RELATIONS WITH KREMLIN.** On 11 January Sverdlovsk Governor Eduard Rossel sent the presidential administration an announcement of his official support for Putin. The letter was more than just the usual boilerplate since it offered real support. Rossel nominated oblast Prime Minister Aleksei Vorobev to head Putin's campaign team in the Ural region. Informed sources suggest that Rossel views Vorobev as his successor as Sverdlovsk governor.

In the 1996 presidential elections, Rossel loyally supported Yeltsin. Later he was more inclined to back Primakov, but in the State Duma campaign he informally supported Yedinstvo. Most of the activists in the quickly-formed Yedinstvo staff were from Rossel's organization Preobrazhenie Urala. In addition to personnel, the administration provided office space and the necessary equipment. Rossel's advisor on political issues, Kirillov, headed the team.

The future relationship between Putin and Rossel will be very important. Rossel did not always have good relations with Yeltsin. His first gubernatorial campaign stressed his willingness to stand up to the Kremlin. Yeltsin had earlier removed him from office because of his support for establishing a Urals Republic. In particular he wanted to transfer much of the federal government's economic power to the region. Then, in the wake of the confrontation between Sverdlovsk Oblast and the center, the two parties signed a power-sharing agreement. Many other regions soon followed Sverdlovsk's example. Rossel gained the reputation as someone who was a strong opponent of the center and central policy. This reputation made it difficult to solve many economic issues with the federal authorities. Moreover, the regional opposition used Rossel's reputation as a trump card against him.

Rossel and his team are now making every effort to ensure that the situation does not repeat itself under Putin. Thus Rossel is strongly backing Putin as the most likely winner of the presidential elections. - Olga Gorchakova in Yekaterinburg

### **VOLGOGRAD DECEMBER 2000 GUBERNATORIAL ELECTIONS**

**UNCHANGED.** The main event on the Volgograd political calendar this year is the gubernatorial elections set for December and the key contenders are already jockeying for position. Volgograd Mayor Yurii Chekhov backed Moscow Mayor Yurii Luzhkov's Otechestvo throughout 1999 and the pro-mayor newspapers even trumpeted the fact that he was the only mayor in the movement's Political Council. However, after the new year, Chekhov quickly moved into the ranks of citizens supporting the election of Vladimir Putin as the next president. It remains unclear if this new alliance will help Chekhov and if Putin will allow himself to be the partner of such an unreliable ally. If Putin agrees to go along, Chekhov would win Moscow's support in the gubernatorial elections (which was not enough to help him in 1996), or he could even gain a new post in the federal government.

Governor Nikolai Maksyuta announced at his first press conference in the new year that the elections would remain in December since moving them forward would play into the hands of Maksyuta's opponents. On his return from Moscow and a session of the Federation Council, he cautiously said about Putin that, "relations between the governors and Putin have yet to be settled. Conditionally they can be divided up into several groups depending on their party membership. However, I do not think that we should be divided up into blocs and factions. In

Volgograd Oblast, I cannot give preference to one party and ignore the rest. This should not happen at the federal level either... Now everything depends on Putin's concrete actions."

With the changes at the federal level, there is a clear regrouping taking place in the oblast's ruling Communist Party. There are rumors that Oblast Duma Chairman Viktor Pripisnov will soon resign, following a year of legislative leadership in which he did not manage to become an influential politician in the region (for an early interview with Pripisnov, see *EWI Russian Regional Report*, 25 March 1999). Despite the defeat of local Communist party leader Alevtina Aparina and her closest ally Mikhail Tarantsov in the single-member district races, Maksyuta's relations with the local party remain complex. In a 6 January interview with *Vechernii Volgograd*, Maksyuta commented on the possibility that the Communists would nominate another candidate for the gubernatorial elections, "I can say one thing: it would be an irrational step... I will participate in the elections."

There will likely be several other candidates in the election as well. Supporters of former First Deputy Governor Vasilii Galushkin, who was elected to the State Duma in December 1999, believe that he is going to run. However, Maksyuta supported Galushkin in the Duma elections considering him a personal friend and it is not clear how their relationship will evolve in the future.

Additionally, it is also possible that a Moscow political "heavy-weight" will participate. The motivation would be winning a seat in the upper house of the parliament and/or pushing the interests of one of the Moscow financial-industrial groups in the region. In any case, during the course of 1999, several groups actively sought to buy up large enterprises, providing serious competition for LUKoil, the oblast's largest tax payer and therefore a powerful political actor which two years ago was dubbed the real owner of the oblast. - Ivan Kurilla in *Volgograd*

**PUTIN POPULAR IN VORONEZH, GOVERNOR IS NOT.** After Yedinstvo won 32.66 percent of the party-list vote in the State Duma elections in Voronezh Oblast, more than half of local poll respondents said that they would support Putin in the presidential campaign. Primakov scored only 9.3 percent and Zyuganov a meager 8.5. Analysts say that Zyuganov's rating is so low because a large share of the Communist electorate has shifted to Putin. Additionally, 75 percent said that they did not support Communist Governor Ivan Shabanov's oblast government (*Voronezhskii kurer*, 11 January).

Following Yeltsin's resignation, the Voronezh Oblast Duma and the governor discussed moving up the gubernatorial and mayoral elections from this fall to 26 March, the same day as the presidential elections. However, many warned that if the elections were moved up, only Shabanov would be able to prepare a credible campaign (*Voronezhskii Vestnik*, 6 January). Since many powerful opponents are now considering entering the race, Shabanov did not have the strength to push up the voting.

Former Governor Aleksandr Kovalev, currently the Russian trade representative in Ukraine, announced that he would run in the elections on 13 January. Putin is backing his candidacy. Kovalev sharply criticized Shabanov for driving the oblast economy into the ground (*Molodoi Kommunar*, 13 January, *Voronezhskii kurer*, 13 January). Presidential Representative to Voronezh and Belgorod oblasts Boris Kuznetsov also announced that he

would participate in the 2000 elections. Kuznetsov believes his chances for success are very good following on the heels of Yedinstvo's strong showing in the State Duma elections and the victory of the presidential representative in the December 1999 Tambov gubernatorial elections. Kuznetsov will have the strong support of several large companies, particularly Siberian Aluminum (for more on Siberian Aluminum, see this week's *EWI Russian Regional Investor*).

The main question under discussion now is who will lead Putin's campaign team in the region. The post is very important because it will control a lot of money and could have a major impact on the course of the mayoral and gubernatorial elections. Since the beginning of January several Putin headquarters have announced their formation. Putin is considering among Chairman of the Voronezh Oblast Sberbank Aleksandr Solovev, Voronezh Television Company Chairman Aleksei Nakvasin, and former Governor Kovalev. Solovev is now favored to get the nod (*Molodoi kommunar*, 11 January). - Yuliya Fedorinova in Voronezh

**UDMURTIYA LEADER MUST BUILD NEW TIES TO KREMLIN.** The loss of Otechestvo-Vsya Rossiya and success of Yedinstvo in the State Duma elections has led Udmurtiya Prime Minister Aleksandr Volkov to again turn to the Kremlin. The friendship between Volkov and Moscow Mayor Yurii Luzhkov has been quickly forgotten. Despite supporting Otechestvo in the State Duma campaign, Volkov is now actively courting Putin. Volkov luckily scored one early success on 11 November when he had brought Putin to Izhevsk to celebrate the birthday of designer Mikhail Kalashnikov, whose automatic weapons are used throughout the world. After the election results were in, Volkov joined other leaders to celebrate "their" success in Yedinstvo's victory in Saransk (Mordoviya). Finally, on 11 January, Volkov joined Putin and Patriarch Aleksei II in the Kremlin to mark the 2000th anniversary of the birth of Christ. Enemies are not invited to such events.

Moving up the presidential elections creates large problems for Volkov because now the republican legislature must quickly approve legislation to turn Udmurtiya from a parliamentary to a presidential system so that it can be popularly ratified on 26 March. Since a 50 percent turnout is required for the vote to be valid, holding it with the presidential elections is a necessity since purely local elections may not attract so many voters.

Another problem is that Izhevsk Mayor Anatolii Saltykov, a long time foe of Volkov, is one of six mayors in the federal group assembled to support Putin. Saltykov has traditionally been a strong supporter of Soyuz pravyykh sil. However, the mayor has long been famous for his ability to survive political storms and his current alliance with Putin was clearly an astute step. The mayor has already organized a meeting of citizens who support the acting president which attracted 445 people to the city administration building.

Additionally, on 5 January the local Yedinstvo branch formally turned itself into a social organization under the chairmanship of local businessman Viktor Khoroshavtsev. He expects to be named the organizer of Putin's campaign in the republic. Khoroshavtsev has poor relations with Volkov and Putin may seek to use him to limit the republican leader's leverage over the campaign. However, the situation is not so simple because during the State Duma campaign Khoroshavtsev ostensibly backed Yedinstvo candidate Andrei Soluyanov against Yurii Maslyukov, who had Volkov's backing. However, when the campaign's financial records were

published, it became clear that companies associated with Khoroshavtsev were also backing Maslyukov and that he was clearly playing a double game. - Andrei Bystrov in Izhevsk

**ARKHANGELSK GOVERNOR FAILS TO MOVE UP ELECTIONS.** The State Duma elections removed Arkhangelsk's former leftist State Duma members. As a result Governor Anatolii Yefremov, who jumped from Otechestvo to Yedinstvo before election day, felt that he could easily move up the gubernatorial elections to coincide with the presidential elections and secure a second term without too much trouble. Naturally, Yefremov announced his strong support for Putin following Yeltsin's resignation. On 12 January he requested that the oblast legislature move up the region's gubernatorial and legislative elections to 26 March from the fall in order to save money. The legislature met in an extraordinary session on 14 January to discuss the proposal. For procedural reasons the deputies decided not to move their own elections forward. Having decided that, they were no longer inclined to move the gubernatorial elections forward either. At that point in the legislative debate, Aleksandr Ivanov, now the chairman of the legislature's budget committee and an unsuccessful contender in the 1996 campaign, warned that moving up the elections seemed like a move blatantly designed to assure Yefremov's victory. Sensing that he might lose in the court of public opinion, Yefremov then withdrew his proposal to move up the gubernatorial elections. Now the deputies are likely to move their elections from June 2000 to December 2000 to coincide with the gubernatorial campaign. - Tatyana Barandova in Arkhangelsk

**EVERYONE BACKS PUTIN IN STAVROPOL.** Everyone in Stavropol recognizes that Putin will likely be Russia's next president. At a meeting of the united conference of democratic groups in Stavropol, numerous political organizations announced their willingness to back Putin in the presidential campaign. However, their criticism of Governor Aleksandr Chernogorov made it clear that they hoped to use the popularity of the acting president to work against the governor in the krai's gubernatorial elections later this year.

Ironically, Chernogorov himself is seeking to take control of Yedinstvo in the region, presenting himself as the krai's number one Putin supporter. He was one of the initial 39 regional executives who signed the statement which preceded the formation of Yedinstvo on 19 September. Chernogorov announced his participation in the bloc for the first and last time the next day in the *Stavropolskaya pravda* press club. It is important to pay attention to this event because Gennadii Zyuganov and the Communist Party of the Russian Federation claimed that the statement was a provocation aimed at governors who exclusively supported the leftist bloc *Za pobedu* and had not really signed the statement. Chernogorov did not comment on the Communists' statements. However, on 14 January, he made clear that he was associated with Yedinstvo and Putin. Yedinstvo's founding meeting in the region took place on 15 January.

Chernogorov personally approved the list of members in the initiative group, according to Yuri Tyrtyshev, the krai's housing minister and the leader of the local Yedinstvo branch. When queried by journalists on how this happened, Tyrtyshev said that the reporters should ask the governor himself how he managed to become so intimately involved in Yedinstvo given his well-known pro-Communist sympathies. The list includes a large number of well-known regional politicians and bureaucrats, making clear that Yedinstvo is the new party of power.



Given the strange bedfellows that have assembled to back Putin, one can only guess what will happen during the gubernatorial elections. - Olga Morozova in Pyatigorsk

**NIZHNII GOVERNOR'S OTECHESTVO MEMBERSHIP HURTS HIM.** Nizhnii Novgorod Governor Ivan Sklyarov has headed the region's Otechestvo branch for almost a year. However, following Yedinstvo's Duma election victory, this choice began to cause him problems in his region and with Moscow. The oblast legislature has already rejected his attempts to amend the 1999 budget, pointing out that "the expenses were made without the support of the Legislative Assembly." It is also clear that the presidential administration has recommended that he join the regional team to support Putin. As a result, Sklyarov declared, "We must choose from today's realities. Time has changed, the situation has changed. A new leader has appeared. When Otechestvo and I began to think about the State Duma elections, a leader [like Putin] did not exist." There are four million voters in the oblast, so the governors' words are important. - Yuri Rodygin in Nizhnii Novgorod

## **GOVERNORS AND THE 1999 STATE DUMA CAMPAIGN**

### **REGIONAL EXECUTIVE PROMOTES DIRTY CAMPAIGN IN MORDOVIYA...**

As December's State Duma elections proved, the support regional executives offer to specific parties and candidates can greatly impact their success in a given region. Elections in Mordoviya followed this example with Mordoviya President Nikolai Merkushkin offering his endorsement to Otechestvo-Vsya Rossiya (OVR), thus ensuring the bloc's success. OVR won first place in the region with 32.60 percent of the vote and the region's single member seat went to OVR candidate Viktor Grishin. However, OVR's success in Mordoviya was due less to Merkushkin's ability to influence the electorate and more to his success at coercing them with dirty campaign tactics.

The Mordoviya regional administration controls almost all media outlets in the region. During the campaign the newspaper *Izvestiya Mordovii* published campaign materials for OVR. The republican television station "Mordoviya" worked to discredit candidates belonging to Merkushkin's opposition.

According to a report issued by the Moscow-Helsinki Legal Defense Center, which monitored the election in Mordoviya, the republican authorities also controlled the formation of the electoral commissions. All key posts were filled with individuals loyal to the republican government. This control of the staff enabled republican authorities to prevent the registration of candidates who might beat the administration's preferred candidates. Several court cases filed by the disqualified candidates are now underway.

Additionally, republican officials, in violation of the law, actively campaigned for OVR candidates. Merkushkin himself issued a leaflet, which was delivered to pensioners at their home addresses, appealing to them to choose OVR. One hundred fifty thousand such leaflets were published. The most significant violation of electoral standards in this regard was Merkushkin's radio address on 18 December, the evening before the election, in which he called upon people to vote "correctly." All campaigning is prohibited on the day before the elections.

Although Merkushkin's campaign tactics proved successful in getting his candidates elected to office, OVR's split has left the governor in a lurch. He must now decide whether to support Moscow Mayor Yurii Luzhkov, which is key for maintaining the close economic ties with Moscow the republic depends on, or endorse Putin in hopes of acquiring federal subsidies for the region. - Anatolii Antonov in Saransk

**...AND KHABAROVSK.** In the December 1999 State Duma elections Khabarovsk Krai Governor Viktor Ishaev apparently used the military to win the election of his candidate Boris Reznik in District 57. Reznik's nominating group for the race included Ishaev, Chairman of the Khabarovsk Krai Legislative Duma Viktor Ozerov, General-Colonel Yurii Yakubov, commander of the Far East military district, and several other influential public figures in the region. A list of the group's members was published in practically all of the krai's newspapers. With such a powerful nominating group, it was no surprise that the necessary 110,000 signatures for Reznik's nomination were gathered in a record three days.

Yakubov's involvement in Reznik's nominating group is particularly interesting. On the day before the elections, *Khabarovskii ekspress* (25 December 1999-1 January 2000) claims that between 20,000-50,000 troops were moved from Primorskii Krai and the Jewish Autonomous Oblast to Khabarovsk to participate in a military training session. This was done even though the Central Electoral Commission had warned against such troop movements during the election.

However, even the appearance of additional conscripts in the region on election day does not account fully for the inexplicable rise in the number of newly registered voters in the region. The newspaper *Priamurskie vedomosti* noted on 21 December 1999 that the biggest shock of election day in Khabarovsk was the unprecedented hourly increase in registered voters, increasing by over 21,000 in one district over the course of 8 hours. Several court cases have been filed and the search for an explanation of what really happened will continue. - Aleksandr Bekhtold in Khabarovsk

## **MEDIA ISSUES**

**DAGESTAN'S TOP NEWSPAPER CHANGES OWNERSHIP.** Last week one of the most significant events of the past several years in the sphere of republican mass media took place in Makhachkala. Editor-in-Chief of Dagestan's largest weekly, *Novoe delo*, Dalgat Akhmedkhanov, the newspaper's founder and leader since 1991, was removed from his post as new ownership took over the newspaper.

*Novoe delo* was one of the first independent weekly newspapers in Dagestan. It was founded in 1991 by Akhmedkhanov, a well-known journalist, and Akhmed Chililov's commercial bank Dagestannovatsiya. The credit the bank provided to the paper allowed it to attract top journalists and after a year its readership had reached 35,000, far greater than any other republican publication. The newspaper is repaying the bank and becoming a self-sufficient enterprise, successfully paying relatively high salaries to its 25 employees. The size of the paper recently expanded from 12 to 24 pages. It boasts the most expensive advertising rates, has the best technical base in the republic, and the most popular journalists.

The editor, and therefore the newspaper, had a rightist political bias, although it kept this tone in check since in traditionally pro-Communist Dagestan such leanings would limit its readership. The newspaper was frequently subjected to pressure from the republican authorities. On numerous occasions the editor-in-chief was summoned to the office of republican head Magomedali Magomedov for a "chat." This situation became more acute in recent years as the republican power structures strengthened their control over information in Dagestan. Striving to protect himself on this front, in 1997 Akhmedkhanov sold 35 percent of his 50 percent stockholding in *Novoe delo* to Dagtekstil, which belonged to the son of then Dagestan Prime Minister Abdurazak Mirzabekov.

The August 1998 financial crisis was difficult for the newspaper. The rise in the cost of paper and other expenditures forced *Novoe delo* to increase its cover price from 2.5 rubles to 4 rubles. Circulation fell to 14,000. Salaries were frozen. However, after a year the situation stabilized and readership began to grow again. At present, 19,000 copies are published and the newspaper remains the most widely read in the republic.

In summer 1999 Moscow businessman of Dagestani origin, Gadzhimirad Omarov, one of the leaders of the Dagestani Diaspora in Moscow, tried to acquire *Novoe delo*. Chililov, whose bank had practically ceased to exist and was entirely dependent on payments from *Novoe delo*, refused to sell his shares for \$100,000. Akhmedkhanov was in favor of transferring the newspaper over to Omarov. *Novoe delo* conducted Omarov's campaign for the State Duma elections, which resulted in his victory in Dagestan's single member District 10.

Rather than sell out to Omarov, Chililov put into play his own plan to gain further control over *Novoe delo*. He proceeded to trade his stock in Dagtekstil for stock in the newspaper, giving him control of 85 percent of *Novoe delo*. Last week the newspaper's board removed Akhmedkhanov and appointed economic columnist Oleg Sanaev as editor-in-chief. Chililov's auditors had discovered 500,000 rubles missing from the newspaper's accounts. Akhmedkhanov was unable to explain the missing money. Chililov agreed not to investigate the matter if Akhmedkhanov left quietly.

The events around *Novoe delo* mark the first example of an ownership transfer for the media in the republic. The newspaper was a training ground for many of the republic's best journalists. For many of them, the change was a shock. Changes in the newspaper's profile can be expected since Sanaev, also an experienced journalist, supports a pro-Communist position. Several correspondents and columnists have already stated their desire to move to a new newspaper, which Akhmedkhanov is prepared to publish.

*Novoe delo*'s transfer in ownership could also change the internal balance of political power in the republic. The Avars control three of the most influential publications, *Novoe delo*, *Molodezh Dagestana*, and the Avar national newspaper *Istina*. The experience of the last electoral campaign proved that control over the main media outlets is sufficient to boost the prestige of the most unknown figures to the average Dagestani. - Nabi Abdullaev in Makhachkala

**TYUMEN TELEVISION CHIEF'S DAYS MAY BE NUMBERED.** At the beginning of the new year it was unclear whether or not Anatolii Omelchuk would remain president of the

Region-Tyumen state television-radio company. Omelchuk is a well-known individual in Tyumen, a talented journalist who was placed at the head of the company during the perestroika era. Unlike most of his predecessors, Omelchuk regularly appears on the air. As a rule, he permits only himself to conduct interviews with visiting political figures and bigwigs in the local administration. His managerial skills were rarely questioned--the company worked and even if the programs were sometimes boring or provincial, little more was expected. However, his performance, as well as his frequent drinking bouts, have been the targets of investigations during the past several months.

In the summer of 1999 the majority of the employees at Region-Tyumen sent an official letter to Chairman of the All-Russian State Television-Radio Company (VGTRK) Mikhail Shvydkoi and Tyumen Governor Leonid Roketskii regarding Omelchuk's professional character. The letter resulted in the creation of a committee that convened in Tyumen in September to examine the facts presented in the letter. The committee noted multiple cases of financial abuse implicating Omelchuk. It appears that Omelchuk siphoned off the company's profits to draw a salary of nearly \$80,000 in 1998, a sum much larger than his official 905 ruble a month salary. Additionally, Omelchuk was a big fan of "creative" trips and was away on unapproved business trips, often abroad, every third day in 1998. The committee also learned that formal employee contracts and a collective workers agreement did not exist. Stories of Omelchuk's disruptive drinking habits also reached the oblast administration, which conducted a special investigation of the matter.

The end result of the committee's investigation was to bring up criminal charges against Omelchuk. However, nothing has been done to bring the case to a conclusion. VGTRK has not dismissed Omelchuk and the oblast administration has not insisted on it. The main reason for the delay is the elections. There is no obvious person to take Omelchuk's place. He will be back on the air as before, but we will have to wait and see for how long. - Aleksandr Tyulin in Tyumen

**GENERAL DIRECTOR OF DALPRESS RESIGNS.** Boris Yecha, General Director of Dalpress, the largest publisher in the Far East, announced that he was leaving his post. Yecha claimed that he was not leaving out of fear for his life but did not elaborate on threats that may have been made against him.

Yecha has already suffered considerably. In October 1999 he was brutally beaten in the entrance to his home. In December head technician at Dalpress, Maiya Shchekina, who was appointed to replace Yecha while he recovered in the hospital, received her own warning. The door to Shchikina's apartment was armed with a hand grenade, which would have exploded if it had opened.

Journalists are now circulating several explanations of the threats and resignation. One is that Dalpress agreed to print an opposition newspaper and other propaganda materials. Another is that Yecha had refused to print additional ballots in the Primorskii Krai gubernatorial elections for certain circles. Shchekina is rejecting political motives for the events, although she has not yet suggested another interpretation.

Dalpress is a state enterprise and its new director will be confirmed in Moscow. At present the two most likely candidates are Shchekina and Orysyia Bondarenko, wife of the

former Dalpress General Director Yurii Bondarenko, who died in 1998. She heads the Ussuri publishing house, which issued Primorskii Krai Governor Yevgenii Nazdratenko's book, *I vssya Rossiya - za spinoi* on the eve of the region's gubernatorial elections. - Yevgenii Popravko in Vladivostok

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**BREAKING NEWS**

**POLITICS**

**TULEEV BREAKS WITH ZYUGANOV.** Kemerovo Governor Aman Tuleev has little hope for Communist Party leader Gennadii Zyuganov in the upcoming Russian presidential election and therefore has decided to enter the race himself. Regarding Zyuganov's candidacy, Tuleev commented in a local radio address that "if a leader fails, then someone else should be nominated." Tuleev knows that he has slim chances of winning, but might collect a significant number of votes (*Izvestiya*, 20 January). Tuleev participated in the 1991 and 1996 presidential elections as well. In 1996 he ultimately withdrew in favor of Zyuganov.

**BURYATIYA PRESIDENT TAKES OPPOSITION TO COURT.** Buryatiya President Leonid Potapov has filed a suit against Environmentalist Vladimir Markov. Potapov charges that Markov spread false information about him while he was running unsuccessfully for the republic's single member State Duma seat last month. In a widely published interview Markov gave during the campaign, he accused Potapov of violating constitutional norms, misusing state property, and other illegal activities. Potapov has asked the court to order Markov to publicly renounce these pronouncements and pay 50,000 rubles in damages. Markov is one of Potapov's strongest opponents. As a deputy of the republic's parliament, *Narodnyi Khural*, he repeatedly criticized the actions of the president and government, demanding a public investigation of their activities. (*Nezavisimaya Gazeta*, 20 January)

### **ECONOMICS**

**MOODY'S RAISES RATING OF REGIONS TO STABLE.** The international rating agency Moody's has changed its forecast rating of several Russian regions from negative to stable. The affected regions are St. Petersburg, Samara Oblast, Sverdlovsk Oblast, Moscow Oblast, Nizhnii Novgorod Oblast, Komi Republic, the Republic of Sakha, and the Republic of Tatarstan. The change was made following the 5 January decision to raise Russia's currency debt rating from negative to stable. However, as Moody's pointed out, the majority of the regions still have problems with tax debts, deficit budgets, and debt restructuring, and remain risky places for investment. Yet, the agency does not expect the situation to worsen. (*Vremya MN*, 24 January)

**TULA RECEIVES RIGHT TO EXPORT WEAPONS.** The Tula Instrument Design Bureau (KBP) has received the right to expand the number of military products that it can independently sell to foreign countries. It will be able to export nearly 90 new types of weapons and military technology. KBP will also be able to sell licenses to produce weapons abroad and test foreign military equipment on its grounds at the request of foreign governments. In 1999 KBP took second place to Rosvooruzhenie, earning several hundred million dollars in the weapons trade. (*Vremya MN*, and *Izvestiya*, 20 January)

### **PUTIN AND THE REGIONS**

**KGB CHIEF HEADS CHELYABINSK YEDINSTVO.** A vague political program, potpourri electorate, and the absence of any clear ideology are just a few of the sins which the recently-created Yedinstvo is accused. Nevertheless, the party continues its triumphal march across Russia, acting as the de facto party of power. The regions believe that Yedinstvo will deliver stability and the rule of law (*zakonnost*) through the strong hand of Acting President Vladimir Putin. Then Prime Minister Putin blessed Yedinstvo during the State Duma elections in December 1999 and now it is time for Yedinstvo to pay him back by supporting him during the presidential elections set for 26 March. The local authorities in most regions are now fully

engaged in this task, creating local Yedinstvo organizations and preparing a base for Putin's electoral victory.

On 22 January, the Chelyabinsk Oblast Yedinstvo founding party congress elected the head of the Chelyabinsk Federal Security Service (FSB) branch, General Valerii Tretyakov, its leader. Observers have already pointed out the abundant number of people in uniform among the Yedinstvo leadership. The Chelyabinsk branch of the party is no exception. The party's presidium also includes many of the oblast's most powerful industrialists and bureaucrats. By their presence the business and political elite made clear their support for Putin in the presidential elections.

One could not help but notice the absence of Governor Petr Sumin on the stage. On the eve of the December State Duma elections, Sumin supported Otechestvo-Vsya Rossiya and even joined the political council of Vsya Rossiya. Probably the governor was too embarrassed to show that he had changed his political affiliations with such speed. Nevertheless, when Putin visited Magnitogorsk at the end of December, Sumin made clear that he would support him.

Sumin held mixed feelings about Primakov from the start. Just before Primakov was approved as prime minister by the Duma in the fall of 1998, Sumin continued to offer strong support to Viktor Chernomyrdin, whom the Duma refused to confirm. At the time, critics accused Sumin of near-sightedness in making his political alliances. But the situation was more complicated. On the eve of the December elections, Sumin criticized Primakov for his less than delicate relations with the regions and preference for the interests of the center. In Primakov, Sumin saw the danger of an attempt to strengthen the center at the cost of the governors' prerogatives. Now Sumin is doing everything possible to ensure that Putin is elected. A clear indicator is that First Deputy Governor Vladimir Utkin was elected among the 40 delegates to the Yedinstvo congress planned to be held in Moscow at the end of January.

In Chelyabinsk city Mayor Vyacheslav Tarasov more openly supported Putin because he had backed Yedinstvo in the State Duma elections. Businessman Yuri Kraevoi was elected head of the city Yedinstvo branch, showing the support of the city's business elite. In the oblast's second largest city, Magnitogorsk, director of the Magnitogorsk Metallurgical Combine for social and personnel issues, Aleksandr Mostruiev, was elected to head the local Yedinstvo branch. Although the city backed Soyuz pravyykh sil in the Duma elections and might otherwise favor the election of Samara Governor Konstantin Titov as president, it will likely support Putin in the presidential elections to increase its chance of winning a \$700 million - \$1 billion tender to produce large-diameter pipes for Gazprom.

What will happen next? One can predict that Yedinstvo will go the way of Our Home is Russia, unless the authorities decide in the future that they want an ideological base for their policies. - Igor Stepanov in Chelyabinsk

**OIL INTERESTS BATTLE OVER PERM'S YEDINSTVO.** Last week Perm Oblast's Yedinstvo movement unexpectedly split, causing a major political scandal in the region. On 18 January, Yedinstvo founded its city organization without any difficulties. The leaders that had been agreed upon in advance were duly chosen.

The trouble began on 21 January when two different leaders, representing the interests of different oil companies, fought for control of the oblast organization. On one side was

LUKoil-Permneft Director Anatolii Tulnikov. On the other was Dan President and Yedinstvo State Duma member Pavel Anokhin. Dan is one of LUKoil's competitors in the oil business. When a group of 200 Anokhin supporters appeared at the oblast's Yedinstvo founding congress, the guards turned them away saying that there was not enough room in the hall. Anokhin then led his group to another hall where they elected delegates to the Yedinstvo congress in Moscow set for the end of January. At the same time, the other meeting elected Tulnikov the head of Perm's Yedinstvo. No one from Anokhin's group was elected to the oblast party branch's leadership, despite the recommendation of the city party organization to include them (*Zvezda*, 25 January).

The problem is simply that too many people are seeking to win power by leading regional Yedinstvo branches and the organization cannot reasonably accommodate them all. The Perm example shows that the battle is not just between politicians but competing companies, in this case from the oil sector. Judging by the Perm scandal and similar problems in other regions, Yedinstvo will not be able to reconcile the interests of those people who want to work within it. The political stability in Russia following the Duma elections is thus extremely fragile. - Andrei Suslov in Perm

**WILL PUTIN AND HIS TEAM RECOGNIZE SHAIMIEV?** Tatarstan President Minitimer Shaimiev's main headache now is to figure out how to win Putin's forgiveness for supporting Otechestvo-Vsya Rossiya in the State Duma elections and secure his goodwill in the future. Shaimiev made a strategic mistake supporting the Luzhkov-Primakov alliance. Having become convinced last spring and summer that the Kremlin was hopelessly sick and that one only needed to step into the power vacuum to take control of the situation, Shaimiev and several other regional leaders established an alliance with Luzhkov. They sought to win a majority of seats in the State Duma and elect Primakov president. Shaimiev publicly vowed that OVR would win more than a million votes in his republic.

After suffering a loss in the Duma elections, Shaimiev and his allies, Bashkortostan President Murtaza Rakhimov and St. Petersburg Governor Vladimir Yakovlev, are now seeking an opening to Putin. Immediately after the elections, they sought a meeting with Putin and announced that Vsya Rossiya was separating from Otechestvo and would set up an independent faction in the State Duma. They also hastened to make clear that they would support Putin in the presidential campaign and quickly joined the initiative group to support Putin's candidacy. Shaimiev informed Tatarstan's voters that they should support Putin.

Despite these moves, the situation does not look good for Shaimiev. Of course, Putin is unlikely to make any unexpected decisions before the elections. However, there are already rumors in Tatarstan that Moscow intends to annul its 1994 power-sharing agreement with Tatarstan. Allegedly, the federal government is also planning to completely review its budgetary relations with Tatarstan, revoking all the benefits which it currently enjoys. The Finance Ministry claims that these benefits cost the federal budget 4.2 billion rubles each year. Shaimiev has considered this agreement with the federal authorities his main accomplishment. Additionally Shaimiev's prospects for winning elections to a third term seemed to have dimmed somewhat since the federal authorities could deploy their resources to prevent such an electoral outcome.

Thus, much now depends on what kind of policy a future President Putin will implement in federal relations. Taking into account Putin's statements supporting measures to strengthen the unity of the Russian Federation, one can assume that he will take steps to crack down on legal separatism and the granting of benefits to individual regions. Putin likely has nothing against Shaimiev personally, but in politics everything is possible. - Midkhat Faroukshine in Kazan

**KIROV GOVERNOR BENEFITS FROM EARLY ELECTIONS.** Holding the Russian presidential and Kirov Oblast gubernatorial elections on 26 March works to the clear benefit of Kirov Governor Vladimir Sergeenkov because now it will be extremely difficult for potential opposition candidates to organize their campaigns. Sergeenkov is increasingly unpopular in the region due to the many promises he made before he was elected four years ago and did not carry out. Even the political and economic groups that supported his campaign over then incumbent Vasilii Desyatnikov are now turning against him. While he still retains some shreds of his previous popularity and before a viable opponent appears on the horizon, the governor is rushing to win another four-year term.

Officially, his term should run out on 1 November 2000, but already last year his team was planning to move up the elections to June when the presidential elections were originally scheduled. When Deputy Presidential Chief of Staff Igor Shabdurasulov came to the region, an agreement was reached to move up the governor's elections (see *EWI Russian Regional Report*, 14 December 1999). Additionally, Shabdurasulov promised additional subsidies and loans in exchange for ensuring a strong showing by the Yedinstvo bloc in the region. Sergeenkov successfully fulfilled the first part of the deal as Yedinstvo handily won the elections in the region, defeating even the Communists. The administration quickly repaid its debt to Sergeenkov, providing subsidies and loans to pay the salary arrears of public sector workers.

Yeltsin's decision to resign was the best present of all for Sergeenkov since it moved up the presidential elections an additional three months, from June to March. Now Sergeenkov is almost assured of another term. This is neither good nor bad for Kirov Oblast. It is not good because the economically depressed region needs a much better leader to qualitatively improve its economic standing. It is not bad because the governor is unable to implement his economically harmful policies anyway. The oblast economy is continuing to develop according to its own market rules. - Valeriya Shchekotova in Kirov

## **CENTER-PERIPHERY RELATIONS**

**ULYANOVSK AUTHORITIES GRAB CONTROL OF LOCAL FEDERAL AGENCIES.** A common problem in many Russian regions is that the regional representatives of federal agencies, legally subordinate only to Moscow, in fact are dependent on the oblast authorities. According to the power-sharing agreement signed between Ulyanovsk and the federal government, the heads of the local branches of the tax inspectorate, treasury, police, and other offices are appointed with the agreement of the oblast authorities and therefore, as the Ulyanovsk authorities believe, cannot be independent of them.

Evidence of the oblast authorities' control over regionally-based federal agencies can be found in the situation last year when for certain periods the tax debts of enterprises to the city

budget was ten times larger than the tax debt to the oblast budget for the same type of tax. For example, according to the Ulyanovsk mayor, in September the Ulyanovsk Automobile Factory (UAZ) owed 120 million rubles in personal income tax to the city but only 3 million to the oblast even though by law this tax is divided between them almost equally (45 percent should go to the city and 55 percent to the oblast). The oblast tax service confirms that all the taxes it collected from the enterprise went to the treasury (*kaznacheistvo*) and it is supposed to divide the money between the various levels of government according to the law. But if the treasury had divided the money legally then the tax debt to the city and oblast should have been about equal.

In an interview with *Simbirskii kurer*, Ulyanovsk City Duma Chairman Aleksandr Balandin said that such an anomaly in the tax distribution could indicate that UAZ is illegally accepting cash payments and not reporting them. Some of the money which comes in to the car factory from its dealer network and other sales offices does not go through the bank, but directly to the factory's till. This cash is used to pay the factory's parts suppliers and worker salaries. Oblast Tax Inspection Service head Vladimir Kryukov confirms that this is in fact what is happening. According to the inspectorate, UAZ partially pays its workers off the books and thus does not pay the appropriate amount of income tax.

Sometimes the oblast authorities orders the tax inspectors to collect the taxes due at any cost. Then the tax inspectors physically set up posts at the enterprise. When the cash comes to the till, the inspectors can make the accountants take the money straight to the bank, or as Balandin explained, transfer the money directly to the oblast budget without going through the federally-controlled treasury.

In some cases, the enterprise even receives orders to transfer taxes directly to the oblast budget without inspectors establishing tax posts or going through the treasury. According to Balandin's data, Aviastar sent 3.5 million rubles in income tax and 1 million rubles in land tax straight to the oblast budget in September 1999.

Collecting taxes depends on which level of the tax services handles the tax payer. If an enterprise is controlled by the oblast tax service, then it pays federal and oblast taxes and nothing remains for the city in the form of regular tax payments (in other words, there is no revenue from taxes on profits, value added, income, and such city taxes as the property tax). The situation is such that the most reliable tax payers, a total of eleven regional enterprises including UAZ, Volgo-Dnepr, Simbirsk-spirt, and Sberbank, are reserved for the oblast. They are simply lost for the city budget and attempts by the mayor to have them pay into the city budget have proven fruitless since the oblast administration does not support such a move, according to Balandin.

After Balandin's interview appeared in the local press, Chief of the oblast's Department of Finances Anatolii Kryuchkov published figures asserting that the city and oblast were receiving the appropriate amount of taxes. However, Balandin did not retract his statements, reasserting that they had been accurate. - Sergei Gogin in Ulyanovsk

## **INTERNET IN THE REGIONS**

**OVERVIEW: INTERNET'S REACH SMALL, BUT GROWING.** The Internet is playing a much larger role in Russia's regions than one would expect from reading the dreary reports

about Russia's economy published in most news sources. A round-up of regional reports published below shows that the Internet is already starting to play a role in the political and business life of many regions from Voronezh to Vladivostok. While some remote regions are lucky to have e-mail, many have made the Internet their own, even though all site names (and often the word "Internet" itself) are spelled in Latin letters.

Overall estimates of the number of Russian Internet users range from 1.5 million to 6 million (*Itogi*, 23 November 1999). A recent report by the UK's International Data Corporation put the figure at 2 million, just over one percent of the population. These figures are dramatically higher than the estimated 100,000 users in 1996. The national web is very well developed with many sites for businesses, media outlets, and political parties (for useful lists, see [www.rambler.ru](http://www.rambler.ru), [www.yandex.ru](http://www.yandex.ru), [www.ru](http://www.ru), [weblist.ru](http://weblist.ru) and [list.ru](http://list.ru)). There are at least 25,000 Russian information sites and the number is growing rapidly. Because of the high costs of computers and telephone hookups, most users are office workers and students. Many of the students use the 33 regional University Internet Centers established by George Soros' Open Society Institute (<http://www.soros.org/osi.html>).

In places like Vladivostok, some newspaper readers have forsaken traditional newspapers to seek their news on-line. While regional print publications are in no danger of disappearing soon, many have begun using Moscow-based on-line news services to get timely reports of what is going on in the capital. Printed versions of such news is often delayed by at least a day. In this sense, the Internet is changing the nature of what the reading public is exposed to. In some cases, such as war-time Dagestan, access to Internet news outlets is the only way for local citizens to read objective accounts of what is going on in their own backyard.

The Internet can also provide a way for Russians to overcome some traditional shortages that continue to plague the economy. In Krasnoyarsk, for example, college professors send class notes their students, many of whom are not able to acquire key textbooks in the city.

Business is also moving onto the Web. In Vladivostok music fans can order CDs from a local wholesaler, who delivers them by courier for cash. The lack of credit cards in Russia, however, slows the likelihood that consumer-oriented Internet businesses will develop in Russia as quickly as they have in the west. But there are clear signs that the potential for business-to-business deals will soon be tapped. In Voronezh there is a site that offers extensive information about the local pharmaceuticals market. In Komi, web developers are building an electronic forestry products market.

Earlier this month, Acting President Vladimir Putin gave Russian security services greater oversight responsibilities over the country's Internet service providers (*St. Petersburg Times*, 14 January and *Rossiiskaya gazeta*, 6 January). In several regions there is strong concern that the security services are already reading e-mails and will deploy enormous resources to limit the freedom of speech currently enjoyed on the web. These claims are based more on speculation than an actual knowledge of what is going on. Some hackers believe that the state will never be able to keep up with the technical developments of private programmers. Although many governors and state agencies have set up their own web sites, the authorities have often been slow to react to the enormous changes taking place on the World Wide Web and it is not clear how long it will take them to catch up.



Nevertheless, the politicians may have to scramble because the Internet already played a role in last year's State Duma elections in the regions. Some independent candidates in Voronezh held on-line conferences with voters, but these sessions did not help them win their races. Nevertheless, the Internet will clearly become an increasingly visible part of the political landscape at the sub-national level.

**PRIMORSKII KRAI: ON-LINE PAPERS THRIVING.** Primorskii Krai ranks fourth among Russian regions in terms of Internet users, following only Moscow, St. Petersburg, and Novosibirsk. According to Far Post ([www.farpost.com](http://www.farpost.com)), there are 20,000 to 25,000 users in the region with a population of 2.2 million. However, this figure likely underestimates the true number of users since dozens of individuals connect through their workplace which is counted as a single site.

The number of users is rapidly growing. In the space of two weeks last fall, Primorye On-line registered about 2,500 new users. And it is only one of dozens of service providers working in the krai.

The electronic versions of Vladivostok newspapers already have a large readership and these numbers are constantly growing. Igor Chernyi, the editor of the electronic version of the city's largest daily *Vladivostok* (<http://vl.vladnews.ru/>) said that his site gets 3,500 to 4,000 hits a day. *Vladivostok* was the first electronic newspaper in the region. The most popular page on its site is Femina (<http://femina.vladnews.ru/default.html>), the Friday women's supplement to the paper which includes useful advice, fashions, and other information. Additionally, about half of the visitors to the site go to the English version of the paper, *Vladivostok News* (<http://www.vladnews.ru/>). Aleksei Siyanko, head of the Internet project of the business weekly *Zolotoi rog* claims 5,000 to 10,000 visitors a month ([http://www.vladivostok.com/Golden\\_Horn/](http://www.vladivostok.com/Golden_Horn/)).

Nevertheless, all electronic newspaper editors complain about their print colleagues' lack of attention and general skepticism toward their work. "We are the best electronic newspaper beyond the Urals," Chernyi said. "Once we were recognized as the most widely read newspaper in Russia, surpassing even *Komsomolskaya pravda*. You would think that something would change? But all that happened was that everyone at the morning meeting of the editorial team was surprised, praised us, and then began discussing other issues."

The electronic version of *Vladivostok* became possible through an American foundation grant to support the electronic media. The British journalist Hashi Syedain, who was living in Vladivostok at the time, initiated the application process. The American money paid for a server, an Internet hookup, and registration. After that maintaining a web site does not cost the newspaper anything except for paying for the Internet connection and the salary of one or two programmers to maintain the site.

For some readers, the electronic newspapers are replacing their hardcopy predecessors. The news director of one local radio station said that he does not buy newspapers anymore since he can rely on the Internet versions. The same situation holds at other local radio stations that cannot afford to hire their own staff of reporters. "The electronic version arrives more quickly and it is easier to use its material on the air," he said. Electronic

versions of central newspapers published in Moscow are particularly useful on the far edge of Russia because the paper versions usually arrive at least one day late. The well-known server RosBiznesKonsalting (<http://www.rbc.ru/>) provides information more quickly than radio and also offers interesting analytical overviews.

The main reason for skepticism among traditional journalists and publishers is the low amount of income generated by the electronic papers. This is a function not only of the relatively small number of Internet users (compared to western countries) but to the poorly developed payment system. "We are ready to make several of our archives and publications pay-per-view, we are ready to work with advertisers to make a profit," all the Internet journalists say, but when it is impossible to make payments electronically, none of these projects make any sense.

Accordingly, commercial applications of the Internet in the region are poorly developed. In Vladivostok, one large wholesale seller of music CDs maintains a site which lists disks for sale ([www.domdiskov.vl.ru](http://www.domdiskov.vl.ru)). To purchase a disk, however, the customer orders the CD he wants and sends information about himself to the site electronically. Then a courier comes to his home or office with the disk and collects the payment.

Unfortunately now there is a chicken and egg problem. "There must be a certain number of people ready to buy goods electronically before it makes sense to invest in building an electronic payment system," according to Sergei Velichko, the head of the *Zolotoi rog* Computer Department. "And to create that many customers, it is necessary to create an electronic payment system. In other words, a very rich person will have to invest a large sum of money."

Everyone working with the Internet agrees that this form of media will make it much more difficult for the local authorities to control all information flows. The newspaper Primore, which was financed by former Vladivostok Mayor Viktor Cherepkov, the arch-rival of Governor Yevgenii Nazdratenko, ceased publication immediately after Cherepkov was thrown out of office. In December 1999, the krai authorities shut down the Lemma independent radio station. On the eve of the December elections, local printing houses either refused to publish opposition newspapers, or they were confiscated at the printer's shop or at the post offices. However, the administration could not shut down a Cherepkov web site that was located on an American server. Of course now attempts are being made to pass laws that place more restrictions on the electronic media (demanding that all sites be registered for example), but local computer experts doubt such methods will be effective.

There are other opinions as well. "I received a large amount of information by electronic mail," said one journalist who worked for an opposition candidate during the elections. "I am absolutely convinced that someone was reading the contents of my inbox." Local hackers describe such announcements as simply a phobia of the opposition. However, they claim that it would be possible to read someone's mail within a few minutes if you knew their address.

The hackers believe that the authorities currently have very weak Internet resources and are developing them slowly. The governor's office spent a lot of money building its site, but it looks more like a bureaucratic handbook than an effective use of the new media, they say (<http://www.primorsky.ru/admin/general.htm>).

One of the main deficiencies of the current system is the regional phone company's monopoly on long-distance phone lines. The numerous local Internet service providers are

required to use the same lines. Beyond giving the state the ability to monitor how the Internet is used, the system prevents a price war between providers because they must all pay the same high price to the state. As a result, users must now pay about \$1 for an hour of connect time during the day and about 50 cents an hour at night. Thus, Primorye On-line, which is owned by the semi-state monopoly Elektrosvyaz, provides the best rates (For an analysis of Elektrosvyaz, see *EWI Russian Regional Investor*, 20 January 2000). Several telephone companies such as Vostoktelekom offer alternatives, but they can only compete in terms of quality and speed, but not price.

Despite the problems, Primorskii Krai's electronic journalists look to the future with optimism. "Now the editors of print newspapers maintain electronic versions because it is prestigious, but I am convinced that very soon we will be able to compete effectively with the traditional media," Sergei Velichko said. "It is not just a question of technology or finance. The main thing is that people are set in their ways. Moses had to lead the Jews through the desert for 40 years before the last slave was dead. I think that a generation of people who cannot imagine their life without the Internet and cyber media will appear in Primorskii Krai much more quickly." - Yevgenii Popravko in Vladivostok

**KRASNOYARSK: INTERNET IS BOOMING IN SCIENTIFIC CITY.** Krasnoyarsk city is the capital of this Siberian region with a population of one million people. During the time of World War II, many strategic enterprises were moved to the city, particularly metallurgical and defense plants. After the war, the city began to develop the aerospace and nuclear industries and is now strong in applied military and fundamental research. By the time perestroika began in the 1980s, Krasnoyarsk had built up a large number of skilled workers, the very people who could quickly and effectively implement modern information technology.

Therefore there is nothing surprising about the fact that even against the background of a deteriorating economy, Krasnoyarsk boasts more than 10,000 Internet users. Of course, the level of Internet service is far behind what is available in the west and even in Moscow, but it is improving every year.

The first e-mail appeared in Krasnoyarsk in 1992 and one of the first users were the city's academic institutes. At that time the only firm developing the system was the Krasnoyarsk Telephone Network which used the services of Relcom. The World Wide Web did not come to Krasnoyarsk until the mid-1990s and again the academic institutes were in the lead with their highly qualified personnel. Unfortunately, in the beginning the speed of the service was very slow and the lines were highly unreliable. The cost of the new equipment and the absence of a fiber optic cable connecting Moscow and Krasnoyarsk (as well as other technically advanced regions), slowed the development of the new technology.

Despite the problems, the Internet is developing in Krasnoyarsk and today about one percent of the city's population actively uses it. There are also Internet providers in other regions of the krai, particularly the nuclear centers near Krasnoyarsk, Krasnoyarsk-26 (Zheleznogorsk, [www.atom.krasnoyarsk.su](http://www.atom.krasnoyarsk.su)) and Krasnoyarsk-45 (Zelenogorsk, [www.zgr.kts.ru](http://www.zgr.kts.ru)) and the Norilsk industrial zone ([www.norilsk.ru](http://www.norilsk.ru) and [www.norcom.ru](http://www.norcom.ru)). Even the closed cities and other industrial areas have not been left out thanks to the services of Krasnet: Lesosibirsk

(www.wood.krasnet.ru:8101), Achinsk (westnet.krasnet.ru), Sharypov (www.ring.krasnet.ru), and Minusinsk (www.minusa.krasnet.ru).

In Krasnoyarsk itself there are numerous providers offering a wide variety of services which are intensively competing with each other for customers. The list includes InterTAX (www.krsn.ru), Krasline (www.krasline.ru), Maxsoft (www.krsk.ru), VS-PTUS (www.vspus.oilnet.ru), Intra (krsk.infotel.ru, Krasnet (www.krasnet.ru), Krastelekom (www.ktk.ru), KrasTeleServis (www.kts.ru), Russia-Online (www.online.scn.ru), Rostelekom (www.krs.ru), and SibChelendzh (www.scn.ru). Of course, for many residents of the city, the prices are simply unaffordable.

In August 1997, George Soros' Open Society Foundation opened a University Internet Center in Krasnoyarsk (www.krasu.ru). The site has 59 terminals, approximately one for every 100 students. Most of the users are students, but since the center is also open to the general public, 10-12 year-olds often drop in to use the computers. Many professors now send out their notes to students to help them overcome the lack of textbooks available in the city. - Pavel Avramov in Krasnoyarsk

**DAGESTAN: WEB DEVELOPMENT AFFECTED BY WAR.** Said-Inform, the first Internet service provider appeared in Dagestan in 1995. It provided only e-mail services. In February 1997, the new firm Datakom began to offer access to the World Wide Web. Then it cost \$4 for one hour of connect time. Today there are three service providers in the republican capital of Makhachkala: Datakom, Dinnet, and university Internet Center sponsored by George Soros's Open Society Foundation.

It is still early to speak about competition among service providers. In the republic with a population of two million, there are probably only 2,000 Internet users. Moreover, most Internet users prefer to have several accounts. Dinnet (www.dinnet.ru), a subsidiary of the state-owned Dagsvyazinform, has the largest number of connections, while the commercial firm Datakom offers higher speed. Nevertheless, when Dinnet began working last year prices for Internet usage stopped rising and now they are 30 rubles (about \$1) per hour with Datakom and 25 rubles/hour with Dinnet, easily comparable to Moscow prices.

For the time being all Internet users are located in Makhachkala and the nearby cities of Kizilyurt and Izberbash. Soon there will be service in the southern republican city of Derbent. Today anyone who has service from the telephone company Makhachkala has access to the Internet. Such telephones exist in every raion capital in the republic, but the number of users has not been growing. According to Datakom employees, the problem is that the average Dagestani does not see any benefit for himself from the Internet. Most organizations and companies consider it a luxury to buy a computer. Many enterprises are still using Robitron computers, which were manufactured in Eastern Germany at the end of the 1980s, and do not use the Windows operating system. If enterprises do buy computers, it is for the purpose of modernizing their accounting departments, many of which relied on calculators and typewriters until now.

The electronic media are not well developed in Dagestan. Only one local newspaper has a web site, *Makhachkalinskie izvestiya*, which is published by the city government (www.mi.datacom.ru).

During the military activities in Dagestan, some local readers used the Internet to obtain news from western and Moscow-based sources. It is impossible to obtain foreign newspapers in Dagestan and several central newspapers, such as *Kommersant*, *Novaya gazeta*, *Nezavisimaya gazeta*, and others, have been informally banned and stopped appearing in the republic since the fighting began last summer.

The WWW in the region has developed dramatically since the war began. In August, when Chechen militants invaded Dagestani territory, the republican government set up its own sites to report developments in the conflict ([www.makhachkala.ru](http://www.makhachkala.ru), [www.kavkaz.com](http://www.kavkaz.com), and [www.dagestan.com.ru](http://www.dagestan.com.ru)). The site [www.caspian.net](http://www.caspian.net), which is based in the US and provides a virtual association for the Dagestani Diaspora, joined in the information campaign. It was set up by a former Datakom employee currently studying in an American university.

The Datakom specialists told the Dagestani Ministry for Nationality Affairs, Information, and External Ties that they created their homepage to counter the information circulated by Movladi Udugov's site, [www.kavkaz.org](http://www.kavkaz.org). The battle was fought with all methods and sometimes the Datakom programmers shut down Udugov's site. During the war, Rambler ([www.rambler.ru](http://www.rambler.ru)) reported that the Dagestani site was the second most popular in Russia in terms of hits. Some claim that Udugov himself knocked his server off the net in order to win publicity.

These are difficult days for Dagestan's conventional media. The republican government has imposed a strict censorship, declaring "those who are not with us are against us." Most papers and TV screens are filled with information supplied by the authorities and the independent newspapers (of which there are only 3-4 in the republic) have decided to reprint only the dry dispatches of the Interfax news agency. In this sense the Internet has become indispensable, even more so because all international telephone service has been cut off meaning information can only be exchanged electronically.

In informal conversation, communication specialists admit that the security services can monitor the exchange of information. As a result, even the freedom of electronic speech is becoming conditional. - Zaira Abdullaeva in Makhachkala

**VORONEZH: INTERNET REACHING ALL AREAS OF LIFE.** In the past two years Internet access has become a necessity for Voronezh business people and politicians. If two years ago it was virtually unknown, now every self-respecting firm, government institution or local NGO at least has its own e-mail address. Nobody knows the actual size of the Internet community in Voronezh. Some say there are about 13,000 Internet subscribers (*New York Times*, 16 December 1999). Of course, this figure does not mean that only 13,000 people are able to use Internet. Almost every business in Voronezh is hooked up to the Internet so everybody who works in the office probably uses it. There is also George Soros' Open Society Institute-sponsored Internet-Center at Voronezh State University. There are about 14,000 students at the university and most of them occasionally go to the Internet-Center. So the Voronezh Internet community could be twice or even three times as large as the number cited in the *New York Times*.

There are four Internet providers in Voronezh Oblast - Informsvyaz Chernozemiye (<http://www.vrn.ru>), Comincom Chernozemiye, Votec (<http://www.votec.ru>) and Intercon (<http://www.intercon.ru>). There is also a special Internet service offered by the local state-owned phone company Voronezhsvyazinform (<http://www.svjaz.vrn.ru>). This company offers clients the ability to pay their Internet and phone bills together without any initiation fee.

About 150 different businesses have their own servers or web pages. Informsvyaz Chernozemiye (<http://www.vrn.ru>) hosts most of them. Companies located in the rural areas around the city are also getting into the act. There are several web-design studios; the most prominent of which is Comintel (<http://comintel.chernozem.ru>) which is a division of Comincom. Comincom has recently started a new Internet advertising service - Voronezh Banners Network (<http://vbn.chernozem.ru>). A firm that subscribes to this service will be advertised on all the other participant sites of the Network.

Also available are Internet databases dedicated to specific types of business. The sites usually include price lists and e-mail addresses of wholesale providers. For instance, at Analit Farmatsiya (<http://farm.chernozem.ru>) you can find regularly updated price information for the Black Earth Region pharmaceutical market.

Many companies are now doing at least part of their business via Internet. Such practices are more common if a local firm represents a Moscow-based or foreign company. Contacting their headquarters and getting new price lists is much easier and cheaper to do via e-mail and Internet than phone or fax.

Unfortunately, only two local papers have their own web-sites and these are very poorly designed: *Voronezhskiy Vestnik* (<http://ic.vrn.ru/~ppvrvest>) and *Bereg* (<http://ic.vrn.ru/~ppbereg>). The Internet based media is simply not developed yet. There is a constantly updated news line at <http://www.voronezh.ru:8080/inform/news>, but it only provides the bare facts without any analysis.

The Internet played a role in the course of the last year's State Duma elections. Two independent candidates - businessmen Yurii Bezdetko and Mikhail Vaytsekhovskiy set up web sites that included their platforms, biographies, and other information. Voters could ask the candidates questions via e-mail. Internet conferences have also been adopted by some local politicians as a means of increasing their popularity among younger people. For instance, Bezdetko held a conference with prospective voters through his web-site at the end of November. Voronezh Mayor Aleksandr Tsapin followed suit and held a conference of his own in the beginning of December. Vaytsekhovskiy had one just two days before the elections. The conferences did not help much - both State Duma hopefuls lost, but they definitely drew more attention to the Internet as means of doing politics. - Andrei Muchnik in Voronezh

**NIZHNI NOVGOROD: HIGH PRICES LIMIT INTERNET USE.** There are about ten Internet service providers in Nizhnii Novgorod, but the prices for their services are relatively high, limiting the number of people who can actually use them. Prices range from \$2.50/hour for day time dial-in connections to \$1/hour for evening connect time. One can buy a new computer in the city for about \$500, a rather high price when the average salary in the region is \$50/month. Additionally, home users also have to pay for telephone service. Unfortunately, the longer one talks on the phone a month, the more expensive calls become per minute. There is a

penalty for high usage rather than a discount. Thus people who use the Internet from their homes often pay a telephone bill that is equal to the monthly average wage.

The main problem for the network is the lack of good connections. There are only a few lines to Moscow and they are heavily overused, causing slow service. The railroads ministry planned to string a fiber optic cable to Moscow for its own use while making some of the capacity available to Internet service providers. This cable was cut several times by people looking for copper. The railroads ministry finally gave up on the project and now a private firm has taken over. That firm hopes to have the line installed by the end of the year.

As with many things in Russia, when something is expensive, many seek ways of getting it for free. One of the best sources of free Internet services is the regions' educational institutes. Some students seriously consider doing poorly on their exams in order to remain in the university and secure Internet access for one more year.

The local media is well represented in the Internet thanks to grants from the Open Society Institute and the National Press Center, funded by USAID. But there are few readers since locals do not have the resources to go on-line and the connections are too slow for out-of-town users. Nevertheless, the local newspapers use some of the most popular national sites in their news round-ups (such as lenta.ru, polit.ru and OREANDA). The situation with the Internet is similar to the opportunities available for foreign travel -- almost everyone can do it, but the few doing so are state bureaucrats, enterprise directors, and new Russians. - Yurii Rodygin in Nizhnii Novgorod

**KOMI: REGIONAL LEADER TAKES A BIG INTEREST IN INFORMATION.** The Komi Republic is one of the Russian regions that has paid a lot of attention to information policy. Here people quickly understood that making fundamental changes in the economic sphere, switching from a command to market economy, developing entrepreneurship, and the need to make quick decisions in a rapidly changing situation would lead to significant changes in information flows, organizational structures, and methods of processing data. Given the difficulties of the situation, it was clear that there was a strong need for government participation. Thus republican leader Yurii Spiridonov issued a wide-ranging decree on the topic on 7 July 1997. The focus of the decree was to create a united information space to improve the effectiveness of the republic's social, economic, and organizational structures.

Obviously implementing such a policy would be difficult without the Internet. Thus on 8 December 1997, Spiridonov signed another decree about Komi's representation on the Internet and the way state bodies would use the Internet. Beginning in 1998, the republican budget included a specific line dealing with this expenditure. One of the key goals is to link republican government offices to the net. Additionally, the program seeks to offer Internet services to the national library, the national museum, the republic's education system, and the republican radio and television company. The republic hopes to have the ability to conduct video conferences, create offices to develop and maintain data bases, and offer opportunities for paid advertising. The republic's Center for Automatic Systems will organize these efforts. Among the information offered will be material characterizing investment opportunities, the state of small business, supplies of natural resources, the activities of national and social organizations, and information describing the republic's industrial potential (*Respublika*, 13 March 1998).

Initially, in 1992 the republic set up a Business Center that provided access to phones, fax, and telex. E-mail and Web services were added shortly thereafter. Today most businesses have their own links and no longer need to use the business center. Most of the major companies in the republic have their own web sites. Thus now the Business Center mainly serves visiting businesspeople who want to link to the Internet while they are on the road.

Progress toward turning Komi into an information society is coming slowly. Participants in an October 1998 conference on the Internet noted that it was easier to get information from the US Library of Congress than from Komi's own state statistics committee. Many state agencies in the republic carefully guard their information and are not willing to share it with others. However, the delegates recognized the enormous potential of making more information about the republic's people, companies, and resources available on the net (*Respublika*, 29 October 1998).

The republic's net infrastructure is developing relatively quickly. Among recent successes were linking some remote rural schools to the Internet (*Krasnoe znamya*, 27 January 1999). However the concentration of technical, financial, and other organizational resources in the authorities' hands has had some negative consequences. In many spheres, the state has become a monopolist and is setting up the system in a way that is profitable for it. In particular, this monopoly effects the way information about the republic's social organizations is being presented. Many of these groups do not have the resources to set up web pages or do not know how to use the resources that are available to them.

But this situation is beginning to change. For example the Syktyvkar branch of Memorial has a sophisticated page which includes lots of information about its activities. Memorial receives large amounts of information through the Internet about international human rights organizations and requests for information about prisoners that were held in the Gulag on Komi territory. Poles, in particular, send many of these requests.

The republic's businesses have yet to make much use of the network. Only a few have begun to advertise or find new customers, so far with little result. However, there are prospects that the net will serve better in the future. Now Russia's first forest products market is being established. The market will be completely electronic and its computers will be linked to the international network (*Molodezh severa*, 13 January). Once it is ready, foreign participants will be able to take part in its activities. Additionally, business people will have extensive information about forestry products: prices, sales volume, the quality of the products offered for sale and their producers. The republic's Committee for the Development of Entrepreneurship is going to set up information centers equipped with computers in local libraries to encourage small business. Here entrepreneurs will be able to view all legal documents and exchange information. Each center will have an Internet connection.

Against this background the Federal Security Service has stepped up its monitoring activities, claiming that too much valuable information is being sent abroad, damaging the interests of the republic and Russia. Additionally, the law enforcement officials complain that the recipients do not pay enough for the information they receive. - Yurii Shabaev in Syktyvkar

#### **NENETS AUTONOMOUS OKRUG: NOT MUCH OF A ROLE FOR INTERNET.**

The Internet does not yet play much of a role in the political and economic life of the Nenets



Autonomous Okrug. Only about 150 people in the okrug capital of Naryan-Mar have access to the net and only 5 in the rural areas outside the capital. The population of Naryan-Mar is 27,500, while 18,000 live in the surrounding territory.

The Internet service provider is the Arkhangelsk-based Artelekom, whose subsidiary, the Okrug Electric Telecommunications Hub (OUES), provides local and long-distance phone service.

OUES's limited technical capacity and poor connections translates into poor Internet connections for okrug users. Unfortunately, improving connection speeds is not a priority for the company. As a result, local users often do not have full access to all the resources of the global web.

About half of the local users are individuals who have access to the Internet through their offices, usually programmers working for the state or private firms. The other half dial in from their homes. At the moment, the Internet is not a source of information for the local population, there are no local commercial applications, and the local authorities have not built their own web site. - Yevgenii Kiselev in Naryan-Mar

**KURSK: INTERNET USERS MATCH NEWSPAPER READERS.** In Kursk there are about 30,000-40,000 Internet users among the oblast's one million population. This number is about as many as subscribe to the region's largest newspaper. Most of them are under 50 years old. About 120-150 companies in the oblast are on line. There are three service providers. Service began in 1996 by the Kursk Center for New Information Technologies ([www.kursk.ru](http://www.kursk.ru)), with funding from the US government sponsored Eurasia Foundation. Its main customers are school and research organizations.

In 1997, the British-Russian joint venture Sovtest began providing service (<http://home.sovtest.ru>) using satellite links. It now provides the fastest and most reliable service. In addition to providing Internet service, it sells computers and communications equipment. Its main customers are successful private firms.

In 1998 the newly created communications monopolist Elektrosvyaz ([www.kursknet.ru](http://www.kursknet.ru)) began offering Internet service. Its control of all communications systems, high quality, and low prices allowed it to quickly attract a large number of clients. It was the first to offer 56k V.90 modem connections and linked the city's telephone stations with fiber optic cable. Now it is the leading service provider. Among its advantages is its ability to offer Internet services throughout the oblast.

Almost every newspaper in the region uses e-mail and most journalists have access to the WWW. The richest newspapers have their own web sites, including *Drug dlya druga* ([www.ddd.kursknet.ru/dnew/](http://www.ddd.kursknet.ru/dnew/)), which puts all of its information on-line immediately. The newspaper *Khoroshie novosti* ([www.goodnews.kursknet.ru](http://www.goodnews.kursknet.ru)) puts up most of its content, but with delays of a week or more. *Kurskaya pravda's* site (<http://home.sovtest.ru/~kpravda>) is still under construction. Other papers are mostly filled with ads.

Governor Aleksandr Ruzskoi opened his website in December 1999 ([www.kursknet.ru/ruzskoi](http://www.kursknet.ru/ruzskoi)). The site has information in English and Russian and is aimed at attracting investment for a list of projects ranging from \$6 million to \$85 million. The web site of the Oblast Duma is exceptionally useful and gives more information about the regional

legislature's activities than do local newspapers and television ([www.oblduma.kursknet.ru](http://www.oblduma.kursknet.ru)). The oblast authorities have not passed any restrictions on the use of the Internet. The Kursk mayor's site, in contrast, is more than a year out of date (<http://sovtest.ru/~kursk>).

Local companies mostly use the Internet to advertise their services and prices. Generally the sites are of poor quality and the information is out of date. An exception is the Kursk branch of the Vesso-Link paging company ([vlep.sovtest.ru](http://vlep.sovtest.ru)) which offers on-line paging services. The Kursk firm Akkumulyator offers product and price information, as well as investment opportunities in its chemicals division ([www.kursk.ru/win/client/accumul/accumul.html](http://www.kursk.ru/win/client/accumul/accumul.html)). A reasonably full list of Kursk firms is available at [www.kursknet.ru.kursk](http://www.kursknet.ru.kursk). - Sergei Sarychev in Kursk

## **REGIONAL SEPARATISM AND ETHNIC CONFLICT**

### **DAGESTANIS FEEL NEGLECTED BY INTERNATIONAL MONITORS**

by Nabi Abdullaev

Dagestan is becoming one of the places foreign inspectors visit most frequently. Russia has joined several international organizations, which, naturally, impose certain obligations on it. The purpose of these visits is to ensure that Russia is fulfilling its commitments.

On 18 January a delegation from the Parliamentary Assembly of the Council of Europe (PACE), headed by Lord David Russell-Johnston, visited the region accompanied by Russian Minister of Internal Affairs Vladimir Rushailo. Russia joined the assembly in 1996. The primary reason for the assembly delegation's visit to Russia was to gather information regarding PACE's demands that Russia seek a peaceful approach to ending the Chechen conflict. Russia is charged with using disproportional force in its anti-terrorist operation in Chechnya, which threatens the lives of civilians and forces them to abandon their homes. Based on the impressions of this delegation the assembly could suspend Russia's membership or revoke it altogether.

In the Makhachkala airport Lord Russell-Johnston met briefly with Chairman of the Dagestan Republican State Council Magomedali Magomedov and then proceeded to speak with journalists, announcing that the PACE had not changed its demands on Russia as the assembly's chief concern remained civilian casualties and the refugee situation.

The delegation did not manage to visit the entire area of the republic that was invaded by Chechen rebels in August-September 1999. However, it did meet with people in Botlikh Raion, where the delegation visited the demolished settlements in Tando, Ansalta, and Rakhata. Witnesses claim that there was an intensive exchange of opinions. People in Botlikh Raion have supported the military campaign in Chechnya and charge that the world community, which is actively defending the rights of Chechens at present, did not pay any attention to the Dagestanis who were victims of Chechen aggression.

The delegation also met with representatives from the Dagestani leadership in Makhachakala. It was clear from the start that they would not be able to find any general points of agreement. Both sides, impaired by prejudice, sat at the table not wanting to engage in

discussion. At the beginning of the meeting the Dagestani side called for looking at the situation objectively, not twisting it, which, according to Magomedov, several other international missions had done. They were prepared to offer help to the delegation. Dagestani Minister for Nationality Affairs Magomedali Gusaev explained that during recent years the Dagestani leadership had tried to establish a dialogue with Chechen authorities on the safety of people residing in the border areas, but every time the Chechen side sabotaged it. Ultimately some Chechen groups established the Congress of the Peoples of Chechnya and Dagestan, which spearheaded the August invasion.

In general the Dagestani leadership tried to convince the delegation that it had attempted to conduct a dialogue and searched for compromises, however the August invasion proved that these endeavors were hopeless. The only form of influence left was force, which is why Dagestanis support the Russian army's activities in Chechnya. Gusaev's statements were reinforced by the republic's Deputy Minister of Internal Affairs Sergei Olenchenko. He cited statistics of Chechen kidnappings in Dagestan--560 Russians and 11 foreigners in six years, constant attacks on Dagestani policemen and civilians in border areas, and the cruelty displayed by fighters executing servicemen in the Novolakskii Raion in September 1999.

Lord Russell-Johnston acknowledged that the events in Dagestan were not adequately covered in the western press, particularly in comparison to the amount of information on the Chechen campaign. He stated, "Your people have suffered, and deserve sympathy and understanding, but we do not make distinctions in relations to victims of ethnic discord. Terrorism exists everywhere, including in Great Britain, where the chairman of the assembly is from, and the struggle with it is a very difficult problem. Employing armed forces in the struggle with terrorism condemns masses of innocent people to death." Lord Frank Judd, a member of the delegation, called upon the Russian side to conduct negotiations as the most reasonable way to settle the conflict. As an example he discussed his own country's lengthy endeavor to control Irish terrorist-separatists to ultimately hold negotiations for resolving the conflict.

Magomedov responded by saying that Dagestanis, who have suffered for a long time from the aggression of their neighbors, refuse to understand those who are defending the bandits, even if indirectly. The delegation reacted quickly with member Andreas Gross stating that Magomedov misunderstood the reasons that had brought the delegation there and requested that Magomedov retract his words. PACE, according to Gross, is not looking to find who is "bad" and who is "good." The delegation's task is to look and to listen. Magomedov then stated, "We understand that your primary purpose is the defense of human rights, but while defending the rights of the Chechens, do not forget about the rights of Dagestanis who have suffered from the Chechen invasion.

The following day the PACE delegation visited populated areas of Chechnya and refugee camps in Ingushetiya. Upon returning to Moscow Lord Russell-Johnston announced at a press conference that the delegation would not recommend that the Assembly dismiss Russia, and noted "positive tendencies" regarding the immediate situation in Chechnya.

This is one of the rare incidents when western observers stepped back from their firm stance against the conflict in Chechnya, influenced considerably by the position presented by Dagestan. Greater information from the region leads to a more objective evaluation.

**CORRECTION:** Last week the RRR incorrectly reported that Vladimir Shilnikov was elected speaker of the Kareliya Legislative Assembly's House of Representatives to replace Valentina Pivnenko, who was elected to the State Duma from the republic's single member district in last month's elections. Shilnikov was elected chairman of the Legislative Assembly's Republican Chamber, replacing Natalia Kotsyuba, who vacated the post in October 1999. A new speaker to the House of Representatives has not yet been elected. We apologize for this mistake.

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**CENTER-PERIPHERY RELATIONS**

**KREMLIN GAINING POWER OVER GOVERNORS.** This is the story of how the Kremlin weaned Rostov Oblast from Otechestvo to Yedinstvo over the course of 1999. During the year before the State Duma elections, Rostov Governor Vladimir Chub tried not to identify himself with any political party in order not to deprive himself of potential allies in the constantly changing world of Russian politics. Nevertheless it was clear the oblast elite sympathized with Moscow Mayor Yurii Luzhkov. However, by the end of the year the region backed Yedinstvo and this transition was not completely voluntary.

Although Chub did not explicitly make a statement supporting Luzhkov in late 1998 and early 1999, he clearly gave his blessing to the formation of the Rostov branch of Otechestvo.

Luzhkov was the local choice in the presidential campaign and made a well received visit in May 1999 (see *EWI Russian Regional Report*, 12 May 1999). At that moment the Kremlin political wizards began to seek ways of driving wedges between the governors and Luzhkov.

The first signals of this Kremlin-led strategy were apparent in a number of dismissals and appointments. First was the dismissal of Rostov Sberbank Chairman V. Korolkov and the head of the Rostov police Yu. Fetisov. In July Sergei Kugaev, a Sberbank manager from Novosibirsk and a graduate of the KGB Higher School, was confirmed at the new head of the local Sberbank. Whether coincidentally or not, around this time Sberbank, which had lent a lot of money to the regional authorities, suddenly began to demand that large sums be paid back and filed a court case against the oblast. It is not clear that this was the "hand of the Kremlin" or simply the worst performing Sberbank branch in Russia beginning to demand the return of credits under energetic new leadership. At that time Luzhkov's party was continuing to actively build up its regional chapter. Chairman of the Rostov parliament, Aleksandr Popov, a member of the Federation Council, was elected head of Otechestvo's regional branch, indicating that the regional elite had high hopes for the Luzhkov-Primakov tandem.

At the beginning of September, M. Berezhnoi was restored to the position of Rostov procurator after a break of two-and-a-half years. He was removed from the post in 1997 on suspicion of abusing his office and had been under investigation for these alleged crimes since then. Most of the local elite had written him off as no longer being able to make a viable career. Naturally when he returned to office he did not feel beholden to any of the local politicians. Instead he was loyal to the post-Yurii Skuratov procurator's office in Moscow that had brought him back. Suddenly there were cracks starting to appear in the monolithic law enforcement community that had loyally served the Rostov leadership until then.

On 29 September Sergei Shchadrin took over the Rostov police force. Naturally the local elite wanted to see one of their own in this post, but Internal Affairs Minister Vladimir Rushailo decided differently. Shchadrin is not from Rostov and had previously held the position of deputy head of the Ministry of Internal Affairs' own security department, an extremely powerful position within the ministry. No one said that with this move the Kremlin wanted to keep Rostov on a shorter leash. But there was clearly a desire on Moscow's part to improve discipline among the police ranks (similar events are now taking place in Moscow city, where there is a new police chief). The Prime Minister Vladimir Putin then visited Rostov in September, ostensibly not to put pressure on the governor, but to oversee the cleanup following the explosion of the terrorist bombing in Volgodonsk.

After this visit, Chub signed the statement of the "39 governors", which served to support the creation of the pro-Putin Yedinstvo party (see *EWI Russian Regional Report*, 23 September 1999). At the same time, Sberbank let up its pressure on the region and signed an agreement on oblast debts that provided very favorable terms to the oblast leadership. However, although Chub apparently supported Yedinstvo in Moscow, he sought to keep his options open in Rostov and there was no obvious local support for Yedinstvo.

The Rostov elite actually preferred to work with Luzhkov since they felt that his form of nomenklatura capitalism was more agreeable than what the Kremlin was offering. They also felt that the Kremlin was seeking support for Yedinstvo too cynically. The governors were in a

much better position to see this than ordinary citizens. While Chub tried to keep his distance, the Kremlin was seeking real electoral support from him on the ground.

In October Rostov faced an unprecedented energy crisis. One thing was clear: the energy providers at Unified Energy System had cut the oblast off from its normal supplies. Idled enterprises began to lose large amounts of money and ordinary people started grumbling. Everyone blamed EES Chief Anatolii Chubais, but if this was blackmail, only the oblast leadership knew about it.

Whatever the case, three weeks before the elections, the Yedinstvo team began working at full strength. The governor's administration delegated its most influential leaders, those most likely to carry weight with the average voter, to round up support. The list included: the head of the oblast Pension Fund, the oblast education minister, the deputy industry minister, the deputy governor for Cossack affairs, Rostov deputy mayor for social affairs, and the head of the city's medical insurance fund.

Yedinstvo's rating shot from 10 percent in November to a final vote tally of 31 percent, beating even the traditionally strong Communists in the region. The day after the elections, Chub was extremely satisfied with the results. Yedinstvo's excellent performance in the region would help the Kremlin excuse his earlier vacillations in expressing full support for Putin's party. Here the governor was true to himself and his general strategy of non-alignment, supporting Putin as "one of the most likely and acceptable candidates," without making any clear statements about Yedinstvo.

Boris Yeltsin strengthened his authority in the beginning of the 1990s and then was reelected in 1996 by handing out incentives to the governors. One of the main enticements for the governors was independence, developed in the process of regionalization and the construction of a federal state. Before the 1996 elections, Yeltsin signed numerous power-sharing agreements with the regions. The basic deal was that the governors provide the Kremlin with the necessary amount of support at the federal level, and in return, the Kremlin does not interfere in the governors' affairs.

Now the distribution of gifts has come to an end. The state cannot give all regions the same rights as were handed to Tatarstan. That agreement essentially let the republic avoid paying any taxes to the federal government. If the state pursued such a policy it would not survive.

In the spring of 1999, the Russian governors for the first time became a powerful and independent force, using their combined strength against the Kremlin. The question of power in Russia depended on whether the governors would be united, and, if so, in what form.

The process of regionalization has now come to an end. At times it took on perverted forms, such as the establishment of feudal relations in some regions. Now it has outlived itself, becoming unnecessary, even harmful, to the Kremlin. A reverse process has begun. So far not in legal terms, but in a reevaluation of the relationship in the informal relationship between the Kremlin and the governors. As a result, the Kremlin hopes to create a more manageable Russia and a more traditional form of Russian statehood will be restored - a state with a strong center.

- Andrei Miroshnichenko in Rostov-na-Donu

## **PUTIN AND THE REGIONS**

**SAMARA YEDINSTVO THREATENS TITOV'S CAREER.** On 29 January, Samara Oblast formed its branch of the pro-Putin Yedinstvo movement under the leadership of Samara Mayor Georgii Limanskii. This new position will give Limanskii the opportunity to challenge Samara Governor Konstantin Titov in the gubernatorial elections set for 1 December 2000.

Titov is an announced candidate in Russia's 26 March presidential elections. However, local observers believe that the governor is making a serious political mistake by entering the presidential race. He currently has no chance of winning and it is unknown how he expects to increase his popularity on the national stage. Titov is convinced that whatever the outcome of the presidential campaign, he will be able to return to the governor's office. However, this possibility is increasingly in doubt.

Titov's imminent loss in the presidential elections will undoubtedly hurt his popularity in the region. In March he is unlikely to win more than 20-22 percent of the vote in Samara Oblast, approximately what Soyuz pravyykh sil won in the December 1999 Duma elections. His national take will likely be much less. Such a showing is extremely small considering that Titov won 64 percent in his 1996 gubernatorial election.

In Mayor Limanskii, Titov now has a strong challenger. This politician came to power with the support of Aleksandr Lebed's Russian People's Republican Party (NRPR) in July 1997 and shortly before the Duma elections decided to back Yedinstvo. After Yedinstvo's strong showing in the Duma elections, members of the mayor's team began to speak of turning Samara into a pro-presidential city that would serve as a counterweight to Titov's ambitions.

On 29 January these plans were realized when Limanskii gained control of a powerful and well organized political force opposed to the governor. Samara's Yedinstvo already boasts many powerful local businessmen, including Tolyattiazot head Vladimir Makhlai. In Togliatti, the most likely winner of the city's September 2000 mayoral elections, Vitalii Zykov, has also joined up. In the near future, Limanskii may be able to unite all of the region's politicians and businessmen who are opposed to Titov. Among them will likely be AvtoVAZ Board Chairman Vladimir Kadannikov.

After 26 March, Limanskii will have to assess his chances of being elected governor. Presumably, he will then have the support of President Putin. In this sense, heading the oblast Yedinstvo is the first step in his gubernatorial campaign. Of course, Limanskii will remain silent about his ambitions until March. If Titov makes a deal with Putin before then, then the oblast branch of Yedinstvo would obviously be subordinated to the governor. Several close Titov allies, such as State Duma members Vladimir Mokryi and Aleksandr Belousov are already supporting Putin. Nevertheless, it seems clear that Titov will continue to oppose Putin until 26 March and the oblast opposition will continue to strengthen its base. - Andrei Perla in Samara

**RUTSKOI FAMILY BACKS PUTIN.** Since 10 January, Kursk Governor Aleksandr Rutskoi's administration has sponsored an organization to support the election of Vladimir Putin as Russia's next president. Presumably the agreement between Rutskoi and First Deputy Presidential Chief of Staff Igor Shabdurasulov (who visited the region in December) is that Rutskoi will support Putin in the presidential elections and then Putin will support Rutskoi in the gubernatorial elections (see *EWI Russian Regional Report*, 14 December 1999). Rutskoi's

father-in-law, Deputy Governor Anatolii Popov, who handles Rutskoi's public relations, is in charge of the campaign. This office has branches in every raion of the oblast. As a public servant, Popov does not have an official position in the Putin campaign, but claims to support him "as a citizen," paraphrasing Putin's famous line about his support for Yedinstvo (*Kurskaya pravda*, 19 January).

It will not be easy for the team to collect signatures in support of Putin, because far from all Kursk residents will support him in the presidential campaign. According to a survey conducted by the local technical university, many say that "he was palmed off on us." The anti-Rutskoi opposition Kurskoe Yedinstvo is trying to wage a propaganda war in the newspaper *Kurskii vestnik* against Putin, but so far without much success.

Rutskoi's support for Putin has already had practical results. The federal government has begun financing two projects which have great significance for Rutskoi's reelection. The first is the Kursk Arch project, which Rutskoi initiated and personally designed. The governor hopes to complete this pompous ensemble, which includes the arch, a chapel, museum, and park, by the 55th anniversary of the end of World War II on 9 May 2000, to secure the support of elderly voters. Putin promised that he would participate in opening the complex when he was still prime minister. The second project is the reconstruction of a church that was destroyed by fire. The federal government sent 12 million rubles for these projects in January and work is proceeding around the clock. Another 85 million rubles is expected shortly. Thus, Putin has support in Kursk Oblast, but it is not universal. - Sergei Sarychev in Kursk

**TWO YEDINSTVOS FORM IN STAVROPOL.** The Stavropol media is now filled with stories about the split in the local Yedinstvo party. Last week the krai witnessed the formation of two parties both claiming to represent the pro-Putin bloc. Perm Oblast has already witnessed a similar split (see *EWI Russian Regional Report*, 26 January).

Both of the Stavropol Krai Yedinstvos were part of the coalition that supported the party in the December State Duma elections. The first Yedinstvo, which held its founding congress on 20 January, is based on housing workers, trade unions, Cossack organizations, and ethnic diasporas in Stavropol. This party's leader is the head of the housing sector training center, A. Valchuk.

The second group was founded earlier, but held a meeting on 21 January. The leader of this group is the head of the North Caucasus Regional Center for Emergency Situations V. Khomukha. It brings together several local political organizations such as the branches of Soyuz pravvykh sil, Our Home is Russia, and the Officers' Union, among others.

Both organizations received congratulatory telegrams from Emergency Situations Minister Sergei Shoigu. However, these telegrams had little meaning since another section of the Yedinstvo Moscow staff had called for an end to all regional founding congresses. In Stavropol, both conferences chose delegates to the Yedinstvo national congress, which has already been postponed from 29 January to 12 February (or as late as 26 February, according to some sources).

The formation of two branches of the same party is nothing new. At the beginning of 1999, there were two Otechestvos in Stavropol. "All this fuss around a still-warm body," as one

regional politician put it, will hardly improve the political standing of the party. - Olga Morozova in Pyatigorsk

**TATARSTAN OPPOSITION SEEKS PUTIN'S HELP.** As Tatarstan President Minitimer Shaimiev's position apparently becomes weaker in the republic, his opposition has become increasingly active. Now numerous disparate groups are working together, including the democratic, Communist, and nationalist oppositions. In the summer of 1999, these leaders organized a hunger strike in protest against the republic's undemocratic electoral system. Shaimiev's reaction was, "if they are protesting, it means that we have democracy."

The latest protest has taken the form of a joint letter to Acting President Vladimir Putin. The text expresses the groups' concern about the fact that Tatarstan's constitution, laws, and political leadership violate the Russian constitution. It notes that the power-sharing treaty between Tatarstan and the federal government does not address the contradictions between federal and republican laws, meaning that local actions often violate one or the other. They charge that Shaimiev is increasing his own power while suppressing the rights of the population.

The letter also complains that the republican legislative branch has no power on the local level since local legislators are controlled by mayors directly appointed by Shaimiev. The local judges are dependent on republican and local authorities and cannot independently evaluate citizen complaints that their rights are being violated. The text warns that the residents of Tatarstan no longer feel that they are residents of Russia. In conclusion, the groups call on Putin to name a presidential representative in the republic (*Zvezda Povolzhia*, 20-26 January). Yeltsin never appointed such a representative to Tatarstan and a few other republics. - Midkhat Faroukshin in Kazan

## **PATTERNS OF REGIONAL DEVELOPMENT**

**NAZDRATENKO WINS REMOVAL OF LAST MAJOR OPPONENT.** On 28 January Primorskii Krai Governor Yevgenii Nazdratenko won a decisive victory when the krai legislature voted to remove Sergei Dudnik as its speaker. Dudnik is the last significant politician in the region opposed to Nazdratenko. Previously, Nazdratenko removed other key opponents including Vladivostok Mayor Viktor Cherepkov and Presidential Representative and Federal Security Service regional Chief Viktor Kondratov.

Dudnik's decision to join the opposition after he was elected speaker was a surprise to many. He had the reputation as a mediocre administrator, but was seen as an able politician and subtle diplomat. For the last year, he was the only major politician consistently critical of Nazdratenko at the local level and in the Federation Council.

Nazdratenko's allies in the legislature made several attempts to remove Dudnik in 1999, accusing him of an inability to work with the governor. Acting Speaker Sergei Zhekov even accused him of trying to overthrow the governor. In each case Dudnik's supporters stood firm. As a result of the confrontation, however, the legislature was paralyzed and there were increasing calls to disband it. Following Nazdratenko's victory in the December gubernatorial elections, the independent deputies, including Zhekov, gradually began to move in support of the governor.

With Dudnik's apparent demise, a new opposition leader is already emerging. Primorskii Shipping Company (PRISCO) Director Aleksandr Kirilichev, who lost last month's gubernatorial election to Nazdratenko, has announced the formation of a new movement called Soglasie. Its members include 50 entrepreneurs active in small business, including 18 members of the krai Duma. The new group's ultimate goal is to replace the krai leadership. Initially, it will participate in the local elections in Vladivostok, Nakhodka, and Ussuriisk set for 2000.

It remains unclear how long Kirilichev will be able to stand up to Nazdratenko. Last year, the governor sent dozens of inspectors to his firm, paralyzing its work. Nazdratenko has already demonstrated his ability to neutralize opposition businessmen in the examples of Vostorktransflot (VTF) and the Far Eastern Shipping Company (FESCO). VTF's activities have been completely paralyzed and only Nazdratenko's intervention has prevented it from being declared bankrupt. FESCO paid all of its taxes for 2000 to the krai just before the December 1999 gubernatorial elections and now its future seems in doubt. In contrast, most of Kirilichev's ships are held off-shore and he answers Nazdratenko's threats with his own threats to reregister PRISCO in Khabarovsk or Sakhalin. Such a move would deprive Primorskii Krai of tax revenue from the last major shipping company in the region. - Yevgenii Popravko in Vladivostok

**NENETS EXECUTIVE, LEGISLATURE BATTLE OVER OIL.** A group of deputies in the Nenets Autonomous Okrug legislature failed in their attempt to remove its chairman, Vyacheslav Vyucheiskii, at its session on 29 December. The main reason given for taking the vote was some personal insults Vyucheiskii had made against some of the deputies. Governor Vladimir Butov, who was present at the session, also called for the election of a new speaker. From his comments at the session, it was clear that the attempt to remove the speaker had been instigated by the governor, or at least carried out with his support.

At the December session, Vyucheiskii criticized the governor for the way his administration is spending the okrug's federal subsidies and local revenue. He claimed that Butov was using state money to protect his own firms. Vyucheiskii said the same thing in an interview with *Nyaryana vynder* (18 January): "there is a disagreement with the governor over a series of questions, including the development of the oil sector in the okrug. For example, there are several questions about the Nenets Oil Company, about which we know nothing. We don't know anything about how the okrug's funds are being spent. We are representing different interests. My interests are those of the okrug residents, Butov is concerned about his companies."

Vyucheiskii's opposition was two votes short of the simple majority required to remove him. About 40 percent of the deputies in the assembly now support the governor and the membership in this faction is growing.

Strains appeared in the relationship between the governor and the legislature in 1997 when the governor for two months did not sign a law adopted by the lawmakers on the management of okrug property. The governor claimed that he had sole proprietorship over okrug property, whereas the legislature asserted a stronger role for itself. However, the law went into effect on 17 June 1998 when it was officially published without Butov's signature.

It later became clear why the governor did not sign the law. In May 1998, with little publicity, he set up the Nenets Oil Company (NNK), 100 percent of whose stock belonged to the okrug. In October 1998, the administration registered three companies, Omega, Avers, and Delta. The okrug held a 15 percent stake in each of these companies, which did not allow it to control their activities. The okrug bought its stakes in the three companies with NNK stock. Controlling stakes in Omega, Avers, and Delta were owned by shadowy firms registered in Gorno-Altai, Moscow, and Naryan-Mar. All of these stock manipulations were carried out by the administration without the knowledge of the okrug legislature and in violation of the law on the management of okrug property.

On 28 October 1998, the legislature recommended that the governor revoke the registration of Omega, Avers, and Delta, a move that made him very angry. However, Butov had to comply on threat of sanctions from the okrug procurator. The tensions between the governor and the legislators remain. - Yevgenii Kiselev in Naryan-Mar

**INCUMBENT STRONG ON EVE OF ALTAI KRAI ELECTIONS.** Altai Krai has moved up its gubernatorial elections to 26 March. As is becoming typical in the Russian regions, the main reason for the move is to serve the interests of the incumbent, Aleksandr Surikov. Surikov is particularly strong now because his traditional opponents lost in the December State Duma elections. Voters will likely reelect him out of inertia.

Surikov has been a prominent political leader in the krai for 15 years. He chaired the region's legislature from 1991 to 1996, when he was elected governor. He supports conservative views and has close links to the Communist Party of the Russian Federation and the Agrarian Party. The legislatures he chaired opposed Yeltsin-appointed executives Vladimir Raifikesht and Lev Korshunov. His political organization, Za podlinnoe narodovlastie (ZPN), the local branch of the Communist and Agrarian parties, has become the dominant force in the region.

His election in 1996 as governor put an end to the political confrontation in the krai. In 1996 ZPN controlled a majority of the legislature and its speaker, former Russian Agriculture Minister Aleksandr Nazarchuk, was a close ally of Surikov. The right has not been able to put up much resistance, leading to a relatively unusual situation in the regions in which the left control both branches of power.

Surikov's dominance did not last long because Nazarchuk's gubernatorial ambitions soon destroyed the political unity in the region. Since the legislative speaker is relatively powerful in the krai system, the region was essentially ruled by a duumvirate from 1997 to the beginning of 1999. In the summer of 1999, Nazarchuk unexpectedly announced that he was going to compete in the State Duma elections. Against the background of the split in the Agrarian Party, in which one group defected to the Otechestvo-Vsya Rossiya alliance, he wanted to lead the pro-Communist faction of this party in the Duma. Then in September, Nazarchuk even more unexpectedly announced that he would not compete in the Duma elections. This flip-flop hurt Nazarchuk's political reputation, making it impossible for him to attract a wide coalition of leftist groups in the gubernatorial elections and even threatening his reelection as speaker.



Surikov took advantage of the situation to concentrate most of the regional elite around him. Surikov also removed another potential gubernatorial candidate, his first deputy Nikolai Chertov, by promising to support him in the race for the legislature's speakership. Now Chertov is running Surikov's campaign. ZPN officially backed Surikov's candidacy in January.

Surikov won support among the region's centrists by backing Nikolai Gerasimenko in the December Duma elections and withdrawing a ZPN candidate from that race. Barnaul Mayor Vladimir Bavarin is also supporting Surikov's reelection since he is hoping to be reelected to the mayor's job on the same day. The failure of the rightists Vladimir Raifikeshta and Lev Korshunov in the Duma elections significantly reduces their chances in the governor's race.

Surikov has already backed Putin for president, despite the criticism of the local Communists. This support undoubtedly will open the door for cooperation with the Kremlin in a manner similar to how Putin is currently working with the Communists in the Duma. In this sense the Altai Krai elections could serve as a model of a new form of political relations in Russia. The right-wing president will work with the left-wing governor in a pragmatic manner devoid of ideology and political preferences. - Oleg Barabanov in Moscow

**ROKETSII FAILS TO MOVE UP TYUMEN ELECTIONS.** Political conflict flared between the executive and legislative branches of Tyumen Oblast in the middle of January. Tyumen Oblast includes both the Yamal Nenets and Khanty Mansii autonomous okrugs. Tyumen Oblast Governor Leonid Roketskii does not control a majority in the legislature. The joint representatives of the two okrugs outnumber the number of deputies elected from the south (Tyumen Oblast proper), meaning that all major legislation must be agreed upon in advance before being submitted.

Conflicts are common. In Tyumen, no one has forgotten how, in the presence of Federation Council Yegor Stroev, Yamal Nenets Governor Yurii Neelov threatened to attack Roketskii, who turned to the Federal Security Service for help. Ultimately, that dispute was resolved peacefully and since then the governors have been more inclined to cooperation.

On 14 January, Roketskii called a special session of the oblast legislature with the request to move the gubernatorial elections from 12 January 2001 to 26 March 2000. By that time, Yamal Nenets and Khanty Mansii had already decided to move up their elections. Roketskii thought that he had the support of 15 of the 25 deputies. Holding all the elections at the same time would preserve the status quo in the region for four more years. However, if the okrug elections were held this year and the Tyumen elections were held next year, Yamal Nenets Governor Neelov could safely seek the oblast governor's seat, upsetting the political elite in both Tyumen and Khanty Mansii.

In a heated debate over his proposal, Roketskii's main opponents were Chairman of the Yamal Nenets legislature Andrei Artyukhov (also a member of the Tyumen legislature) and Tyumen Communist leader Aleksandr Cherepanov. The battle raged over how to interpret the oblast's electoral law, which allows elections to be moved, but not more than nine months. Roketskii's opponents said that it would be illegal to move the elections up to 26 March because of this provision.

In his speech to the legislature, Roketskii made clear that the three governors had agreed that they would all be reelected together. They agreed to this joint action because they all believe that the 26 March elections will be the last in the oblast. They collectively fear that Putin will try to revoke the right for regional executives to be elected once he becomes president.

Ultimately Roketskii failed to win a majority. Of the 20 deputies voting, 9 supported moving up the elections and 11 voted against. Now it remains unclear if this loss in the oblast legislature will translate into a failure in the gubernatorial elections still set for January 2001 and even if those elections will be held at all. - Aleksandr Tyulin in Tyumen

## **THE NEW DUMA: AN ANALYSIS**

**YEDINSTVO CALLS THE SHOTS.** The 19 December 1999 State Duma elections created a new political reality in Russia. It effectively ended the rule of the Communists in the Russian parliament. The winner is the new pro-Kremlin bloc Yedinstvo, which now occupies the middle of the political spectrum. This strategic position will make Yedinstvo the most important player in addressing the key questions facing the country. By aligning with the rightist parties, Yedinstvo can enact liberal laws. By allying with the leftists, Yedinstvo can enact laws directed toward increasing the degree of state regulation in the economy and improving social protections. The leaders of the pro-Kremlin bloc have already demonstrated that achieving concrete tactical goals is more important to them than ideology.

The factional make up of the State Duma on 18 January 2000 was the following:

90 deputies - Communist Party of the Russian Federation (Gennadii Zyuganov)

82 deputies - Yedinstvo (Boris Gryzlov)

57 deputies - Narodnyi deputat (Gennadii Raikov)

45 deputies - Otechestvo-Vsya Rossiya (Yevgenii Primakov)

41 deputies - Russians Regions (Union of Independent Deputies) (Oleg Morozov)

39 deputies - Agro-industrial deputies group (Nikolai Kharitonov)

32 deputies - Soyuz pravyykh sil (Sergei Kirienko)

21 deputies - Yabloko (Grigorii Yavlinskii)

17 deputies - Liberal Democratic Party of Russia (Igor Lebedev)

16 deputies - not members of any factions.

### **Communists**

In the last Duma the Communists were able to create three factions (Communists, Agrarians, and Narodovlastie). In the new Duma they did not have enough members to do this and were only able to establish a second faction, the Agro-Industrial Deputies' Group. Kharitonov, who remained loyal to the Communists when the Agrarian Party split between the Communists and Otechestvo-Vsya Rossiya, became the leader of the bloc when it became clear that Nikolai Ryzhkov, the former leader of Narodovlastie, could not put a group together. The members of this bloc are Communist deputies delegated to the group from the party's pool of deputies.

## **Centrists**

Shortly after the elections, the Otechestvo-Vsya Rossiya alliance split back into its component parts, Otechestvo and Vsya Rossiya. The Otechestvo deputies who were loyal to Moscow Mayor Yurii Luzhkov now comprise the Otechestvo-Vsya Rossiya bloc. Somewhat allied with them is Russian Regions (Union of independent deputies). The formation of this group ended the attempts of former Gazprom Chairman and Prime Minister Viktor Chernomyrdin to create a Gazprom faction.

Yedinstvo remained as one monolithic faction. Among its ranks, there are no obvious leaders with parliamentary experience and creating two blocs would make it relatively unmanageable given the unpredictable ambitions of its individual members. Another reason Yedinstvo did not split is because the loyal Narodnyi deputat deputies' group quickly appeared along side it. This faction is led by Gennadii Raikov, a member of the previous Duma who sought Putin's support during the election campaign. He is from the wealthy western Siberian energy producing region. His good political sense in aligning with Putin early has now served him well. His allies, mainly former members of the Duma from single-member districts, wanted to join Yedinstvo to win committee chairmanships. But they were not allowed in, so they set up their own group. It now has five chairmanships, including banking (Aleksandr Shokhin), Defense (Andrei Nikolaev), and International Affairs (Dmitrii Rogozin). Rogozin will bring a more nationalist taint to the committee than it had under Yabloko's Vladimir Lukin. Shokhin will serve as a liberal balance to Central Bank Chairman Viktor Gerashchenko, known for his close ties to the Communists and the Moscow city leadership. The Kremlin will use Nikolaev to show Russia's current military leaders that if they are not successful in the North Caucasus there is already someone waiting to replace them.

## **Coalition Building**

To pass legislation in the Duma, a coalition needs a majority of 226 votes. Yedinstvo and Narodnyi deputat combined now make up 139. Adding in Vladimir Zhirinovskiy's loyal pro-Kremlin party, the figure reaches 156 who will vote for Yedinstvo's line on almost any given policy. By aligning with the Communists and Agro-industrialists, Yedinstvo can build a coalition of 285, almost the two-thirds necessary to change constitutional laws. The other 15 votes could come from the deputies in the Russian Regions group and from independents such as Boris Berezovskii and Roman Abramovich, who are friendly to Yedinstvo. The Communists have very strong party discipline so it is easy to work with them. Putin already used this alliance in the first days of the new Duma's life to set up its ruling bodies and committees.

Forming a right-wing coalition is more difficult and, because of the smaller size of the parties, it will never be able to control two thirds of the Duma. The 156 Yedinstvo group can add 32 from the Soyuz pravyykh sil, 20 from the Russian Regions deputies and 5-7 from the independents. To round up the last 20 or so to gain a 226-member simple majority, Yedinstvo will have to work with the most capricious factions, Yabloko and Otechestvo. Working with the right will be difficult because it includes a number of difficult personalities (former prime

ministers, first deputy prime ministers, and ministers) and an absence of party discipline. Yabloko still considers itself the smartest party and Otechestvo remains antagonistic toward Yedinstvo.

Thus, the right's claims that the new Duma will be able to pass its agenda are far from realistic. Ironically, the right itself is mainly to blame because it lacks an organized sense of self-preservation. The right again reminds people of the worst impressions of the intelligentsia, namely, when two intellectuals start talking, three parties are quickly formed. - Petr Kozma in Moscow

## **REGIONAL BUDGETS 2000**

**FEDERATION COUNCIL APPROVES FEDERAL BUDGET.** The Federation Council approved the federal budget on 22 December and Yeltsin signed it into law on 31 December. In 1999 Russia turned in an exceptionally good fiscal performance as did many of the regions. The 2000 federal budget has planned income of 797.2 billion rubles (14.9 percent of GDP) and expenditures of 855 billion rubles (16 percent of GDP). The deficit will be 57.87 billion rubles, 1.08 percent of GDP according to the Russian calculation methods, the lowest in the last nine years.

Overall the upper house supported the budget by a vote of 148-6. However, there were some key dissenters. Samara Governor Konstantin Titov, the chairman of the body's Budget Committee voted against the document, saying outside the chamber "How many unrealistic budgets can we adopt?" St. Petersburg Governor Vladimir Yakovlev, head of the Committee on Economic Policy, also opposed the budget, complaining about the way tax revenue is redistributed among regions. He charged that regions were better off waiting for subsidies than making money themselves.

This week and next the RRR will publish a series of articles looking at regional budgets.

**KOMI: BENEFITING FROM HIGH OIL PRICES.** The Komi Republic 2000 budget predicts revenue of 5.129 billion rubles and expenditures of 5.408 billion. Compared with other regions, this level of expenditure is impressive. The republic will spend just over 5,000 rubles each on its approximately 1 million residents. In Arkhangelsk or Kirov oblasts the regional government spends only 1,000 rubles per resident. However, these figures are conditional, because 300-500 rubles of this sum are supposed to come in federal subsidies. There are regions that are much worse off. Altai Krai, for example, has an income of just 87 million rubles despite a 2.7 million population. The picture is similar for most of the republics in the North Caucasus, the autonomous okrugs (excluding those rich in natural resources), and several other Russian regions that live off budget subsidies.

Komi is far from the richest region, although it sends more money to the federal budget than it takes. Sakha spends 16,500 rubles per resident, Khanty-Mansii, 10,500, Moscow, 9,000, and the Nenets Autonomous Okrug, 7,500.

The republic's relative wealth is based on its income from the oil sector. The growth in international oil prices during 1999 produced an additional billion rubles for the republican budget. The 2000 budget is based on maintaining the same conditions which held in 1999.

However, it seems unlikely that oil prices will remain stable and revenues from forestry exports, which make up a large share of the republic's income, could fall because of new export tariffs.

The republic's planned expenditures raise numerous questions. The republic is planning to increase expenditures on agriculture 57.3 percent, culture and sport, 61.9, education, 48.3, and state institutions, 55.1. However many questionable budget lines mask additional income for the state bureaucracy. Direct expenditures on the bureaucracy make up 5.5 percent of the state budget.

Komi spends much more in supporting its state agencies than other regions. Arkhangelsk Oblast has many more residents than Komi, yet spends three times less. The situation in Kirov Oblast is analogous. Sakha spends twice as much as Komi. Tatarstan spends even more. Here the money is not hidden as "other expenses" as in Komi, but in the form of more than 10 reserve funds, each of 5-15 million rubles, controlled by the president.

Unlike Tyumen, Sakha, Chelyabinsk, Moscow and a number of other regions, Komi does not have a chamber of accounts to monitor how budget funds are spent. Komi also devotes considerable revenue to a civil service academy, which apparently makes it possible for civil servants to pass their benefits from one generation to the next. Regions with authoritarian regimes and no division of power are the ones that provide the most benefits to state bureaucrats. - Yuri Shabaev in Syktyvkar

**CHELYABINSK: NO BUDGET CRISIS IN 2000.** The Chelyabinsk Legislative Assembly adopted the 2000 oblast budget on 27 January with no deficit. Income and expenditures will both be 4.9 billion rubles. Although adopted a month later than the analogous budget last year, this budget is considered more balanced. The oblast administration had time to work out its disagreements with many raions in the region.

During 1999, the region did a very good job collecting taxes. In 1999, revenue at all levels exceeded 24 billion rubles, 125.4 percent more than was collected in 1998. Twenty billion rubles went to the oblast's consolidated budget, 232 percent of the analogous 1998 figure. The oblast used the extra income to pay off practically all wage arrears and put pension payments on schedule. The oblast also paid its debts on children's benefits and to housing sector workers. Much of these gains came because of the growth in the real sector of the economy following the August 1998 crisis.

The growth is continuing this year, but not at last year's rates. Nevertheless, there are no anticipated problems with the budget, despite increased spending for healthcare and education.

The major cities of Chelyabinsk and Magnitogorsk are not completely satisfied with the budget. This year Chelyabinsk city must pay the Chelyabenergo electricity utility 700 million rubles for state organizations' electricity consumption and to pay off a debt that exceeds 1 billion rubles. As a result, one third of the city budget will go to pay for electricity, leaving few funds to pay doctors and teachers and solve social problems. Chelyabinsk Mayor Vyacheslav Tarasov, who is also a member of the oblast legislature, denounced as unfair the situation in which oblast revenues jumped 30 percent over last year, while the city's rose only 3 percent according to the current plan. The situation is slightly better in Magnitogorsk, but the local authorities remain unhappy about the oblast budget. The big city mayors criticized the oblast policy of "democratically" providing the same number of rubles for residents of the big cities and rural

areas. They believe that urban dwellers need more funds to deal with higher living costs. - Igor Stepanov in Chelyabinsk

## **REGIONAL RESOURCES**

**Ethnic Separatism in Russia** - The text of this book by Timur Muzaev is available from the Panorama website at: <http://www.panorama.ru:8101/works/patr/p5.html>

**Commercialization of Russian Technology in Cooperation with American Companies** - This June 1999 study by David Bernstein of Stanford University's Center for International Security and Cooperation, including numerous case studies, is available at <http://www.stanford.edu/group/CISAC/test/pub/recent.html>

## **BREAKING NEWS**

### **POLITICS**

**ST. PETERSBURG SETS ELECTION DATE.** After numerous false starts, the St. Petersburg Legislative Assembly has determined that the city will hold its gubernatorial elections on 14 May. The final match of the World Hockey Championships will take place on the same day in the city. When St. Petersburg Governor Vladimir Yakovlev had lobbied in September 1999 to move up the elections to coincide with the December 1999 State Duma elections, one of the reasons he cited was a desire to separate the elections from the hockey game (*EWI Russian Regional Report*, 29 September 1999). If a second round is necessary, it will take place on 28 May, and the new governor will be inaugurated on 7 June. If the elections go to a second round, Yakovlev may have difficulty winning reelection. He is likely to face several strong challengers, possibly including Deputy Prime Minister Valentina Matvienko, State Duma Deputy Sergei Stepashin, First Deputy Finance Minister Aleksei Kudrin, Gazprom Deputy Chairman Petr Rodionov, Railroads Minister Nikolai Aksenenko, former St. Petersburg Mayor Anatolii Sobchak, Deputy Chairman of the Russian Audit Chamber Yurii Boldyrev, and Legislative Assembly Deputy Igor Artemev. (*Nezavisimaya Gazeta*, 28 January)

**PUTIN DEMANDS APPROVAL OF LEGAL CODES.** On 31 January Acting President Vladimir Putin requested that the land, labor, civil, and criminal proceeding codes be approved immediately. Putin stated that "...it is impermissible that the country should be living according to laws written under a different system of government." He further claimed that Russia was in need of a dictatorship of the law, and that expediting law making is not the sole responsibility of the State Duma, but requires additional input from the government and the Justice Ministry.

He also expressed concern over the inconsistencies that exist between regional and federal laws. Putin claims that 20 percent of regional laws contradict Russian laws and restrict human rights. The contradictions apparent in these laws "may reach a critical point capable of blasting the common constitutional space, he warned."

## ECONOMICS

**SIDANKO BANKRUPTCY OVERTURNED.** On 28 January the Moscow Oblast arbitration court released Sidanko from bankruptcy proceedings and accepted the plan approved by the holding's creditors earlier in the week to restructure its \$431 million debt. Sidanko was declared bankrupt in May 1999 in spite of the fact that its shareholders and creditors had hoped to reach an amicable settlement (*EWI Russian Regional Report*, 27 May 1999).

According to *Profil* on 31 January, in many respects, Sidanko can be seen as the clear winner as it was able to come to a reasonable agreement with its creditors. The agreement calls for the holding to pay the \$129 million owed to shareholders over the next 5 years, the \$172 million owed to western banks over the next 3 years, and the remaining \$129 million operational debts to subsidiaries and the state over the next 3-9 months. Sidanko will also keep its subsidiaries Udmurteft, Saratovneftegaz, and Novosibirskneftegaz. Additionally, the Tyumen Oil Company (TNK), which purchased Sidanko's most valuable subsidiary, Chernogorneft, in a controversial auction in November (see *EWI Russian Regional Report*, 2 December), will return the enterprise to Sidanko for a 25 percent plus one blocking stake in the holding.

However, as *Profil* pointed out, several aspects of the agreement are not particularly favorable for Sidanko. The holding lost two of its subsidiaries, Kondpetroleum (purchased by TNK in October 1999--see *EWI Russian Regional Report*, 28 October 1999) and Varganneftegaz, and was forced to sell the Angarskaya Oil-Chemical Company. With the loss of these resources, Sidanko will be capable of supplying 13 million tons of oil per year, a decline from the 20 million annual capacity it held prior to bankruptcy. Furthermore, even though the holding will regain Chernogorneft, it will now have to share ownership rights with TNK. *The Moscow Times* reported on 27 January that analysts were skeptical of the success of a joint TNK-Sidanko management of the holding. BP Amoco owns 10 percent of Sidanko and has fought bitterly to keep TNK from buying up its subsidiaries.

Nevertheless, toward the end of 1999 TNK and BP Amoco seemed to find some common ground. Even though BP Amoco's share in Sidanko is smaller than that of TNK, BP Amoco will have voting rights equal to TNK's. Additionally, TNK is developing a proposal to form a joint venture with BP Amoco incorporating Nizhnevartovskneftegaz and Chernogorneft (*The Moscow Times*, 27 January). BP Amoco spokesman Howard Chase told *The Moscow Times* on 29 January that the company was "very pleased that the court fully recognized the wishes of creditors and released the company from bankruptcy." He further stated that Sidanko shareholders would soon call a board meeting to nominate a new president.

**PUTIN APPROVES MORTGAGE PROGRAM.** Last week Acting President Vladimir Putin approved a government-drafted mortgage program. Earlier in January Putin had signed an order defining the primary goals and principles of a nationwide mortgage lending system. Adopting such a system has been an unfulfilled priority of the Russian government for several years. The next step is to develop a plan for the program's implementation. At present the only sizeable mortgage program is run by the US Russia Investment Fund (TUSRIF). The fund has

mortgage programs in Moscow, St. Petersburg, and Sakhalin. (*The Moscow Times*, 25 January)

**TAX EMBEZZLERS UNCOVERED IN KALMYKIYA.** Two employees of the Kalmykiya tax inspectorate were recently arrested for stealing 900,000 rubles of federal taxes. Though this sum is relatively small, it adds to mounting concerns about the effectiveness of tax collection in Russia. According to *Kommersant Daily* on 27 January, the Tax Ministry is unable to define how to protect the Russian tax system from similar abuses.

Kalmykiya Minister for Internal Affairs Timofei Sassykov stated that the unnamed perpetrators were employees of the tax inspectorate's information department. They cooperated with Rufina Nikenova who had worked at the Development and Cooperation Agency (ARIS), which was established in 1994 to run the region's special economic zone. ARIS encouraged companies to register in Kalmykiya where they were freed from the majority of local taxes and in return paid the republic a fixed annual payment of 5,000 ECU, which goes directly to a special fund controlled by Kalmykiya President Kirsan Ilyumzhinov. By 1999 the agency had attracted nearly 6,000 clients, dramatically increasing the republic's revenue. On the basis of this income, Kalmykiya changed from a recipient to a donor region.

The embezzlement scheme was rather simple. The alleged perpetrators in the tax inspectorate would wait for a company to register in the special economic zone, set their tax payment and reimbursement balance at zero, and then prepare false documents claiming that the companies had made their tax payments and requested their reimbursements. When the reimbursements came, the thieves pocketed the money. Sassykov stated that the employees left after the head of the tax inspectorate asked to review one of the firms. Investigators connected this firm to Nikenova as she had acquired two apartments and six cars over the course of several months without any apparent source of income.

**ASTORIA PRIVATIZATION DEEMED ILLEGAL A SECOND TIME.** On 24 January the St. Petersburg arbitration court declared a 24 November 1999 tender for a 35 percent stake in the Astoria hotel invalid. The stake was purchased by Aleksandr Sabadash's Aroma Investments for \$9.3 million (see *EWI Russian Regional Investor*, 2 December 1999). This was the second time that Sabadash, a well-known businessman famous for his involvement in the local vodka industry, purchased the 35 percent stake. In July 1998 he bought the stake for \$5.5 million. This purchase was questioned by the City Procurator's Office, which was concerned about selling the historic landmark to an unknown firm. The sale was declared invalid and the stake transferred back to the city since Aroma Investments did not coordinate the deal with the Antitrust Ministry and thus failed to fulfill the investment program that was part of the agreement. Sabadash was not reimbursed for the \$5.5 million that he had paid.

This time, the process of overturning the tender was initiated by Sabadash, rather than by the city. According to Aroma Investments' lawyer, Yevgenii Melnichenko, the company now has permission from the Antitrust Ministry. Therefore, he claims that if the November 1999 tender is cancelled, the July 1998 auction will be deemed valid. Sabadash will then gain control of the stake for \$5.5 million rather than \$9.3 million. However, the St. Petersburg



Property Fund maintains that a new tender should be rescheduled unless the City Property Committee changes the provisions of the hotel's privatization. (*The Moscow Times*, 27 January)

**LENINGRAD OBLAST SEEKS TO RESTRUCTURE DEBT AGAIN.** The Leningrad Oblast Finance Committee has asked the creditors of a \$50 million syndicated loan issued to the oblast in May 1998 to restructure the debt. The oblast hopes to extend the payback period from May 2001 to May 2004. Leningrad has had difficulty making payments on the credit since it was demanded back in full in May 1999, only a year after being issued (see *EWI Russian Regional Investor*, 6 May 1999). The oblast could not repay the loan in full and the creditors agreed to a restructuring program. The oblast then missed a \$2.3 million interest payment in November and is likely to have difficulty servicing the debt in the future unless it is restructured again (see *EWI Russian Regional Report*, 2 December 1999). (*Vremya MN*, 27 January)

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**BREAKING NEWS**

**POLITICS**

**GROMOV INAUGURATED MOSCOW OBLAST GOVERNOR.** On 2 February Boris Gromov took the oath as governor of Moscow Oblast. Many prominent politicians were on hand for the event, including Moscow Mayor Yurii Luzhkov and Presidential Chief of Staff Aleksandr Voloshin. State Duma Speaker and defeated Moscow Oblast gubernatorial candidate Gennadii Seleznev did not attend the ceremony, nor did Federation Council Chairman Yegor Stroev. Gromov wasted no time settling down to work, immediately forming his regional government and setting about to revise the region's management, develop economic reforms, and adopt a power-sharing treaty with the federal government.

Gromov is strongly committed to revamping the entire structure for managing the oblast. *Izvestiya* reported on 4 February that he plans to personally visit all of the region's raions and cities to "look into the situation on the ground." At a press conference following his

inauguration, Gromov stated that one of his first goals was to establish a security council for the oblast (*Nezavisimaya Gazeta*, 3 February). He also reiterated his intention to improve social conditions in the oblast by increasing pensions and paying the oblast's salary debts.

Although Gromov ran for election as a candidate from the Otechestvo-Vsya Rossiya bloc, his candidacy also was supported by Yabloko, which clearly hopes to influence his policies. Gromov's vice governor is Aleksandr Men, who belonged to the Yabloko faction of the previous Duma. Yabloko leader Grigorii Yavlinskii has made it clear that Yabloko was "prepared to offer the new leadership of Moscow Oblast an economic program if it should need one," and Yabloko's leadership considers the Gromov-Men victory its own.

Though Gromov has forged friendships with both Luzhkov and Yavlinskii, a close relationship with Acting President Vladimir Putin does not appear forthcoming. Putin met with the new governor on the afternoon of his inauguration and discussed a possible power-sharing treaty for the oblast. Although establishing such agreements between the federal government and the regions was a popular way to normalize relations between the center and periphery in the mid-1990s, during which 46 power-sharing treaties were established, no such agreements have been signed since Moscow City concluded its treaty in June 1998. Putin's position on signing such a treaty is unclear. Clearly Gromov is interested in formalizing his region's relations with the center in order to ensure more predictability. Putin has supported this idea in theory, yet as *Izvestiya* pointed out, no one knows what he will do following his likely election in the 26 March presidential elections.

**SHAIMIEV DISAGREES WITH PUTIN OVER LEGISLATIVE REFORM.** Although Tatarstan President Mintimer Shaimiev has been trying to find a way to get on Acting President Vladimir Putin's good side since Otechestvo-Vsya Rossiya's poor showing in the December 1999 State Duma election, he has his limits. In particular, Shaimiev is concerned about Putin's demand to bring all regional laws into accordance with the Russian Constitution.

Tatarstan, which was the first region to sign a bilateral power-sharing agreement with the federal government in February 1994, has secured more legal sovereignty than any other region and has several laws that contradict federal legislation. At a 2 February press-conference Shaimiev stated that "The agreement became an ideology for Tatarstan, and our people are not prepared for attempts to limit the agreed relations in any form," (*Kommersant Daily*, 3 February). Regarding Tatarstan's level of sovereignty, Shaimiev commented that Russia "has not gotten any worse" because of the deal.

Shaimiev claims that he has nothing against attempts to improve regional legislation, but feels that the process should be gradual and come from both sides. He expressed particular concern over the frequently discussed idea of strengthening the Kremlin's vertical power structure by appointing governors rather than continuing to allow popular elections. Shaimiev believes that other regions will join Tatarstan in defending the additional rights and freedoms that they have achieved. Shaimiev plans to discuss this issue with Moscow and continues to support Putin's candidacy in the upcoming presidential elections. In his support for Putin, Shaimiev is distancing himself from the Vsya Rossiya bloc he helped found, explaining that the bloc's goal of passing the 5 percent barrier in the December 1999 State Duma elections has been achieved.

**TENSION REMAINS OVER PRIGORODNYI REFUGEE RETURN.** Ingush refugees returning to the Prigorodnyi Raion of North Osetiya the last weekend of January were given a hostile welcome as dozens of adolescents threw stones at their bus in Kurtat, seriously injuring two passengers. The refugees, who fled the conflict zone in 1992, are finally returning to their homeland, however tensions between the area's local population are still palpable. *Kommersant Daily* reported on 1 February that the Ingush Ministry of Internal Affairs frequently encounters such resistance to the return of Ingush refugees to Prigorodnyi Raion. The ministry further maintains that North Osetian authorities do not pay sufficient attention to the hostile acts relating to the refugees' return and expected that the incident in Kurtat would be downplayed. North Osetian authorities feel that the Kurtat incident was being exaggerated and blown out of proportion. The two injured refugees were sent to a hospital in Ingushetiya for treatment since the local medical station was overcrowded with wounded from Chechnya and Chechen refugees.

### **ECONOMICS**

**TATARSTAN LIMITS NATURAL RESOURCE EXPORTS.** Tatarstan Prime Minister Rustam Minnikhanov signed a decree restricting the export of hydrocarbon resources from the republic. Local petrochemical enterprises will be allowed to supply raw materials or their products to other regions only if they have fulfilled all agreements with enterprises in the republic or if local consumers turn down their supplies in written form. Minnikhanov's measure affects 15 suppliers of oil and oil products, including Tatneft, Nizhnekamskneftekhim, Kazanorgsintez, and Nizhnekamskshina, according to *Profil* on 7 February. The export restrictions are intended to assure raw material supplies to local enterprises and ensure their profitability. The decree also introduces regulated prices for 16 types of raw materials for the republic's petrochemical enterprises. The price regulations affect oil, natural gas, and gasoline in particular.

**GM WINS COURT APPEAL ON FAULTY BLAZER.** General Motors' joint venture with Tatarstan's YelAZ won its appeal against a local court ruling in December 1999 that had ordered the company to pay \$38,000 in damages to Rostov's Rotislav Rychanov after the cylinder block in his 1997 Chevrolet Blazer exploded (see *EWI Russian Regional Report*, 8 December 1999). The explosion occurred while Rychanov's Blazer remained under warranty. He requested that GM replace the engine, but YelAZ refused to make the repairs. GM executives argued that the engine was damaged by the inappropriate use of low octane gasoline with dangerous additives. This mixture raised the temperature of the cylinder block and caused the fuel to self-combust. YelAZ stated in its appeal that the court had ignored testimony proving this point, and GM lawyer Galina Lyubarskaya stated that experts believed that Rychanov had tampered with the engine to hide to use of the low-grade gasoline. (*The Moscow Times*, 4 February)

### **PRESIDENTIAL REPRESENTATIVES IN THE REGIONS**



## **PUTIN CHALLENGES GOVERNORS' VIA PRESIDENTIAL**

**REPRESENTATIVES.** As Acting President Vladimir Putin prepares to become Russia's elected executive, he is building up the arsenal of weapons he can use to keep the governors in line. He clearly seeks to employ the institution of the presidential representative in many of Russia's regions more actively than former President Boris Yeltsin did. *Segodnya* reported on 3 February that Putin had replaced 17 presidential representatives that he inherited from the Yeltsin era. In several cases, such as Samara (see detailed report in this issue), the acting president is clearly hoping to use the new representatives to counter the influence of opposition governors. The situation in St. Petersburg seems to be similar. There Putin replaced Sergei Tsypliyev with Aleksandr Bespalov, who has opposed St. Petersburg Governor Vladimir Yakovlev in the past. Yakovlev, of course, was a key figure in the Otechestvo-Vsya Rossiya bloc, which competed with Putin's Yedinstvo in the State Duma campaign. (A complete list of presidential representatives was printed in *Rossiskaya Gazeta* on 3 February.)

It is not clear how useful the presidential representatives will be in strengthening Kremlin control over the regions. Yeltsin began appointing representatives in 1991 to serve as his eyes and ears on the ground across Russia. In many cases, however, they were captured by the very governors they were supposed to be monitoring. Many became regional advocates to the federal government rather than the agents of federal policy in the regions.

In 1997, Yeltsin's attempt to use the representatives as federal agents in the regions reached its peak when he transferred some of Primorskiy Krai Governor Yevgenii Nazdratenko's power to Presidential Representative Viktor Kondratov. Nazdratenko was able to withstand this attack, however, and now rules the krai unopposed. Whether Putin can use the representatives more effectively remains to be seen.

## **PUTIN DISMISSES PRO-TITOV PRESIDENTIAL REPRESENTATIVE IN**

**SAMARA.** Acting President Vladimir Putin has dismissed Yuriy Borodulin as his presidential representative in Samara Oblast and replaced him with former banker Andrei Kogtev. Although Borodulin faithfully served Samara Governor Konstantin Titov, Kogtev will clearly conduct a policy more independent of the governor who is opposing Putin in the presidential race.

At his farewell press conference on 2 February Borodulin himself connected his dismissal with the beginning of the electoral campaign. He claimed that the decision to change presidential representatives in Samara was adopted after he had announced his support for Titov's presidential bid. Borodulin heads the Russia-A Presidential Republic movement, which is considered a sub-organization of Titov's Golos Rossii in Samara, and in the neighboring regions is looked on as a rather sluggish, but nevertheless powerful public relations organization. The movement has small branches in nearly all of the regions in European Russia, which Borodulin is ready to turn into the backbone of Titov's electoral campaign staff.

During his tenure as presidential representative, Borodulin proved himself a strong supporter of Titov. As presidential representative he practically removed himself from administering the region, making only formal public appearances and serving as the head of the Board of Federal Agencies in Samara Oblast. Borodulin's dismissal suggests that the federal authorities will now try to oppose Titov's ambitions more vigorously at the regional level.

Only one detail may challenge this scenario: Kogtev might also turn out to be part of Titov's team. For a long time he headed the Volgo-Kamskii commercial bank, which recently joined the financial-industrial group ADS Volgopromgaz, which has good relations with Titov. At the same time, Kogtev is closely linked with two Titov foes, former Samara Mayor Oleg Sysuev and Anton Fedorov, a top official in the presidential administration.

Presidential administration officials downplayed the role of politics in the appointment. Vitalii Kulii, stated that the presidential administration was simply conducting a "standard staff rotation. It is an ongoing process that there is no need to dramatize." Further personnel changes after the presidential elections can be expected. - Andrei Perla in Samara

**PUTIN PICKS NEW REPRESENTATIVE IN BELGOROD.** Putin has named Vladimir Gerasimenko the presidential representative in Belgorod, making Gerasimenko the third person to fill this post in the course of two months. In December 1999 Boris Kuznetsov was appointed to the post, replacing Sergei Kisin, who had served as the presidential representative since 1993. Kuznetsov was, and remains, the presidential representative to Voronezh Oblast (where he has announced plans to run for governor), and thus was serving simultaneously as representative to two regions.

Gerasimenko previously headed the oblast government, but was released from his post for no apparent reason following Belgorod Governor Yevgenii Savchenko's reelection in May 1999. Since his dismissal Gerasimenko has been active on the region's political scene, becoming the head of the Belgorod branch of Otechestvo. Following Otechestvo's dismal performance in Belgorod's State Duma campaign, Gerasimenko became the head of the local Sberbank branch and took a directorial position at the Belenergomash factory.

It is unclear why Putin nominated the local leader of Otechestvo, which is considered the political enemy of the presidential administration, to serve as his representative. However, relations among regional political figures do not depend on political inclinations and sympathies in Moscow, but are rather determined by personal loyalty. Gerasimenko's dismissal from the oblast government could suggest that he had difficult relations with the governor and thus could serve as a good point man for Putin to counter Savchenko. However, perhaps Putin's appointment of Gerasimenko was meant to support rather than restrict Savchenko's power. There are rumors floating within the governor's administration that Savchenko plans to leave his post early. If so, then the governor would want to place his own people in key positions. He may plan to return to power after a term (the governor cannot hold more than two consecutive terms), taking time to serve in Moscow perhaps as the agricultural minister or on the State Council of Russia and Belarus. Gerasimenko's appointment could be good for Savchenko if, following the presidential election, gubernatorial posts stop being elected positions. The new president could then appoint Savchenko for a third or fourth term. - Sergei Sarychev in Kursk

**PUTIN REPRESENTATIVE TO SETTLE CONFLICT BETWEEN OMSK GOVERNOR, MAYOR.** On 7 February presidential representative to Omsk Oblast Aleksandr Minzhurenko met with members of the Coordinating Council of Education Workers to discuss the enormous wage arrears to Omsk city teachers. Minzhurenko told the teachers that, "The federal center, which I represent, simply cannot help the Omsk teachers in this

situation. It is not obliged to, and moreover, such help is against the law. The question, of course, is not whether to appeal to [Acting President Vladimir] Putin. Perhaps, if he likes, Putin will make a handsome gesture as part of his electoral campaign, but why specifically to Omsk?"

Omsk Oblast is the third worst region in terms of public sector salary arrears. However, the question in this case is whether or not the money due to Omsk city teachers will make it to them or remain in the oblast treasury. Minzhurenko explained that: "The Russian government by law only has relations with regional governments. The money goes to the oblast budget, but I am unable to trace whether or not it is then distributed to city teachers. This process is managed by the oblast Legislative Assembly." Minzhurenko believes that the root of the teachers' wage arrears problem lies in the disagreements between the oblast and city authorities. Putin is well aware of the longstanding conflict between Omsk Governor Leonid Polezhaev and Omsk Mayor Valerii Roshchupkin. Minzhurenko claims that Putin plans to invite Polezhaev and Roshchupkin to Moscow for a serious discussion in the near future. In the meantime, the Omsk teachers plan to begin striking on 10 February. - Marina Chukhlomina in Omsk

## **CENTER-PERIPHERY RELATIONS**

**NOVGOROD'S PRUSAK WANTS PUTIN TO ATTACK FINANCIAL-INDUSTRIAL GROUPS.** "I have known Putin a long time and he has never been dependent on someone else," Novgorod Governor Mikhail Prusak said in an interview published on 26 January in *Novgorodskie vedomosti*. Prusak is a member of Putin's campaign team and has called on Novgorod voters to back his presidential campaign. "He is not the kind of person who you manage, impose your opinions on, or behind whose spine will stand a 'gray cardinal.' Today Putin must act independently. He must put the financial-industrial groups and banks in their place and increase productive output. ... Today the financial-industrial groups decide the level of our well being and their activities are the most destructive for our economy.

"Here is an example. Our economy loses \$5, \$6, up to \$10 million a year because bank Menatep bought the Kola Peninsula and dictates the price we pay for raw materials to produce fertilizer. Menatep sells many of these raw materials abroad preventing the Novgorod company Akron from utilizing its full production capacity.

"There are similar examples in history. [US President Theodore] Roosevelt ordered the financial-industrial groups and banks not to disrupt the technological production cycle and nationalized the raw material suppliers they had bought, paying the banks exactly the same price that they had initially paid to obtain the suppliers in the first place. Putin must act independently today. If he does not want to, or if he is not allowed to, it will be a tragedy. It will lead to a power vacuum." - Ivan Novgorodskii in Velikii Novgorod

## **REGIONAL BUDGETS 2000**

In last week's *EWI Russian Regional Report*, we published several articles on regional budgets for 2000. This week we continue the series with several regional case studies.

## **PRIMORSKII KRAI: ATTEMPTS TO OPEN BUDGET PROCESS PROVE**

**FUTILE.** The battle between Primorskii Krai's executive and legislative branches became so intense by the middle of January, that the regional legislators called for help from the law enforcement agencies. When they met at their first session this year on 12 January, the Krai Duma deputies learned that they had not yet received a draft budget from the governor's cabinet. As a result, they sent a complaint to the krai and Russian procurator.

This year is the third in a row that Governor Yevgenii Nazdratenko has failed to send a budget on time. The administration was supposed to send the 2000 budget in October 1999. On 22 November, the krai procurator sent the governor a letter warning him that he was violating the budget law. The administration did not respond.

The legislators are extremely critical of the way that the budget has been implemented in past years. Several suits have been filed because the administration has not raised civil service salaries since 1 April 1999 and has not paid out children's benefits. The legislators supported Aleksandr Kirilichev's proposal to ask the krai branch of the Russian Audit Chamber to audit the region's expenditures for 1998. Kirilichev is the general director of the Primorskii Shipping Company (PRISCO) and ran unsuccessfully against Nazdratenko in last December's gubernatorial elections (see *EWI Russian Regional Report*, 22 December 1999).

Such a sharp attack had an effect and two days later, on 14 January, the governor sent the draft budget to the Duma. However, it will take the legislature several months to study the document and ultimately approve it in its final form. During this time the krai will simply spend one twelfth of last year's budget each month.

Once the administration delivered the budget, the opposition press announced a draft law dubbed "Turn on the light!" designed to make the budget process more transparent. This new law was proposed by Anatolii Milashevich, currently a candidate for the State Duma (repeat elections will be held in Vladivostok on 26 March) but better known as the former director of Vostoktransflot, who was removed from his position by Governor Nazdratenko. He claimed that all of Vladivostok's problems come from the fact that regional legislators, to say nothing of ordinary citizens, have no idea how the krai administration spends budgetary funds. At the same time that the krai is one of the largest recipients of federal subsidies and does not implement many of its social programs, the authorities drive around in luxurious limousines and build fancy cottages.

Milashevich's proposal includes provisions for the media to publish monthly accounts of budgetary income and expenditures. Currently, about one fourth of the krai's expenditures are listed as "other expenses," which allows the authorities to manipulate large amounts of money without any public oversight.

It is hardly likely that such a law will be adopted. First, there have been protests about the opaque nature of the krai budget since the time that former Vladivostok Mayor Viktor Cherepkov was in power several years ago. Second, there are groups in the Duma itself who can prevent the adoption of such a law. On 28 January Nazdratenko succeeded in removing Krai Duma Speaker Sergei Dudnik, meaning that the legislature will now work much more closely with the governor and be even less likely to support greater transparency. - Yevgenii Popravko in Vladivostok

**ULYANOVSK: NEW BUDGET VIOLATES SAME LAWS AS OLD BUDGET.** The Ulyanovsk Oblast Legislative Assembly adopted the oblast's 2000 budget at the end of 1999. The budget's distinguishing feature is that it violates exactly the same federal laws regulating financial relations between regional and local government that previous budgets violated.

Once again the oblast budget transfers to the cities the obligation of implementing state programs without providing sufficient funding. Among the programs are: paying children's benefits, providing subsidies to veterans and the handicapped, supporting state notary publics, and financing fuel subsidies to some groups of the population. The oblast's local governments are supposed to cover these expenses from their own funds, which are far from sufficient.

The oblast can violate these laws almost without fear of being prosecuted because the Russian Constitutional Court has forbidden other courts to examine cases where regional governments are accused of violating federal law. These cases are now the prerogative of the Constitutional Court and local governments do not have the right to appeal to it.

The 2000 Ulyanovsk Oblast budget has a 29 percent deficit. Income is 1.738 billion rubles, while expenditures are 2.453 billion rubles. The city of Ulyanovsk, in which 700,000 residents live, is planning expenditures of 767 million rubles. However, 616 million of this total must be set aside for guaranteed social expenditures, mainly salary payments for civil servants, so it is not clear how the city will function during the year.

"There is only 150 million rubles left for everything else," said City Duma Chairman Aleksandr Balandin. "There is not enough money to clean the streets, repair the sewer system, or pay for public transportation."

Heating the city in the month of December cost 180 million rubles, according to Mayor Vitalii Marusin. Heating costs for the entire winter will be more than a billion rubles. Today the temperature in many apartments is hovering between 8 and 13 degrees centigrade. The mayor warned the oblast parliament that by voting for the governor's budget they were taking responsibility for what could happen to the city this winter. However, only four legislators voted against the budget.

Deputy Governor Vladimir Gurinovich claimed that the budget would never be adopted if it sought to provide funds for everyone seeking money. "The budget is poor because the country is poor," he said. "Our economy is at the level of 1960."

According to Legislative Assembly member Viktor Oskin, the funds of a tight budget should be spent appropriately. He pointed out that the administration still found money to pay for items that it thought were politically important. For example, 24 million rubles in the 2000 budget were set aside to support specific regional media outlets which will support Governor Yuri Goryachev in the upcoming gubernatorial campaign this year. The budget also continues to finance the Center for Political and Spiritual Culture, which provides aid to the Ulyanovsk Union of Patriots, one of the oblast authorities' main campaign teams.

City Duma member Valerii Kozhevnikov claims that the budget is adopted in secrecy because the legislature's Budget Committee ignored his requests to attend a session. "Not one of our attempts to negotiate with the oblast Assembly was successful."

Since the city officials do not have access to the majority of the Ulyanovsk's media, the only way that they could publicize their protests was to hold public meetings with citizens. - Sergei Gogin in Ulyanovsk

## **LOCAL GOVERNMENTS IN JEWISH AUTONOMOUS OBLAST SEEK**

**IMPROVED BUDGET STRATEGIES.** In October 1999 the mayor of Birobidzhan, capital of the Jewish Autonomous Okrug, created an economic council to address budgetary issues. The purpose of the council was to look at the revenue and expenditure categories making up the 2000 city budget, analyze the financial situation in the city's enterprises for 1999, and make recommendations regarding state involvement. A particular target for improvement is the city's program for developing small and medium business. The goal of the council, which includes participants from the city's public, private and NGO sectors, is to help the city authorities to more purposefully and effectively carry out economic policies. On 18 January the council held a round table discussion with members of the city дума to discuss their ideas for the Birobidzhan budget. Enterprise directors, scholars, and representatives of the community all participated in the round table.

The audience brought together for the round table provided a constructive forum for discussing various approaches to increasing the city's revenue and reducing its expenditures. Similar round table-type discussions have been held in several other raions in the Jewish Autonomous Oblast as well. These various efforts helped make it possible for the oblast government to form a balanced budget for 2000 with a more equitable allocation of transfers among municipalities. - Yurii Rynkov in Birobidzhan

## **SOCIAL ISSUES**

**STAVROPOL STRUGGLES WITH HEALTHCARE CONCERNS.** The State Duma of Stavropol Krai is continuing its long-running debate on the region's healthcare situation. The krai дума passed a new bill in the first reading on seeking to supply krai citizens with pharmaceutical products (the text was published on 1 February in *Stavropolskaya pravda*). However, after further examining the law the krai дума deputies decided that it was necessary to seek the opinion of a wider circle of interested individuals and held a special hearing including representatives of the executive branch, directors of medical institutions and pharmaceutical organizations, and workers for the medical insurance fund.

Stavropol Krai First Deputy Health Minister L. Smirnova emphasized that the Russian pharmaceutical crisis resulted from the rapid pace with which the state pharmaceutical network was replaced with commercial structures. These profit-driven stores have raised the prices on medicines dramatically. If before the state paid nearly 100 percent of the expenses related to the production and delivery of medicines, now the entire burden of these expenses falls on consumers. Thousands of pharmaceutical companies have appeared in the country.

The state tried to regulate prices in this very important area, having all pharmaceutical producers register their prices. However, such regulation caused another jump in the price of medicines. Even though the situation has stabilized some, the amount of money people are paying for pharmaceutical products is continuing to increase while the population itself grows poorer. As a result, many vital medical preparations are simply out of reach to the majority of those who need them.

The participants in the parliamentary hearing suggested that the krai budget include a separate line of expenditures for pharmaceutical provisions for krai citizens, and impose strict control over the use of these funds. This money should help defray the costs of expensive treatments not covered by other means so that a patient does not have to pay for all of his medical care. Some deputies stated that the cost of medical care is constantly rising and that the krai must produce more drugs in order to ensure that every patient can obtain the medicines he needs. One possibility is to offer tax incentives that will decrease the cost of medicines. Chairman of the Krai Price Committee A. Kalinin suggested adopting measures to decrease the number of commercial firms involved in pharmaceutical purchasing. Stavropol Krai Health minister N. Shibkov stated it was necessary to establish a state structure for managing pharmaceutical services. Overall, the hearing showed that the new law needs to be seriously reworked before it can have any real impact on the region's healthcare crisis. - Olga Morozova in Pyatigorsk

**TVER POVERTY LEVELS SURPRISINGLY HIGH.** Last week the Tver Oblast committee on state statistics published a report on the social and economic situation in the region in 1999. It is well known that Tver is not among the most prosperous regions, however the information presented in the report shows that the standard of living for a vast number of the region's residents has dropped dramatically. Despite increased production in industry (up 17 percent in comparison to 1998), construction (up 18 percent), and services (up 9 percent), the region is paying a high price for these improvements. Any unbiased reader of this statistical document must be struck by the fact that 55.1 percent of the region's population lives below the poverty line.

The average monthly income per person in the region is 725 rubles, but the necessary living minimum wage is 824 rubles (*Tverskaya zhizn*, 2 February). In Nizhnii Novgorod Oblast the average monthly income is 1,377 rubles against an 834 necessary living minimum, in Yaroslavl Oblast it is 1,245 to 793, and in Smolensk Oblast it is 1,215 to 773. Among the oblasts in central Russia, the only region with a situation corresponding to Tver's is in Ivanovo Oblast, which has an average monthly income of 705 rubles to its 754 ruble poverty line.

The average monthly salary of someone working in Tver in 1999 was 1,130 rubles, or 1.2 times the necessary minimum. Just 6,400 (0.7 percent) of the region's working population was officially registered as unemployed. Every second unemployed person had some form of higher education or specialized training.

It is clear that the fall in the standard of living relates to changes in the region's consumption, which has been marked by a 21 percent decline in retail and food trade in comparison to 1998. Alcohol sales make up 12 percent of the total. Further pressure on the consumer market stimulated by the fall in purchasing power could have a very negative affect in the future.

The oblast's poor living standards are impacting the demographic situation in the region. The number of deaths in 1999 (18,000) more than doubled the number of births (7,400). Recently reelected Tver Governor Vladimir Platov will need to consider if the region's worsening poverty demands additional social and political measures, as well as improved economic plans. - Boris Goubman in Tver

## **POLICE ISSUES**

**KURSK POLICE LACK RESOURCES FOR EVEN BASIC TRAINING.** The famous joke about a policeman who carries slightly salted pickles in his holster instead of a pistol doesn't seem so funny anymore. Guns without bullets are about as useful in fighting crime as pickled vegetables. Last year the subdivision of the Kursk Oblast Department of Internal Affairs (UVD), which should be financed by the oblast budget, was not able to buy even one bullet. For the time being the raion branches are getting by with the stockpiles they accumulated from earlier years. However, despite strict attempts to economize and dramatically curtailed training exercises, the police are facing the prospect of empty cartridges. Without the opportunity to practice, the police quickly lose their ability to hit a target.

According to Kursk Oblast UVD Chief Aleksei Volkov, the oblast is worse off than any other region in the country (*Kurskii vestnik*, 2 February). Only half of the 8,700 department employees in the oblast are supported by the federal budget. These lucky law enforcement officers receive their pay on time every month. The other half, who rely on the oblast budget, look on in jealousy because their pay is 3-4 months behind schedule in some raions, even though they work as hard as their colleagues. Today the oblast owes the UVD 31 million rubles, leaving the police to search for money wherever they can find it. In the last year, they were not able to buy a single new car or radio. There are constant problems with fuel, medications, repairs, and communications equipment.

According to Volkov's bitter joke, last year the police equipment budget was sufficient only to buy underwear. This year's draft 2000 oblast budget does not provide any money for overcoming these shortages. The police will have to tighten their belts even further because there is no money in this year's budget to pay for even normal operations. If they can obtain half of what they need, that would be an accomplishment.

In the city of Kursk, the police live better than in the rural areas of the oblast. There they at least receive their salary on time. City Police Chief Vadim Okel politely says that they did not have any problems in 1999 thanks to the support of Kursk Mayor Sergei Maltsev. The oblast authorities are well aware of the problem, thanks to Volkov's numerous demands for money. In response to these requests, the oblast authorities sent auditors to see how the police were spending their money, but found no violations. These results did not produce any more money, however.

Some observers see Governor Aleksandr Rutskoi's refusal to provide more money as revenge against Volkov's activities. In 1996, the police opposed the election of Rutskoi as governor and in 1999, Volkov was elected to the State Duma following a campaign that was highly critical of the governor. Such an explanation is possible. However, it is more likely that Rutskoi's numerous experiments have simply bankrupted the oblast and he simply does not have the money to cover police expenses. Kursk teachers have also gone months without pay.

Another major concern for the Kursk police is that they will be sent to patrol a southern, mountainous part of Chechnya, once it is occupied by Russian troops. However, they will not be able to carry out their duties there without food, clothes, and bullets - Sergei Sarychev in Kursk



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## **EXECUTIVE SUMMARY**

Since the end of the Cold War, Eastern Europe and Eurasia have been host to a virtual army of Western non-governmental organizations (NGOs) - from the United States, Britain, Germany, and elsewhere in Europe - all working on various aspects of institutional development, such as helping to establish competitive political parties and elections, independent media, and civic advocacy groups, as well as trying to reduce ethnic conflict. Little is *known* - although much good and bad is *believed* - about the impact of this assistance, carried out on a transnational level in cooperation with local political and social activists. This study, based at Columbia University, was designed to address this gap.

Funded by the Carnegie Corporation, the project involved seventeen investigators with social science and regional expertise who followed a common research design for sixteen case studies in twelve countries. Many of the participants had worked in or previously evaluated democracy assistance projects. The case studies they examined included: political parties and elections in Russia, Ukraine, the Czech Republic, and Slovakia; independent media in Russia, Ukraine, the Czech Republic, and Slovakia; women's NGOs in Russia, Poland, and Hungary; environmental NGOs in Russia and Kazakhstan; civic education NGOs in Romania, Uzbekistan and Kyrgyzstan; and efforts at reducing ethnic conflict in Bosnia, Estonia, and the states home to the ethnic Hungarian and Roma diasporas.

To assess the impact of Western NGO strategies, investigators interviewed both Western NGO and local activists, as well as activists who had not received direct outside assistance. The investigators compared developments in a specific sector, such as political parties, in the late 1990s with what the sector looked like when the communist regime in the country fell out of power. Case selection included regions that are strategically important, such as Russia, as well as parts of Central Europe that are widely viewed as successfully democratizing. The cases also address the types of institutions - parties and elections, media and civic advocacy groups - that are commonly thought to be integral to democratic states and which received considerable attention from Western NGOs. Research for the project was carried out in 1997 and 1998.

The study finds that the impact of the strategies used by Western NGOs on developments in specific sectors in these regions has been *mixed*. With relatively small amounts of money, these NGOs have played a large and important role in many formerly communist states helping to *design and build* institutions associated with democratic states. They have done little as yet to affect how these institutions actually *function*.

Political parties, regular elections, independent media, and local NGOs are all now part of the political landscape in many states across East/Central Europe and Eurasia, and their links with foreign groups are robust. In Russia and Ukraine, Western NGOs have had an impressive impact in presenting practical menus of problem-solving skills for elections (such as how to use research in designing a campaign). In the Czech Republic, Slovakia and Russia, foreign assistance has helped launch self-sustaining media organizations and support the creation of local commercially independent television stations. In Poland, Hungary and Russia, Western groups have been central to forming networks of women's organizations.

In every case examined, however, these very institutions function poorly with weak links to their own societies. For example, in Russia and Ukraine, Western NGOs have influenced the electoral activities of new political parties and the organization of media watch groups, but they have done little to help make parties responsive to constituents or major media outlets in any way independent from the narrow political interests of owners. In Poland, Hungary and Russia, women's groups have mushroomed at the same time they have grown increasingly "ghettoized" - closer to their transnational partners than the constituents they are meant to represent or the governments they claim to be influencing. In terms of ethnic conflict, Western NGOs have been limited at best in their ability to affect conditions inside states with high amounts of strife, especially when they fail to coordinate with governmental and international organizations.

Historical legacies left by decades of communist rule account in part for the poor functioning of these institutions, but this study finds that these results are also, in part, a consequence of Western NGOs strategies. Western groups have tended to rely on practitioners with little knowledge of the region (social activists from the American Midwest, parliamentary staffers from Europe, political campaigners from Britain) to implement strategies - *blueprints* for building democratic institutions - developed in Western capitals. These technicians are poorly prepared for anticipating how their recommendations are likely to be received by local activists given historical legacy. In short, the political culture of different local organizations determines how they have responded to Western assistance.

The study's recommendations - that Western NGO strategies be driven more by local context and that funders create incentives for NGOs to do so - point to policy choices: adjust NGO strategies and increase funding for democracy assistance or stay home. Business as usual will support the development of institutions that are not sustainable. Donors should let Western NGOs do their job, but they can also help them be more responsive to the conditions in which

they are working. An important way to do this is to provide adequate funding to hire regional and local experts *as well* as practitioners.

The introduction to this report lays out the method of evaluation. The report then summarizes the findings of the sixteen cases and draws general lessons about how ideas and practices diffuse and under what conditions. After a synopsis of the cases, the final section of the report makes a series of recommendations geared toward donors and NGOs working in these regions on issues relating to democratization and the reduction of ethnic conflict.

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**BREAKING NEWS**

**POLITICS**

**CENTER SUSPICIOUS OF ELECTIONS IN TATARSTAN.** On 8 February Central Electoral Commission Chairman Aleksandr Veshnyakov announced that the commission "had questions regarding Tatarstan" and promised to send commission representatives to the republic to examine the legality of the region's State Duma and Tatarstan State Council elections held on 19 December 1999. The following day Tatarstan President Mintimer Shaimiev retorted that "federal authorities do not give enough attention to the problems of Islam." *Vremya MN* described this statement as "a direct threat of Islamic extremism." Although Shaimiev feels insulted by the federal government's suspicious, the republican electoral commission said that it would provide the federal inspectors with any documents they wish to see. (*Vremya MN*, 10 February)



While tensions are set to possibly increase between the center and Tatarstan, the two sides also celebrated the sixth anniversary of the power-sharing agreement signed on 15 February 1994. The treaty was the first of its kind between the federal center and a region and is frequently hailed as a success in center-periphery relations. Nevertheless, the treaty remains a point of contention because many of its provisions contradict the Russian constitution and federal law. While Putin has stated a desire to have all regional laws brought into accordance with federal legislation and the constitution, Shaimiev is careful to point out that Tatarstan's Constitution was adopted before the Russian Constitution.

**REGIONAL INITIATIVE EXPANDS TO TOMSK.** The US government sponsored Regional Initiative (RI) informed Tomsk Governor Viktor Kress at the end of 1999 that his region would be the fourth site for the project. The program was created in February 1997, under the aegis of the US-Russia Binational Commission on Economic and Technobgical Cooperation working in Velikii Novgorod and the Russian Far East (Khabarovsk and Sakhalin). In September 1997 it expanded to include Samara. The purpose of the program is to improve the overall investment climate, enhance social services, and encourage democracy building. The program decided to expand in Tomsk because of the region's "reform-oriented political leadership, its active small business sector, its high level of democratic development, and its strong potential as a 'disseminator' of RI experience to other regions" (*RI Update*, January 2000). The program also cited Tomsk's six universities as a major factor in "explaining the region's strong private sector, effective NGO community, and large number of active independent media outlets." (For more on this project, see related article in this issue.)

**TAIMYR WILL NOT VOTE IN KRASNOYARSK ELECTIONS.** The Taimyr Autonomous Okrug has decided not to participate in elections for the Krasnoyarsk Krai Legislative Assembly. Taimyr did not participate in the 1997 legislative elections either, but did vote in Krasnoyarsk's April 1998 gubernatorial elections and elected representatives to the legislature at that time. Taimyr Governor Gennadii Nedelin spearheaded the boycott, practically banning the okrug's electoral commission from organizing the elections. Taimyr's refusal to participate in Krasnoyarsk's regional election is another battle in the okrug administration's war to win independence from Krasnoyarsk. (*Vremya MN*, 10 February)

**GOVERNORS FOR AND AGAINST APPOINTING EXECUTIVES.** Voronezh Governor Ivan Shabanov announced at a recent press conference that he was in favor of the president appointing governors rather than having regional executives win their positions through popular elections, *Izvestiya* reported on 9 February. As a form of check, however, Shabanov feels that regional legislative assemblies must approve the president's appointee for governor. Conversely, Tula Governor Vasilii Starodubtsev has announced his opposition to the appointment of governors and local executives. Starodubtsev, known for being a much more vocal Communist than Shabanov, was not afraid to point out in a recent meeting with an advisor to the Krasnoyarsk governor that, "Governors have multiple means of pressuring federal officials." (*Vremya MN*, 9 February)

## ECONOMICS

**ARCO PULLS OUT OF SAKHALIN-4.** The American Atlantic Richfield Company (ARCO) has withdrawn from the Sakhalin-4 project to extract gas from the Astrakhanovskaya Sea off the coast of Sakhalin Island. Although the company offered no public explanation for its departure, most likely ARCO was concerned about the lack of a production-sharing agreement. ARCO owned 49 percent of the consortium project, with the remaining 51 percent split between Russian firms Rosneft and its subsidiary Sakhalinmorneftegaz. ARCO had not wanted to proceed with exploratory work until further improvements in Russian production-sharing agreement legislation were adopted. The license for the project's development expires in March 2001, and the State Duma has not yet considered production sharing for this site. The Astrakhanovskaya sea is estimated to contain 90 billion cubic meters of gas deposits. Extracting the gas would likely cost \$2.6 billion, with expected profits of \$4 billion. (*Kommersant Daily*, 9 February)

**KMK REMAINS UNDER KEMEROVO OBLAST CONTROL.** On 9 February the Kemerovo arbitration court extended the external management of the Kuznets Metallurgical Combine (KMK) for six months, making it the second prominent Russian company to be transferred under the control of the Kemerovo administration (for additional information on KMK's ownership struggle, see *EWI Russian Regional Report*, 2 December 1999). The first company was the Western-Siberian Metallurgical Combine (ZSMK), which was placed under external management after a 1997 falling out with the Alfa Group. Tuleev has managed to ensure that the external management of the two factories is to his liking. Total annual sales of the two companies exceed \$1 billion, providing Kemerovo Governor Aman Tuleev with a stable source of income for his presidential campaign. The court's decision is a victory for Tuleev. If external management had not been extended, then KMK would have been sold by the Moscow Oblast-based Metallurgical Investment Company's (MIKOM). (*Kommersant Daily*, 10 February)

**WIMM-BILL-DANN BREWERY HEADED FOR BANKRUPTCY.** Russia's top dairy and fruit juice producer Wimm-Bill-Dann's recent decision to move into the beer industry is not proving to be as profitable as the company had hoped. Wimm-Bill-Dann purchased a controlling stake in Nizhnii Novgorod's Volga Brewery at the end of 1999, but has been unable to invest in refurbishing the plant or paying off its debts (see *EWI Russian Regional Investor*, 26 January). Volga's tax debts now leave the factory on the verge of bankruptcy, *Kommersant Daily* reported on 11 February. Ironically, one of Wimm-Bill-Dann's most successful initiatives has also been in Nizhnii Novgorod, where the firm operates the Nizhegorodskii Dairy Combine. That plant is the largest dairy producer in the region and has become the city's largest and most stable taxpayer (see *EWI Russian Regional Report*, 8 December 1999).

**MOSCOW CITY APPROVES TAX BREAK.** The Moscow City Duma voted on 9 February to grant enterprises a 5-year grace period on tax payments if the enterprises are

putting profits into investment projects or inventory necessary for production. The grace period may be extended to 10 years for companies with longer-term investment plans. The law also allows City Hall to make a special exception for businesses in "priority" sectors allowing them to pay taxes in installments. The mayor will produce a list of eligible enterprises. The grace period resulted from a recent city-ordered rise in utilities' tariffs. (*The Moscow Times*, 11 February)

**TNK ISSUES SECOND TRANCHE OF CORPORATE BONDS.** On 9 February the Tyumen Oil Company (TNK) completed its second corporate bond issue of 2.5 million bonds. The bonds were placed at 857 rubles (\$29.65) each, which was a discount of the 1,000 (\$34.60) ruble nominal price. The two bond issues raised 4.4 billion rubles. Nonresident holders of restructured treasury bills (GKOs) purchased approximately 50 percent of the bonds. Since the Central Bank has limited the amount of cash that can be paid out to nonresident GKO holders, foreign investors are left with few options to spend the millions of rubles the August 1998 financial crisis left them. (*The Moscow Times*, 10 February)

## **ELECTRICITY, ALUMINUM, AND PRESIDENTIAL POLITICS**

**BEREZOVSKII, ABRAMOVICH TAKE ON CHUBAIS, DERIPASKA.** On 11 February Sibneft, which is controlled by State Duma members Boris Berezovskii and Roman Abramovich, bought a controlling stake in the Bratsk Aluminum Factory (Irkutsk Oblast) and a large share of the Krasnoyarsk Aluminum Factory, Russian media reported. The seller was the Trans World Group and Lev Chernyi. At the same time, Berezovskii's LogoVAZ bought a controlling stake in the Novokuznetsk Aluminum Factory (Kemerovo Oblast). According to NTV's Itogi, these purchases give the buyers control over 70 percent of Russia's aluminum supply.

The Berezovskii/Abramovich alliance will now compete with the team already set up by Unified Energy System (EES) Chief Anatolii Chubais and Siberian Aluminum head Oleg Deripaska (see *EWI Russian Regional Investor*, 8 December 1999). They are working on a deal to merge the Sayansk Aluminum Factory (Khakasiya) with the local hydro-electric plant. Aluminum smelters consume huge amounts of electricity and, if the plant is able to buy electricity at cost, it theoretically can sell its final product at a higher profit, benefiting both the metallurgists and electricity producers. Chubais and Deripaska had been effectively attacking the position of the Trans World Group, which in the early 1990s had controlled a significant amount of the CIS's aluminum supply.

The aluminum industry has been extremely profitable in Russia. It has also been a center of crime and corruption. In the future the business may not be as lucrative since the practice of tolling has been suspended for at least six months from beginning of this year. Nevertheless, aluminum companies will still be able to turn a profit. Under tolling, the aluminum smelters were essentially able to import raw material and export metals without paying customs fees.

The battle over the aluminum industry will have political consequences as President Vladimir Putin tries to balance between the competing Berezovskii and Chubais factions. Putin is pushing the electricity monopolist to collect a larger share of its fees in real money. Chubais

recently claimed that he had raised cash collections from 19 percent at the end of 1998 to 49 percent at the end of 1999.

This week the RRR publishes two articles on related themes. In Irkutsk, these larger battles are connected with attempts to take over Irkutskenergo, which has been independent of Chubais' EES. In Volgograd, there is another intense battle over the local aluminum plant. Next week we will publish an article focusing on the impact in Krasnoyarsk.

**CHUBAIS TRIES TO GRAB IRKUTSKENERGO.** As expected the Russian State Property Ministry has filed another attempt with the Supreme Arbitration Court to transfer the 40 percent share in Irkutskenergo currently held by the Irkutsk Oblast administration to the federal government. This move would effectively put Irkutskenergo under the control of Anatolii Chubais' Unified Energy System (EES). In December 1999, the court set aside the ministry's first attempt to effect a transfer because it said that the ministry had not submitted a full set of documents.

Irkutskenergo is the only Russian power company not under EES control because it was privatized before the 1992 presidential decree that created the monopoly. Since then, EES has been trying to bring Irkutskenergo under its wing. The various laws, court rulings, and decrees that have enabled Irkutskenergo to remain independent of EES have allowed the ownership of a 40 percent stake in the company to remain ambiguous. The stake has been held by the oblast administration, yet Moscow believes that it should control these shares. Irkutsk Governor Boris Govorin is clearly on the side of Irkutskenergo and would like to minimize Moscow's influence over the firm.

At an 8 February press conference Govorin charged that the renewed federal attempt to take over the Irkutsk electric utility was a consequence of the transfer of power from Yeltsin to Putin. He warned that the oblast administration had sufficient resources to maintain control of its stake. To fight the takeover, Govorin has called on the services of former Governor Yurii Nozhikov and on 28 January gave half of the oblast's shares in trust to the Eastern Siberian Financial-Industrial Group. Moscow has complained that Govorin did not win approval for this share transfer. - Teleinform in Irkutsk

**VOLGOGRAD: AUTHORITIES SEEK DAM TO HELP METAL PLANT.** The state's effort to squeeze more money from the EES electricity monopoly and the monopoly's own attempts to reform itself (such as the transfer of the Sayano-Shushensk Hydro-Electric Dam to Siberian Aluminum) are having an impact in Volgograd Oblast. Recently the oblast authorities helped the region's largest energy consuming enterprises purchase electricity on the Federal Wholesale Electricity Market (FOREM) where prices are several times cheaper than from the regional supplier, Volgogradenergo. In other words, to save the large enterprises, the oblast sacrificed the interests of Volgogradenergo. One example is the Volgograd Aluminum Factory that bought electricity through FOREM for a third the price charged by Volgogradenergo, increased its output to unprecedented levels, and became the largest taxpayer in the region.

However, in the new conditions, EES has announced plans to revoke all benefits for enterprises. Clearly, increasing prices for the aluminum plant will force it to close down, while preserving the status quo is unacceptable for Volgogradenergo.

Accordingly the oblast authorities have revived earlier demands that the federal government transfer ownership of the Volzhskii Hydro-Electric Dam to Volgograd. The dam is the largest in Europe and a generator of cheap electricity, which is vital for the aluminum producer. If the oblast is successful, then the dam and aluminum factory will become the basis of an energy-industrial association under the control of the oblast authorities.- Ivan Kurilla in Volgograd

## **PATTERNS OF REGIONAL DEVELOPMENT**

**SARATOV GUBERNATORIAL CAMPAIGN HEATS UP.** Saratov Oblast Governor Dmitrii Ayatskov will face reelection on 26 March, the same day as the presidential elections. Shortly after Yeltsin resigned, Ayatskov successfully moved his election up from September. Already eight opponents have announced their intention to run against him.

The incumbent is worried about the strong protest vote in the region. The authorities are particularly concerned that Saratov could once again turn Communist. The Communists feel particularly strong since KPRF Obkom First Secretary Valerii Rashkin won the December 1999 State Duma elections in the central district number 158. By beating his closest competitor by a large margin, he demonstrated once again that the divided democrats (who ran 13 candidates) will not soon be able to counter the Communists' organization.

However, an even more dangerous opponent has entered the race. Former Deputy Governor Vyacheslav Volodin, currently a State Duma deputy representing Otechestvo-Vsya Rossiya. Whether the financial might of this party will be able to ensure his success remains to be seen.

Ayatskov has already announced that he will set up a Party of Land and Property Owners, which he claims will have a national reach. However, Ayatskov's earlier plan to set up a pensioners' party, which was allegedly going to have 800,000 members in Saratov Oblast alone, came to nothing. During the course of 1999, Ayatskov met with a variety of leading politicians, including Gennadii Zyuganov, Grigori Yavlinskii, Anatolii Chubais, and Vladimir Putin, who was then the head of the Federal Security Service. Ayatskov ultimately joined former Prime Minister Viktor Chernomyrdin's Our Home is Russia. However, when during the course of the State Duma campaign, Putin announced that he favored Yedinstvo, Ayatskov threw all his resources behind that party. As a result, Ayatskov's former representative in the Oblast Duma, Lyubov Sliska, was elected to the State Duma as the number one candidate on the Volga section of the party list. During the battle for the Duma speakership, Putin even nominated her as his choice for the Duma's top job. This recognition was one of Ayatskov's most important political accomplishments in recent years. Ayatskov hopes that his creation of the new land owners' party will remind Putin, who strongly supports land privatization, that the Saratov governor would be an excellent choice as prime minister. - Yuliya Yeliseeva in Saratov

## **BUDGETARY FEDERALISM**

**SARANSK SEEKS TO PAY SALARIES.** Paying back wages to public sector employees is one of the most important problems facing Russia. Since the beginning of the reform era, federal

and regional leaders have been interested in this problem. In the runup to elections, wage arrears become highly politicized and public sector workers have become used to receiving pay outs before they head to the polls. The authorities naturally go out of their way to ensure that doctors and teachers do not engage in loud protests.

The Republic of Mordoviya is no exception. The region relies on subsidies from the federal government and cannot pay off its debts without federal aid. On the eve of last year's State Duma elections, the federal government transferred a sum of money that could have helped the republic pay off the debts. But just when the money arrived, Gazprom cut gas supplies and the local electricity utility threatened to reduce power because they had not been paid. As a result, the money that should have gone to pay back wages was instead used to pay off debts to the energy suppliers. According to Mordoviya's State Statistics Committee, the republic owed 148 million rubles in back wages at the beginning of February.

Among all the localities within Mordoviya, only the capital city of Saransk contributes more to the federal budget than it takes. In the city, however, public sector employees are owed 37.5 million rubles.

In a meeting with Mordoviya President Nikolai Merkuskin at the beginning of the year, Saransk Mayor Ivan Nenyukov promised to pay off all wage debts within four months. However, by the end of January, it was clear that the city leadership would not make its goal. By the beginning of April, salary payments would still be one month behind schedule. The city officials are extremely skeptical about their ability to implement Vladimir Putin's order to eliminate wage arrears by 15 April. The basis of their doubts is a realistic understanding of Saransk's budget and its possibilities.

Saransk's 2000 budget forecasts income of 553.4 million rubles and expenditures of 579 million rubles. The city will not receive any federal subsidies, only the possibility of borrowing money that must be repaid. The federal money is divided among the rural regions of the republic that lack any major enterprises. Saransk can only borrow money if there are some federal funds left over after all the money is distributed to the rural regions. Saransk's best hope to make up its budget deficit is to raise taxes.

According to Mayor Nenyukov, Saransk reliably receives income from excise taxes (60.1 million rubles), the imputed tax on small businesses and the income tax (69.3 million rubles), and sales tax (69.3 million rubles). While these taxes continue to come in, the city sees little from the VAT and profit taxes.

Officials from the Saransk mayor's office believe that the city will not be able to pay off all wage arrears using its own resources. It will likely only be able to pay off its debts for last year. The city also has to worry about other expenses such as in the housing sector, building roads, and other concerns.

During the course of February and March, Saransk will need 23 million rubles to pay for electricity and heat. In comparison, 6 million rubles would be enough to pay all of the city's teachers' monthly salaries.

During the first month of the year, Saransk tax payers failed to pay 58.7 million rubles in taxes, at the same time that the wage arrears amount to 37.5 million rubles. The main debtors are the republic's largest enterprises. The smaller enterprises usually pay on time.

Despite all these problems, the public sector workers are not losing hope. At an 8 February press conference, Nenyukov said that the city was working out a bank loan and the money would go to pay back wages. - Igor Telin in Saransk

## **EFFECTIVENESS OF WESTERN AID IN THE RUSSIAN REGIONS**

This week the RRR starts a series of articles on the effectiveness of western aid programs in Russian regions by looking at the Far East. In the coming weeks, we will have many more articles on other regions across the country.

### **RUSSIAN FAR EAST: ENVIRONMENTAL PROGRAMS POPULAR, SMALL LOANS EFFECTIVE**

by Dmitrii Motovilov

Vladivostok - More than three dozen Western aid programs have offices in the Russian Far East, according to the Yuzhno-Sakhalinsk office of the Regional Initiative (see related article in this week's Breaking News). The programs deal with a wide variety of issues, including millions of dollars in loans to industrial giants, grants to support the media, campaigns to protect local wildlife, stipends for education in foreign universities, and even efforts to distribute disposable syringes to drug addicts. Several organizations exist to coordinate the activities of such programs. For example, one of the missions of the Regional Initiative is to coordinate all US-sponsored technical assistance activities in the Russian Far East with the objective of maximizing their cumulative effect. (Its website is still under construction, but will be at: <http://www.om.sakhgu.ru/rii/default.htm>)

Naturally, the regional authorities and population are happy to receive western financing to resolve global and local problems. For example, several weeks ago the Primorskii Krai media gave wide attention to an Ecolinks (US AID) program grant to the company Vysokie tekhnologii. The firm, established by a group of local scholars, intends to create a garbage-processing plant on the basis of American technology. Anyone who has watched through their car window as bulldozers spread out the smoking garbage at the Vladivostok city dump, just a few kilometers from a scenic beach, cannot help but be grateful for the Ecolinks project. According to the plans, the factory will not only burn trash in an environmentally-friendly way, it will generate heating energy for the city and reutilize many waste products.

The ecological consciousness of the region's population is rapidly rising and programs aimed at environmental protection are perhaps the most popular with society at large. For example, the World Wildlife Fund's (<http://www.wwf.org/>) program to save the Amur tiger, the symbol and pride of the Far East, and Americans' scientific and financial support of it, cannot go unnoticed. Other programs such as the Russian Ecological Partnership and Sustainable Forestry Management have also been widely popular.

However, of all the foreign aid programs, none compare to business support programs in terms of level of interest or size of investment. Such organizations were the first to appear in

the region and have persevered to this day, despite the difficulties and stresses inherent working in this part of the world.

Some aid providers learned bitter lessons in the early 1990s. Amazed by the region's potential and swayed by perestroika's romanticism, foreign investors thought that they should bring large sums into the country. Primorskii Krai still has some sad reminders of this period, such as the Giant supermarket, which to this day has not opened its doors to retail customers. The supermarket was intended to attract shoppers from across the region, but is now basically being used as a wholesale warehouse. This project was built with the support of American funds. Until recently, the same fate had befallen the new international terminal at the Vladivostok airport in Artem. The terminal was recently opened, but the Japanese investment fund that financed it, the Eurasia Investment Promotion Company, can hardly expect to recoup its money in the near future.

"The first foreign investors often were very naive," said Mitsukhiro Itchiyanagi, the head of the Far Eastern representation of the Daiwa Far East and Eastern Siberian Fund, a project of the EBRD and the Japanese government. "They believed that the Soviet economic system could be transformed into a market economy in one day. Many of them lacked experience working with international investments and therefore they could not foresee all the potential problems and risks that they would have to deal with in Russia."

Itchiyanagi, who before coming to the Far East spent 15 years working in Africa, Asia, and Europe, claims that the complaints of pioneering investors about Russians being dishonest are only partly true. The first investors entrusted large sums of money to local managers whose mentality had been formed under the Soviet command economy. Now when the Daiwa Fund studies the possibility of financing one or another enterprise, the first thing that it looks at is the quality of the managers, particularly their ability to function in a market economy and maintain a transparent system of financial accounting.

This approach has paid off. The venture fund's largest capital investment is in the Amurpivo brewery in Khabarovsk. With \$3.5 million for overhauling its equipment, the brewer was able to develop a new line of beers, which have taken a large share of the market in Khabarovsk as well as neighboring regions. Some experts believe that other investments made by the Daiwa Fund have been even more successful, but Itchiyanagi does not want to identify them because he thinks it is too early to speak about their final results.

Investment programs working in the region now favor investing modest sums in a large number of small enterprises. In 1997, the European Bank for Reconstruction and Development founded the Russian Small Business Fund (RSBF) in Vladivostok to provide loans up to \$125,000. During 2.5 years of work, it has given out credits of approximately \$8 million. Of course, these figures do not compare with the investments of the EBRD itself. Just in the construction of the Mutnov Geothermal Electric Station in Kamchatka, it invested 85.6 million euros. During its five years of operations in the Far East, the EBRD has funded eight other large projects: Magadan's Kubak gold deposit (37.5 million euros), Buryatzoloto (13.49 million euros), the Sakhalin Shipping Fleet (18 million euros), the Primorskii Shipping Fleet (PRISCO) (35.5 million euros), the Far Eastern Shipping Fleet (FESCO) (12.8 million euros and \$31.2 million), Novaya telefonnaya kompaniya (\$17 million and a grant of 181,200 euros), the Nakhodka Free Economic Zone (181,200 euros) and Sakhalin-2 (102 million euros). During half the time,



the RSBF has issued more than 650 credits. The RSBF proudly notes that 100 percent of its loans have been paid back. Moreover, local observers claim that where businesses once sought money to set up trading operations, they now are increasingly seeking funding to provide services and produce goods.

The US Russian Investment Fund (TUSRIF), established in 1995, has a similar strategy in the Far East. The fund does not make any first loans larger than \$150,000, with the minimum loan being \$5,000. The 1998 crisis significantly hurt local borrowers, however after the loans were restructured, TUSRIF is gradually picking up speed again. During the second half of 1999 the fund made 15 loans for a total of \$840,000. Seeking to support local production, TUSRIF recently announced a leasing program to help small and medium businesses acquire equipment.

The EBRD, Daiwa, RSBF, and TUSRIF are the most active business assistance programs in the Far East. Less well known is the US Trade and Development Agency (TDA) grant to the Far Eastern office of Caterpillar. Other giants, such as the US Export-Import Bank (famous for its program to support Dalmoreprodukt, the krai's largest fish processing plant) and OPIC are also open for cooperation, but are not very active at the moment.

The Eurasia Foundation is the most notable of the organizations seeking to develop democratic processes in the region. It launched its operations in 1995 and by the end of the decade had disbursed 374 grants worth \$6.5 million (with the average grant worth about \$29,000). Eurasia's leadership has considerable experience working in local conditions and changes its funding priorities according to changing conditions. "Recently a priority for Eurasia was financing the development of the Internet," according to regional Director Glen Lockwood, who has lived in Russia more than eight years. "Now that is not so important. Today the main task is economic reform, reform of the government, and any projects that encourage citizens to participate in managing the country."

Eurasia's grants to educational institutions are well known. "Thanks to Eurasia's help, we have lifted the instruction of telejournalism to a completely new level," said Professor Valentin Tkachev, the deputy head of the TV and radio department of Far Eastern State University. "In the past we explained things in the abstract. Now students put together their own shows, films, and advertisements with the help of an Adobe Premier computer program on a non-linear editing system. Our television center has already run four seminars for retraining journalists from across the Far East. Journalists in many areas are just learning to use these new methods."

The number of applications submitted to Eurasia has recently doubled. Where the foundation could once fund 50 percent of the proposals it received, now it can only fund 15 percent. As a result of this experience, the majority of foreign aid providers believe that 90 percent of their projects in the Far East are successful.

## **SOCIAL ISSUES**

**WORLD BANK PROJECT IN NOVOSIBIRSK THREATENED.** At the end of 1997 the World Bank made a loan to Russia that provided \$96.5 million to Novosibirsk. The money was earmarked for building or reconstructing various elements of the region's social infrastructure: 20 schools, 6 hospitals and clinics, and 30 water supply and sewage sites. The loan was made for a period of 12 years, and the oblast would have to start repaying the loan

after a period of three years. The oblast was only required to pay off half of the loan, with the rest coming from the federal government. The interest payments on the loan are only 1.5 percent. The project is unprecedented in its scale in Russia, with only Rostov Oblast attempting something similar.

During the last three years, Novosibirsk Oblast has received \$12 million, including \$9 million in the last year, according to *Kommersant-Sibir* (11 February). The main work should be carried out in 2000 and 2001. During this year, the oblast should invest \$24 million in the social sphere. This money should go toward reconstructing and outfitting three raion hospitals. However, these plans may never be implemented.

Difficulties with the project began immediately after the August crisis. During the summer of 1999, the oblast had to turn down a part of the loan, reducing the overall amount to \$78.6 million. From 2000, the oblast must start paying back the loan, at the rate of 160 million rubles a year. To continue work this year requires an additional 240 million rubles. The oblast Soviet recently discussed how to obtain these funds. Governor Viktor Tolokonskii said that under current conditions the oblast would not be able to meet its obligations to the World Bank. He believes that the federal government could provide help either by guaranteeing the project or providing federal financing. Otherwise, it will be necessary to freeze the project.

Vice Governor Vasilii Kiselev believes that refusing to make payments on the loan will lead to the complete annulment of the contract with the oblast. If this happens, the oblast would effectively be declared bankrupt and lose its international reputation. The oblast legislature should resolve the fate of the loan at its next session scheduled for the end of February. - Irina Maslennikova in Novosibirsk

**SAKHA TAKES EARLY STEPS IN BATTLE AGAINST AIDS.** "Today there are 27,000 HIV positive individuals in Russia and the disease is quickly spreading," according to Arkadiush Maishik, a representative of the UN's program on HIV-AIDS. He and Moscow Project Coordinator Tatyana Shumilina recently visited Yakutsk to further the work of their program. AIDS first appeared in Sakha in 1996, when it was found in a Turkish worker in the region. The UN representatives came at the invitation of the republican government and parliament. "Today Sakha has 97 HIV positive individuals, so it is too soon to speak about an epidemic. But the fact that the leadership of the republic is concerned about this problem gives some hope. Unfortunately, we know of other examples, where local officials reject our help even though the situation there is even worse," Maishik said. The city of Moscow is such a case.

The personal interest and support of the head of a region is one of the key operating principles for the UN program. Only in this case will a region be included in the pilot program "Taking action to prevent an HIV-AIDS epidemic in Russia." This program was launched in 1998. Participating in the program could make the region eligible for support from international sponsors. However, they must meet several conditions.

First, the UN team must analyze the situation in each region to determine what causes the spread of HIV. Second, the UN must determine what has already been done, and what the region is planning to do in the course of the next three years. Once the UN team has gathered this data, it will set up a federal program for 17 Russian regions, which the UN will present to various sponsors.

So far the UN team has studied the situation in 10 regions which have agreed to participate in the program. In general, there are two main problems in Russia. First, there is very little monitoring for HIV and therefore the numbers describing how many are infected are only approximations. Second, many people think that AIDS is simply a medical problem, without realizing that it affects all of society. While visiting Sakha, the UN team sought to gather as much hard data as possible. They visited medical, customs, and drug rehabilitation centers to glean more information about the number of infections detected among the populations most at risk. The team expressed the hope that Russia would not become another Namibia where 20-25 teachers die of AIDS every day. - Oleg Yemelyanov in Yakutsk

## **ENVIRONMENTAL ISSUES**

**FATE OF NUCLEAR PLANT BECOMES CAMPAIGN ISSUE IN ROSTOV.** Several Rostov environmental organizations have appealed to Acting President Vladimir Putin to halt the construction of the Rostov nuclear power plant. In their letter the environmentalists wrote that if the government does not adopt such a decision prior to the presidential elections, then they would not vote for Putin. They further stated that they were doing everything possible to inform people in the region of their initiative, and have already begun collecting the signatures of their supporters. This is the first instance in Rostov of an organization promising to oppose Putin if he does not comply with their conditions.

Construction of the Rostov nuclear power plant began during the Soviet period. However, after the Chernobyl disaster construction was halted in correspondence with a 1990 decision adopted by the Rostov Oblast Council of People's Deputies. Ever since 1986 nuclear energy promoters have been actively speaking about the economic necessity of the plant (for background information on the dispute, see *EWI Russian Regional Report*, 9 April 1998 and 4 December 1997). However, over the same period of time energy use has been declining and it is not clear that Rostov Oblast needs the plant. Regardless of the fact that completing the nuclear power plant will cost more than reconstructing the Novocherkassk power station, the nuclear lobby is persistent in reaching its goal.

Meanwhile, the environmentalists have cited several reasons to fear a nuclear power plant. The plant is built in a densely populated area in immediate proximity to a large fresh water pool--the Tsimlyanskii Reservoir, and near the Don River, which is a shallow passageway to the Azov Sea. Additionally, critics of the nuclear power plant are finding a large number of technical defects in the plant's construction and feel that it is dangerous even without an accident. The plant has stood idle for 10 years, making it impossible to judge the buildings' current state. Additionally, Rostov farmers have already expressed concern that starting up the nuclear power plant might force down the prices of the region's farm products. This is particularly troublesome as Rostov is a strong agricultural region.

Following the apartment building explosion in Volgodonsk in September 1999 (*EWI Russian Regional Report*, 29 September 1999, 7 October 1999) protests against resuming construction of the nuclear power plant have increased dramatically. In 1999 a state expert committee was formed, however, it did not include environmental scientists. Environmentalists

formed their own, independent committee, but no one paid attention to it. As expected, on 7 February the state experts decided in favor of continuing the nuclear plant's construction.

Rostov environmentalists believe that in one of Putin's appearances in November in Leningrad Oblast he announced that the first bloc of the nuclear power plant was going to be started in 2000. In their appeal to Putin, the environmentalists wrote that most likely the acting president did not know the real state of affairs or about the 10-year struggle between the region's residents and the nuclear power plant's supporters. Trying to sway Putin with the threat of large-scale protests on the eve of the new elections, the environmentalists wrote, "Under no conditions will we, with all respect to you and your work, allow anyone to put our children under the perpetual threat of another Chernobyl... We have been fighting against a menacing environmental catastrophe in southern Russia for ten years and we do not intend to give the Ministry of Atomic Energy even one inch of our flourishing land." - Andrei Mironshinchenko in Rostov-Na-Donu

## REGIONAL RESOURCES

**Studies on federalism and the law** ([http://www.mpsf.org/pub/r\\_pub.html](http://www.mpsf.org/pub/r_pub.html)) - At this web site you will find the December 1999 number of the journal *Konstitutsionnoe pravo: vostochnoevropeiskoe obozrenie*, which included numerous articles on Russian federalism, and the papers presented at a recent conference entitled *Rossiiskii federalizm: konstitutsionnye predposylki i politicheskaya realnost*. The journal and conference are projects of the Center for Constitutional Research in partnership with *East European Constitutional Review*, a journal published by New York University.

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Carnegie Endowment for International Peace,  
Working Paper, Number 8, February 2000  
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### **EXECUTIVE SUMMARY**

Since the end of the Cold War, Eastern Europe and Eurasia have been host to a virtual army of Western non-governmental organizations (NGOs) - from the United States, Britain, Germany, and elsewhere in Europe - all working on various aspects of institutional development, such as helping to establish competitive political parties and elections, independent media, and civic advocacy groups, as well as trying to reduce ethnic conflict. Little is *known* - although much good and bad is *believed* - about the

impact of this assistance, carried out on a transnational level in cooperation with local political and social activists. This study, based at Columbia University, was designed to address this gap.

Funded by the Carnegie Corporation, the project involved seventeen investigators with social science and regional expertise who followed a common research design for sixteen case studies in twelve countries. Many of the participants had worked in or previously evaluated democracy assistance projects. The case studies they examined included: political parties and elections in Russia, Ukraine, the Czech Republic, and Slovakia; independent media in Russia, Ukraine, the Czech Republic, and Slovakia; women's NGOs in Russia, Poland, and Hungary; environmental NGOs in Russia and Kazakhstan; civic education NGOs in Romania, Uzbekistan and Kyrgyzstan; and efforts at reducing ethnic conflict in Bosnia, Estonia, and the states home to the ethnic Hungarian and Roma diasporas.

To assess the impact of Western NGO strategies, investigators interviewed both Western NGO and local activists, as well as activists who had not received direct outside assistance. The investigators compared developments in a specific sector, such as political parties, in the late 1990s with what the sector looked like when the communist regime in the country fell out of power. Case selection included regions that are strategically important, such as Russia, as well as parts of Central Europe that are widely viewed as successfully democratizing. The cases also address the types of institutions - parties and elections, media and civic advocacy groups - that are commonly thought to be integral to democratic states and which received considerable attention from Western NGOs. Research for the project was carried out in 1997 and 1998.

The study finds that the impact of the strategies used by Western NGOs on developments in specific sectors in these regions has been *mixed*. With relatively small amounts of money, these NGOs have played a large and important role in many formerly communist states helping to *design and build* institutions associated with democratic states. They have done little as yet to affect how these institutions actually *function*.

Political parties, regular elections, independent media, and local NGOs are all now part of the political landscape in many states across East/Central Europe and Eurasia, and their links with foreign groups are robust. In Russia and Ukraine, Western NGOs have had an impressive impact in presenting practical menus of problem-solving skills for elections (such as how to use research in designing a campaign). In the Czech Republic, Slovakia and Russia, foreign assistance has helped launch self-sustaining media organizations and support the creation of local commercially independent television stations. In Poland, Hungary and Russia, Western groups have been central to forming networks of women's organizations.



In every case examined, however, these very institutions function poorly with weak links to their own societies. For example, in Russia and Ukraine, Western NGOs have influenced the electoral activities of new political parties and the organization of media watch groups, but they have done little to help make parties responsive to constituents or major media outlets in any way independent from the narrow political interests of owners. In Poland, Hungary and Russia, women's groups have mushroomed at the same time they have grown increasingly "ghettoized" - closer to their transnational partners than the constituents they are meant to represent or the governments they claim to be influencing. In terms of ethnic conflict, Western NGOs have been limited at best in their ability to affect conditions inside states with high amounts of strife, especially when they fail to coordinate with governmental and international organizations.

Historical legacies left by decades of communist rule account in part for the poor functioning of these institutions, but this study finds that these results are also, in part, a consequence of Western NGOs strategies. Western groups have tended to rely on practitioners with little knowledge of the region (social activists from the American Midwest, parliamentary staffers from Europe, political campaigners from Britain) to implement strategies - *blueprints* for building democratic institutions - developed in Western capitals. These technicians are poorly prepared for anticipating how their recommendations are likely to be received by local activists given historical legacy. In short, the political culture of different local organizations determines how they have responded to Western assistance.

The study's recommendations - that Western NGO strategies be driven more by local context and that funders create incentives for NGOs to do so - point to policy choices: adjust NGO strategies and increase funding for democracy assistance or stay home. Business as usual will support the development of institutions that are not sustainable. Donors should let Western NGOs do their job, but they can also help them be more responsive to the conditions in which they are working. An important way to do this is to provide adequate funding to hire regional and local experts *as well* as practitioners.

The introduction to this report lays out the method of evaluation. The report then summarizes the findings of the sixteen cases and draws general lessons about how ideas and practices diffuse and under what conditions. After a synopsis of the cases, the final section of the report makes a series of recommendations geared toward donors and NGOs working in these regions on issues relating to democratization and the reduction of ethnic conflict.

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**BREAKING NEWS**

**POLITICS**

**OTECHESTVO BRANCHES TO CHOOSE OWN CANDIDATES.** Moscow Mayor Yurii Luzhkov, head of the Otechestvo movement, is allowing the party's regional branches to choose which candidate they will support in the upcoming presidential election, *The Moscow Times* reported on 15 February. Luzhkov told journalists that the party national leadership would decide which candidate it would support by 10 March. The party, which was once considered the next party of power, has lost much of its popularity since the pro-Kremlin Yedinstvo movement appeared on the scene in fall 1999. The merged Otechestvo-Vsya Rossiya (OVR) did not perform as well as expected in the December 1999 State Duma elections and has failed to work effectively as a unit in the new Duma. Many of the deputies

elected under OVR's banner opted to join the Russia's Regions factions, and Vsyā Rossiya immediately offered its support to Acting President Vladimir Putin in spite of the anti-Kremlin stance it had taken under former Russian President Boris Yeltsin. While Luzhkov too is probably interested in joining forces with the Kremlin, he needs to do it in a way that does not make it look like he is just giving in.

**TULEEV'S PROPOSES OVERHAUL OF RUSSIAN FEDERALISM.** The top issue for Kemerovo Oblast Governor Aman Tuleev in his presidential campaign is improving relations between the center and the regions, *Nezavisimaya Gazeta* reported on 18 February. Tuleev hopes to change tax relations between the center and the regions so that regional budgets retain a larger portion of the taxes generated from regional production. Tuleev has also suggested decreasing the number of federation subjects from 89 to 35, uniting several economically interrelated regions into single units. For example, Tuleev proposed uniting Kemerovo Oblast with Tomsk Oblast and Altai Krai. He feels that the heads of the newly configured regions should be appointed by the president. However, Tuleev is against changing the borders of Moscow, St. Petersburg, or the autonomous republics.

Since Tuleev's ideas are not popular with the many individuals who would lose power if they were implemented, he apparently has quickly backpedaled. In a 21 February interview with *Ekspert* magazine, Tuleev said that he is not in favor of sharp changes in Russian federalism. Although Tuleev disagrees with several of the privileges afforded to republics, he stated that he is against reforming Russia's federal structure until the economic situation stabilizes. In the interview, Tuleev announced that his political task was to create a middle class. In order to do this, Tuleev explained that he is in favor of including more small private investors in enterprises, but feels that the state should control the industrial base to ensure that the management acts in a conscientious manner.

At the 18 February meeting of the Siberian Accord Interregional Association, Acting President Vladimir Putin said that he has no intention of trying to appoint the governors, noting that there are more effective ways of controlling them.

**FEDERAL CONTROL OVER REGIONAL MEDIA INCREASES.** On 16 February Press Minister Mikhail Lesin and Russian State Television and Radio Company Chairman Oleg Dobrodeev appeared before the Federation Council to explain the new policy regarding electronic media. Lesin and Dobrodeev told the governors and regional legislative leaders that according to new regulations, the state company, which controls Russia's second largest television network, would exercise much greater control over local affiliates. Previously, regional leaders had a say in who ran the regional media branches. Now many regional leaders are upset that they will no longer be able to approve the heads of the network's regional broadcasters. According to the law, the federal center has the right to appoint the heads of local state television companies. Many regional executives, such as Moscow Mayor Yurii Luzhkov, Ingushetiya President Ruslan Aushev, and Nizhnii Novgorod Governor Ivan Sklyarov, charged that this new policy will serve to further federal aims at the expense of regional interests. (*Kommersant Daily*, 17 February)

## **ECONOMICS**

**TYUMEN OIL COMPANY SIGNS ACCORD WITH EAST LINE.** On 15 February the Tyumen Oil Company (TNK) signed a cooperation accord with the East Line aviation company, which controls the Domodedovo airport outside of Moscow, to supply airplane fuel. TNK President Semen Kukes, who recently returned from the World Economic Forum in Davos told journalists that the West's interest in Russian economics is decreasing and therefore Russian companies could not count on more foreign investment, but instead need to unite to ensure a stable domestic business environment (*Kommersant Daily*, 16 February). The accord stipulates that TNK will supply fuel at a predetermined price to East Line. This agreement will ensure that East Line has sufficient fuel for its airplanes in peak travel seasons. TNK's current production of airplane fuel is sufficient to fill Domodedovo's needs.

**FEDERATION COUNCIL IN FAVOR OF AGRO BANK.** On 16 February the Federation Council adopted a decision to create a Russian agricultural bank, Rosselkhozbank. The federal government will own 51 percent of Rosselkhozbank, and the regions will own 49 percent. According to Altai Krai Legislative Assembly Chairman Aleksandr Nazarchuk, who serves as Federation Council Committee on Financial and Credit Issues chairman, Acting President Vladimir Putin signed a corresponding decree approving the creation of Rosselkhozbank and commissioning the government to draft a law for the Duma regarding the bank. However, in spite of the enthusiasm Putin has displayed for Rosselkhozbank's creation, the bank is unlikely to go into operation this year as there are many details to work out. First, until 26 March, all of Putin's energies are focused on his electoral campaign. The expected transfer of assets from SBS-Agro to Rosselkhozbank will not take place before 1 July 2000 as SBS-Agro needs to collect on many loans prior to that date. Additionally, Rosselkhozbank must establish a branch network, which requires extensive legal planning. (*Kommersant Daily, Vremya MN*, 17 February)

**TAX EXPERIMENT IN BASHKORTOSTAN.** Bashkortostan may introduce a simplified tax reporting system in which the tax inspectorate prepares tax declarations for citizens instead of having them do it themselves. Under such a system, taxpayers will be assigned a tax identification number, which will be attached to all of their earnings. The tax inspectorate will use this identification number to determine each person's tax contributions and will send this information by mail to all republican residents. Residents will just need to sign the declaration form they receive in the mail and will only have to go to the tax inspectorate if they disagree with the sum they are expected to pay. The authorities believe that this new system will improve tax collection as it will make it more difficult for citizens to hide income they have earned working in different raions. In order for the new system to go into effect, the State Duma must pass a law allowing the Bashkortostan to implement the plan on an experimental basis. If the pilot project is successful, the model might be adopted for the country as a whole. (*Izvestiya*, 16 February)

## **WHO ARE RUSSIA'S GOVERNORS?**

**MALE, 53, FORMER MANAGER, SERVING FIRST TERM.** By any standards, Russia's 89 governors in February 2000 are a motley collection of individuals. Several are well known internationally. Moscow Mayor Yurii Luzhkov seemed likely to be Yeltsin's successor until his Otechestvo party performed poorly in the 1999 State Duma elections and Yeltsin resigned in favor of Vladimir Putin. Krasnoyarsk Governor Aleksandr Lebed came in third place in the 1996 presidential campaign, ended the 1994-1996 Chechen war and also seemed like a potential president until his career was sidetracked in the numerous scandals plaguing his Siberian region's energy and metals industry. His brother is the governor of Khakasiya, making them the only two governors who are related. Kursk Governor Aleksandr Rutskoï served as Yeltsin's vice president until 1993, when he was imprisoned after leading an insurrection against the president. His notoriety made him a hero in his hometown, which duly elected him in 1996. Kalmykiya President Kirsan Ilyumzhinov is the president of the World Chess Federation (FIDE) and built a Chess City to host international tournaments in one of Russia's poorest regions.

Others are well known nationally. Tula Governor Vasilii Starodubstev was one of the 1991 coup leaders against USSR President Mikhail Gorbachev. Moscow Oblast Governor Boris Gromov led the Soviet troops out of Afghanistan in 1989. Samara Governor Konstantin Titov joined the shortened 2000 campaign, as did Kemerovo's Aman Tuleev, who also ran for the top job in 1991 and 1996.

Several governors have gained prominence for widely noted accomplishments. Tatarstan President Mintimer Shaimiev signed the first power-sharing agreement between a region and the federal government in 1994, giving his region substantial autonomy in tax collections, control of natural resources, and foreign policy. Novgorod Governor Mikhail Prusak has excelled in bringing foreign direct investment to his region. Orel Governor Yegor Stroev is the first among equals as the chairman of the Federation Council, making him one of Russia's top politicians. Primorskii Krai Governor Yevgenii Nazdratenko beat back a 1997 Kremlin attempt to remove him from office and remains firmly entrenched even though electricity blackouts are frequent in his far eastern outpost. Saratov Governor Dmitrii Ayatskov became famous by pushing land privatization at the local level. Krasnodar Governor Nikolai Kondratenko won attention for his numerous anti-Semitic statements.

The governors are largely middle-aged, with an average age 53.5. The youngest governor is Ust-Orda Buryatiya's 36-year old Valerii Maleev. The only other governors in their thirties are Pskov's Yevgenii Mikhailov, 37, and Ilyumzhinov, 38. The oldest governor is Dagestan's 70-year old Magomedali Magomedov.

With one exception, Russia's governors are male. The lone woman is Koryak Autonomous Okrug Governor Valentina Bronevich. Her region is in a remote corner of the Russian Pacific coast and she does not play a prominent role on the national stage.

Just over half of the governors have backgrounds as economic managers (see Table 1). Twenty-one governors (24 percent) began their professional lives in the agricultural sector, the worst performing sector of the Russian economy. Sixteen (18 percent) are industrialists, six worked in the construction industry, and three in transportation. These backgrounds partially explain the governors' strong preference to avoid political labels and pursue pragmatic policies in their relations with the Kremlin and within their regions.

**Table 1. Professional Background of Russian Governors**

<b>Career</b>	<b>Number of Governors</b>
CPSU	22
Agriculture	21
Industry	16
Military	7
Construction	6
Regional admin., economist	5
Legal	4
Transportation	3
Businessmen	2
Journalist	1
Diplomat	1
LDPR activist	1

A significant portion of the governors cut their political teeth working for the Communist Party of the Soviet Union before the collapse of the USSR. Twenty-two of the 89 (25 percent) governors made their careers in the Communist Party of the Soviet Union (CPSU) with two of them reaching the Politburo (Stroev and North Osetiya's Aleksandr Dzasokhov). Overall, at least 44 governors (49 percent) had significant experience in the CPSU ranks.

As a group, the governors have held numerous elective offices. Many of them were elected to the national legislatures that have existed in Russia since 1989 (the USSR Congress of People's Deputies, RSFSR Congress of People's Deputies, State Duma, and the Federation Council, whose members were elected in 1993, but not since). Governors have also been active in regional legislatures and several served as mayors before being elected governor. Pskov Governor Mikhailov is unique since he worked his way up the party ranks of one of post-Perestroika Russia's new parties, the Liberal Democratic Party of Russia headed by Vladimir Zhirinovskiy.

Seven of the governors (8 percent) are military men, usually with significant experience in hot spots such as Afghanistan and Moldova. The military governors by no means create a unified bloc among Russia's regional elite. The Lebed brothers are focused on managing the economic resources of their regions to perhaps support another presidential bid by Aleksandr. Moscow Oblast's Gromov came to power with the support of Luzhkov, while Kursk's Rutskoi was an early supporter of the pro-Kremlin Yedinstvo party, which sees Luzhkov as its arch-rival. Ingushetiya's Ruslan Aushev and Karachaevo-Cherkessiya's Vladimir Semenov are more concerned with addressing the numerous ethnic conflicts in their North Caucasus regions than anything else. Chechen President Aslan Maskhadov led the Chechen rebels in their victorious battle against Russian troops in the republic's 1994-1996 battle for independence. After launching a military assault to reimpose order on the republic in September 1999, the Kremlin effectively withdrew its recognition of Maskhadov's legitimacy, arguing that he did not control the territory that was supposed to be under his jurisdiction.



Only two governors built their pre-political careers as what might be considered businessmen working in the shifting sands of Russia's post-Communist economy, Kalmykiya's Ilyumzhinov and Nenets Autonomous Okrug's Vladimir Butov. Both of these leaders, however, have reputations as rather unscrupulous managers and certainly would not be considered worthy examples of successful capitalism. After making a fortune as the head of a trading company, Ilyumzhinov has brought lots of money to his region by setting up a free economic zone, which allows companies to avoid taxes in other regions by registering there. He is considered one of Russia's most eccentric governors. The Nenets regional legislature has accused Butov of using his position to favor his own companies. He is also locked in a on-going struggle with LUKoil, Russia's largest oil company, which would like to develop the region's resources itself.

Nine of the governors made careers as professional economists or urban managers, while four come from a legal background. One was a diplomat and one worked as a journalist.

Since Yeltsin authorized all regions to elect their governors in 1996, there has been enormous turnover among the country's cadre of regional executives. At the beginning of 2000, 52 governors (58 percent) were serving their first term and had been in office less than four years. Many of them face reelection campaigns in 2000. In the future, turnover might not be as quick as the Russian Duma adopted a law in October 1999 allowing governors to serve five-year terms, but no more than two in a row. Most incumbent governors were elected for four-year terms. Sixteen (18 percent) governors have been in office between five and eight years.

Twenty-one governors (24 percent) have ruled their regions for more than eight years, with the longest incumbents serving in office continually since 1989. Leaders like Tatarstan's Shaimiev or Komi's Yurii Spiridonov headed up their region's CPSU organization and have managed to hang on to power since then through two sets of elections. Since the new law regulating the terms of the governors does not fully come into effect until the fall of 2001, many of these executives may be able to secure a third term before being forced from office.

Several governors have more executive experience than this listing suggests. Karbardino-Balkariya's Valerii Kokov resigned as CPSU republican first secretary after democratic activists criticized him for supporting the 1991 coup. He was quickly elected to the presidency, however. Dzasokhov and Stroev had served as first party secretaries in their regions in the 1980s before moving to national jobs. Other governors had initially been appointed and then fired by Yeltsin in the early 1990s, including Bryansk's Yurii Lodkin and Sverdlovsk's Eduard Rossel. Former Novosibirsk Governor Vitalii Mukha, who lost a 1999 reelection bid, also fell into this category. Tambov Governor Oleg Betin served as a Yeltsin appointee from March to December 1995, but then lost a campaign to hold the office through popular elections. Four years later he came back to win office by defeating Aleksandr Ryabov in a rematch of the 1995 race. - Robert Orttung

## **INTERREGIONAL ASSOCIATIONS**

**PUTIN ATTENDS SIBERIAN ACCORD MEETING.** Acting President Vladimir Putin attended the 33rd meeting of the Siberian Accord Interregional Association, which brings together 19 Siberian regions, on 18 February in Irkutsk. This year the association marked its

tenth anniversary. Its membership is extremely diverse, including big and small regions, that range from the economically depressed to relatively well developed and prosperous.

In his address to the regional leaders, Putin charged that Siberian industry was not growing quickly enough. He described last year's growth of 6 percent as "extremely modest." Putin was also critical that despite the region's enormously wealthy forestry resources, the population often lived in conditions much worse than elsewhere in the country. Putin said that he counted on the governors' support for his policies in strengthening the tax system, addressing pressing social issues, and perfecting state institutions.

With the outcome of the presidential campaign all but decided, economic issues were at the top of the agenda. Fuel and Energy Minister Viktor Kalyuzhnyi was extremely critical of the energy situation in the region. "We should be working to supply electricity to China. Instead there is an incomprehensible battle taking place around Irkutskenergo, property is being divided up, and stock passed around," he said. Irkutskenergo is not part of the Unified Energy System monopoly and the federal government is now trying to take control of a 40 percent stake held by the oblast government (see *EWI Russian Regional Report*, 16 February). Kalyuzhnyi said that it was important to push ahead with the Chinese negotiations and that the government would do so shortly. Irkutsk Governor Boris Govorin replied that several years ago, Russia and China had negotiated an accord to build a 600 kilovolt bridge from Bratsk to Beijing. However, now China does not need that much energy and is not interested in moving ahead with the project in its current form.

Putin and Govorin discussed the Sukhoi Log gold deposit for more than an hour behind closed doors. Govorin noted that developing the site would cost \$1.5 to 2 billion and that it would not produce a profit for 8-10 years because of the low concentration of gold in the ore. As a result, it will be difficult to find a company willing to invest. To date the federal and Irkutsk governments are still trying to define the conditions under which companies will be able to work the site. Both Putin and Govorin want to move ahead because they believe that the project will create 20,000 new jobs.

Putin said that the percentage of unprofitable forestry enterprises was much higher in Siberia than in the rest of the country. He particularly stressed the need to export processed wood rather than raw timber. The acting president said that he backed the creation of large companies to do this and that he would work on signing an agreement with China to expand the markets for Siberian timber. Head of the Federal Forestry Service Valerii Shubin noted that while forestry production went up last year across Russia, only 19 percent of the potential wood-cutting area is being used in Russia, and only 12 percent in Siberia. The state is losing money on its forests in Siberia. In 1999, Siberian regions paid 390 million rubles into the forestry fund, while the government spend 649 million rubles on forestry activities in the region during the same period. Shubin noted that the problem was low levels of production and the low price for the wood.

Among the Siberian forestry industry's other problems is the dramatic jump in illegal cutting, with unlicensed output doubling between 1995 and 1999. Harmful insect infestations are a major problem in Altai, Buryatiya, and Irkutsk. Federal funds to fight fires and regional funds for replanting forest lands are insufficient. The federal government is far behind on payments to

the Siberian regions for the fires that burned during 1999, but promises to cover all debts by March.

Irkutsk officials pointed out that the forestry industry's existing plant is only being utilized at about 50 percent capacity. The main problem is a lack of timber, much of which is being exported without processing. Among various measures recommended was lowering tariffs on the import of forestry equipment not produced in Russia, and increased tariffs on the export of unprocessed timber.

Putin stressed the need to strengthen Russian forces on the border with Mongolia, which is an important trading partner for Irkutsk. Putin noted that the Mongolian legislature was planning on taking action against cattle thieves that cross into the country from Russia. Putin said that Russia should seek to maintain good relations with its friendly neighbor.

The members of the group agreed to conduct a Baikal Economic Forum in Irkutsk in September 2000. The conference will seek to define the role of Siberia and the Far East in terms of domestic and international economic integration in the twenty first century, focusing on energy issues, international transportation corridors, environmental problems associated with Lake Baikal, and social issues.

Neither Kemerovo Governor Aman Tuleev, who is running for the presidency, nor Krasnoyarsk Krai Governor Aleksandr Lebed attended the meeting. According to Irkutsk's Governor, since Lebed is not currently seeking the country's top office, he is not interested in signing an accord between Krasnoyarsk Krai and Irkutsk Oblast. The text is already prepared and only awaits the signatures. In contrast, Omsk Governor Leonid Polezhaev expressed a strong interest in signing an accord with Irkutsk during the meeting, Governor said. - Teleinform in Irkutsk

**OMSK GOVERNOR PUSHES FOR CHANGES IN PRIVATIZATION.** At the Siberian Accord meeting in Irkutsk on 18 February, Omsk Governor Leonid Polezhaev raised the issue of the further privatization of state enterprises. This largely economic question has extremely important social consequences because often the new owners of enterprises restructure their acquisitions by sharply cutting the number of employees. Polezhaev called for changing the state plans to continue privatizing enterprises, warning that moving quickly would be dangerous in many ways. He suggested that each region create a list of federally-owned enterprises which make goods or provide services that are strategically important for the social and economic well being of the region. He further suggested that these enterprises be transferred to the management or ownership of the region. He believes that such a transfer of shares would increase the state influence over regionally important enterprises and improve the effectiveness of using the state's resources while stabilizing regional economies. (Omsk TV Channel 12, 18 February) - Marina Chukhlomina in Omsk

**PUTIN SKIPS GREATER URAL ASSOCIATION MEETING.** Although he attended the meeting of the Siberian Accord Interregional Association in Irkutsk on 18 February, Acting President Vladimir Putin did not attend the 17 February meeting of the Greater Ural Interregional Association in Udmurtiya's capital Izhevsk. Sverdlovsk Governor Eduard Rossel chaired the meeting and Deputy Prime Minister Ilya Klebanov, who handles defense industry

issues in the government, sat in for Putin. The main issues on the agenda were the economic situation of the region, the military-industrial complex, and energy policy. Just as the Siberian Accord announced plans for a major conference later this year, the Greater Ural Association also agreed to host the fourth annual Russian Economic Forum in Yekaterinburg in May.

The most popular reason for Putin's absence circulating in the halls during the meeting was the acting president's disapproval of Udmurtiya leader Aleksandr Volkov, who strongly supported Moscow Mayor Yurii Luzhkov's Otechestvo in the December 1999 State Duma elections. Another theory suggested that Putin felt secure that he already had the support of the Ural governors, and was more concerned about firming up less solid support in Siberia.

Many of the regional participants complained about the 60 federal agencies working on their territory. The federal government pays for the salaries of these employees while regional administration must take care of office space and other expenses.

In his presentation on the military-industrial complex, Chairman of the Udmurtiya Government Nikolai Ganza made clear that despite all the good things the current cabinet has done for the defense industry, such as increasing orders for military equipment and increasing the amount of weapons Russia exports, the state debt to weapons producers continues to grow. Currently the debt totals 2.8 billion rubles. In response, Klebanov announced that Putin had signed a decree ordering the repayment of all state debts by 1 April. Klebanov predicted that this year would be successful for defense enterprises because weapons exports should reach 4.3 billion rubles.

The participants noted other problems in the state's performance of its duties in regard to the defense industry. The federal government has not fully implemented its conversion program nor has it defined a state order this year for all enterprises in the sector. Ganza said completing the conversion program in Udmurtiya, where the defense industry accounts for 60 percent of the economy, requires \$900 million, \$800 million of which should come from the federal budget. So far the state has only provided \$87 million while the Germans contributed a \$100 million credit. In other words, the enterprises that have switched to civilian production have largely done so using their own resources.

The interregional association called on Putin to set up a new ministry to look after the interests of the defense sector and to prepare a state order for the country's defense plants. Chelyabinsk Deputy Governor Sergei Utkin called on the federal government to pay its defense orders on time. Tyumen Deputy Governor Nikolai Belousov demanded that the federal government open all of the region's closed cities, which simply provide unscrupulous businessmen an opportunity to avoid paying some taxes.

The regional leaders almost unanimously expressed concern about the electricity situation in their region and the plans to reform the monopolist electrical utility, Unified Energy System (EES). Current plans call for dividing the company into electricity generators and a distribution network and further commercializing the firm. The regional leaders fear that the main result will be higher electricity prices. The regional leaders suggested rethinking the restructuring plans to make EES responsible for Russia's electricity security.

Vyacheslav Sinyugin, an EES official present at the meeting, said only that reform of the utility was still in an early stage. Recently a list of potential generating companies and a list of 10 regional energos which will be privatized were confirmed. He said it was necessary to define the

responsibilities of the federal government, EES, and the regional governments. Rossel thanked Sinyugin for these comments, noting that EES often talked about cooperation, but effectively "went for the throat" of regional governments.

Sverdlovsk Oblast Deputy Prime Minister Nikolai Danilov described the energy situation in the Urals as a crisis. The electricity generators cannot pay for the fuel they consume because their customers do not pay them. The electricity utilities are acting essentially as a buffer in the Russian economy because they provide effective subsidies through the non-payments of their customers. - Andrei Bystrov in Izhevsk

## **ELECTIONS 2000**

**PUTIN COURTS PATRIOTIC POPULACE IN VOLGOGRAD.** Acting President Vladimir Putin took a short trip to Volgograd on 22 February. He was probably following the example set by predecessor Boris Yeltsin who traveled down the Volga on 9 May 1996, a month before his election. Like the visit of the first Russian president, this current visit coincided with a patriotic date--the eve of Russia's Veterans' Day. Putin visited the Stalingrad memorial at the Mamaevo burial ground as well as two Volgograd hospitals--the veterans' hospital and the garrison hospital where soldiers and officers wounded in Chechnya are being treated.

Putin, who is actively playing on the electoral field of the "patriotic" opposition, has taken away another symbol from the leftist leaders. In the beginning of the 1990's many of the "irreconcilable opposition" gathered in Volgograd to fight against reforms. At the time there were calls to "wage a second Stalingrad against the reformers." In 1996 Yeltsin and Communist Party Leader Gennadii Zyuganov nearly collided in Volgograd, but this year Zyuganov did not visit the city.

Volgograd was already expecting Putin on 2 February, which marked the anniversary of the end of the battle of Stalingrad. However, only State Duma Deputy and former Vice-Governor Vasilii Galushkin invited the acting president, who was waiting for an official invitation from the governor. Such an invitation eventually arrived and legitimized Putin's visit.

Volgograd Governor Nikolai Maksyuta cannot forget that Yeltsin's visit to the region may have helped him become president, but it did not help then Governor Ivan Shabunin win election in the region. It is unclear how the Volgograd Communists responded to Putin's visit. However, good relations with the likely victor of the presidential race could help win the support of Communists activists for the governor, who is not the most loyal of Communists. - Ivan Kurilla in Volgograd

## **REGIONAL BUDGETS 2000**

**SVERDLOVSK OBLAST ADOPTS DEFICIT BUDGET, IMPROVES TRANSPARENCY.** The Sverdlovsk Oblast Duma finally adopted a budget for 2000. The approved budget calls for 11,079,463 rubles in income and 11,635,436 rubles in expenditures, leaving a 5 percent deficit. This is an improvement over the 1999 budget deficit of 24 percent.

Thanks to the efforts of the opposition factions, formerly off-budget road and ecological funds are now included in the budget. Previously, the oblast legislature did not have control of these funds and their expenditures.

The budget includes a number of guaranteed budget lines, including paying public sector employees, the purchase of food and medicine supplies, subsidies for communal services, and subsidies for heat, among others. A sum of 520 million rubles was allocated for paying children's benefits, 59 million rubles for free food for children, and 207 million rubles for free medicine.

The conciliatory committee for preparing the budget law appealed to Acting President Vladimir Putin to index public sector salaries by 20 percent beginning on 1 April. According to the committee, indexing salaries is desirable since it will not be at the expense of regional budgets, but rather the federal treasury or a new law that will generate the financing. - *Biznes novosti urala*

## **SOCIAL ISSUES**

**WAGE ARREARS STILL A POLITICAL TOPIC IN OMSK.** Omsk Governor Leonid Polezhaev and First Deputy Governor Andrei Golushko traveled to Moscow for negotiations with the federal government regarding salary payments to public sector workers in Omsk city. To protest the extreme wage delays, Omsk teachers began striking on 11 February and plan to continue their strike until all salary debts have been paid out (see *EWI Russian Regional Report*, 9 February). The strike has left 40,000 Omsk schoolchildren without classes. The teachers' collective sent a telegram to Acting President Vladimir Putin describing the critical situation regarding wage arrears to teachers. The Omsk delegation met with the Ministry of Finance and the Pension Fund of Russia. Polezhaev also met with Putin and First Deputy Prime Minister Mikhail Kasyanov.

Upon returning from Moscow Golushko assured the strikers that the money necessary for paying out the teachers' salaries should arrive in the oblast in the next 10 days. However, Polezhaev announced that he would distribute the aid to the teachers only after the city government signs an agreement committing it to explain how it spends money and transferring the power to pay teachers to the oblast government. The governor emphasized that the problem with public sector salary delays in Omsk is not economic or financial, but political in nature. Polezhaev contends that the Omsk city leadership has created this crisis situation to help promote the Communist Party in the upcoming presidential elections.

Golushko believes that the solution to the problem is to pay public sector wages to in Omsk through a consolidated budget. He stated, "We agreed with the federal government that now we will prepare all the information regarding our proposals for consolidating budget power at the oblast level and send it to the government. Deputy Prime Minister Valentina Matvienko will visit Omsk to study the situation on the ground. It may be necessary to include the government to set up a normal procedure for the payment of salaries since the present one-time decision to pay wage arrears to teachers will not solve the underlying problems. Such situations will arise again and there is not yet a mechanism in place for paying all public sector employees." - Marina Chukhlomina in Omsk

**UNEMPLOYMENT REMAINS CRITICAL IN SARANSK.** The Saransk labor market is in a particularly difficult situation. Of the job openings listed, 90 percent require the kind of physical labor usually performed by a man, while 80 percent of those seeking help from the employment center are women. The number of unemployed in Mordoviya's capital is 15,000, 7,000 of whom are paid by the city employment center. Among the employers who regularly place ads for job openings are companies like Tsentrolit (metallurgical production), Lisma (technology products), and social institutions such as hospitals and schools.

Unemployment has a woman's face, according to Mordoviya Minister of Labor and Employment Lyudmila Ivanova. But the jobs available mostly entail hard physical labor, inconvenient working hours, and low salaries. Nearly 600 of those who have registered at the Saransk labor bureau are not paid benefits because they have rejected job offers.

According to Ivanova, at present the only organization announcing any vacancies at the employment center is the municipal service for housing and communal management. The organization is looking to hire more than 750 people. However, the low qualifications and pay of the work (mostly openings for yardmen, *dvorniki*) do not attract the attention of the official unemployed, many of whom have higher or specialized education. To fill these positions the municipal service for housing and communal management has already held negotiations with organizations in Armenia on supplying a work force to Mordoviya. Temporary housing for the workers has already been arranged.

The republic's current population is 934,000. According to Goskomstat, by 2007 it will decrease to 888,000. The population decline is not only due to the fact that the republic's mortality rate is higher than the birth rate, but also to out-migration, which is characteristic of the region overall. People are leaving Mordoviya in search of better lives, wishing for a suitable existence, which they have unfortunately been unable to find in their homeland.

Ivanova claimed that neither her ministry nor the city employment center is prepared to provide suitable, well-paid work for all of those who need it. In fall 1999 the employment center concluded a special agreement with several of its counterparts in Moscow to send workers from Mordoviya for agricultural work in Moscow Oblast. Specialists at the employment center explain that this accord was justified since work in Mordoviya's agricultural sector is low-paying, while Moscow and Moscow Oblast are known for their high salaries. - Igor Telin in Saransk

## **REGIONAL LEADERSHIP**

**FORMER PETERSBURG MAYOR SOBCHAK DIES.** Former St. Petersburg Mayor Anatolii Sobchak (<http://www.sobchak.ru/>), 63, died of a heart attack in Svetlogorsk (Kaliningrad Oblast) on 20 February. Sobchak had arrived in Kaliningrad on 17 February on a working visit to Governor Leonid Gorbenko as part of Acting President Vladimir Putin's campaign team.

Sobchak spent most of his early career as the head of the department on economic law at the Leningrad State University law school (for a detailed biography, see <http://www.nns.ru/person/sobchak> and <http://www.ancentr.ru/person/142002.htm>). In 1989, he

was elected a member of the USSR Congress of People's Deputies where his articulate speeches quickly made him one of the leaders during the time of "democratic romanticism." In May 1990, he was elected the chairman of the Leningrad Soviet and on 12 June 1991, Leningrad voters chose him as the city's first popularly elected mayor. During this period, Sobchak was ubiquitous in the city media and played an enormous role in defeating the Communist Party in the city. He was particularly effective in preventing the hard-liners from using force in the dramatic days of the August 1991 coup attempt. He was less well suited to running the city and plans to turn St. Petersburg into Russia's financial capital did not work out. Moreover, he was unable to get along with the city council and business was bogged down by acrimonious in-fighting. Often he seemed to spend more time abroad courting investors than at home. During this time, Putin rose to be one of his key aides. Sobchak lost his bid for a second term in a bitterly fought contest against another former deputy, Vladimir Yakovlev. Sobchak had made several enemies in high places, and once he was out of office, the Russian General Procurator began investigating corruption charges among a number of the former mayor's staff. On 13 September 1997, the procurator charged Sobchak with taking bribes and abusing his office.

Sobchak had heart trouble while he was being questioned and was taken to a hospital on 3 October 1997. On 7 November he flew to France to continue treatment and remained there until 12 July 1999. In Paris he lectured in various universities, published more than 30 articles, and wrote two books, including *A Dozen Knives in the Back* ([http://www.vagrius.com/html/books/na/sobch\\_01.htm](http://www.vagrius.com/html/books/na/sobch_01.htm)). Putin's rise through the federal hierarchy opened the way for Sobchak to return to St. Petersburg in the summer of 1999 and the quick dismissal of the criminal charges against him.

Upon returning to Russia, Sobchak again sought power, competing for a State Duma seat. He ran in District 211 with the support of Soyuz pravyykh sil and Yedinstvo, but lost by 2 percent to incumbent Petr Shelishch (Yabloko). With Putin's rise to the presidency, rumors began to circulate that he would be appointed to an important position or that he would run in the city's gubernatorial elections, which are set for 14 May 2000. After being named a member of Putin's campaign team on 14 February, he began giving a large number of interviews in which he tried to convince Western readers, who were long familiar with Sobchak's career, that Putin had broken his ties with the KGB, held right-wing liberal views, and represented a new generation that was not tied to the old nomenklatura (see, for example, *International Herald Tribune*, 22 February).

Even Sobchak's burial caused a political scandal in the city. Sobchak's wife, former Duma member Lyudmila Narusova demanded that Governor Vladimir Yakovlev not attend (<http://www.lenta.rurussia/2000/02/22/narusova>), but Yakovlev rejected this statement claiming that it was just a reflection of the widow's "depression, brought on by her enormous grief" (NTV, 23 February). - Daniil Tsygankov in St. Petersburg

## **REGIONAL RESOURCES**



**Carnegie NGO Study** - The Working Paper "Democratic Assistance and NGO Strategies in Post-Communist Societies" prepared by Sarah E. Mendelson and John K. Glenn is now available on the web at: [www.ceip.org/programs/democr/NGOs/index.html](http://www.ceip.org/programs/democr/NGOs/index.html)

**Bibliography of Regional Articles** - The Russian presidential administration's library maintains an online bibliography of articles published about the Russian regions (and many other topics) at: <http://www.maindir.gov.ru/lib/bultem.htm>

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## **EXECUTIVE SUMMARY**

Since the end of the Cold War, Eastern Europe and Eurasia have been host to a virtual army of Western non-governmental organizations (NGOs) - from the United States, Britain, Germany, and elsewhere in Europe - all working on various aspects of institutional development, such as helping to establish competitive political parties and elections, independent media, and civic advocacy groups, as well as trying to reduce ethnic conflict. Little is *known* - although much good and bad is *believed* - about the impact of this assistance, carried out on a transnational level in cooperation with local political and social activists. This study, based at Columbia University, was designed to address this gap.

Funded by the Carnegie Corporation, the project involved seventeen investigators with social science and regional expertise who followed a common research design for sixteen case studies in twelve countries. Many of the participants had worked in or previously evaluated democracy assistance projects. The case studies they examined included: political parties and elections in Russia, Ukraine, the Czech Republic, and Slovakia; independent media in Russia, Ukraine, the Czech Republic, and Slovakia; women's NGOs in Russia, Poland, and Hungary; environmental NGOs in Russia and Kazakhstan; civic education NGOs in Romania, Uzbekistan and Kyrgyzstan; and efforts at reducing ethnic conflict in Bosnia, Estonia, and the states home to the ethnic Hungarian and Roma diasporas.

To assess the impact of Western NGO strategies, investigators interviewed both Western NGO and local activists, as well as activists who had not received direct

outside assistance. The investigators compared developments in a specific sector, such as political parties, in the late 1990s with what the sector looked like when the communist regime in the country fell out of power. Case selection included regions that are strategically important, such as Russia, as well as parts of Central Europe that are widely viewed as successfully democratizing. The cases also address the types of institutions - parties and elections, media and civic advocacy groups - that are commonly thought to be integral to democratic states and which received considerable attention from Western NGOs. Research for the project was carried out in 1997 and 1998.

The study finds that the impact of the strategies used by Western NGOs on developments in specific sectors in these regions has been *mixed*. With relatively small amounts of money, these NGOs have played a large and important role in many formerly communist states helping to *design and build* institutions associated with democratic states. They have done little as yet to affect how these institutions actually *function*.

Political parties, regular elections, independent media, and local NGOs are all now part of the political landscape in many states across East/Central Europe and Eurasia, and their links with foreign groups are robust. In Russia and Ukraine, Western NGOs have had an impressive impact in presenting practical menus of problem-solving skills for elections (such as how to use research in designing a campaign). In the Czech Republic, Slovakia and Russia, foreign assistance has helped launch self-sustaining media organizations and support the creation of local commercially independent television stations. In Poland, Hungary and Russia, Western groups have been central to forming networks of women's organizations.

In every case examined, however, these very institutions function poorly with weak links to their own societies. For example, in Russia and Ukraine, Western NGOs have influenced the electoral activities of new political parties and the organization of media watch groups, but they have done little to help make parties responsive to constituents or major media outlets in any way independent from the narrow political interests of owners. In Poland, Hungary and Russia, women's groups have mushroomed at the same time they have grown increasingly "ghettoized" - closer to their transnational partners than the constituents they are meant to represent or the governments they claim to be influencing. In terms of ethnic conflict, Western NGOs have been limited at best in their ability to affect conditions inside states with high amounts of strife, especially when they fail to coordinate with governmental and international organizations.

Historical legacies left by decades of communist rule account in part for the poor functioning of these institutions, but this study finds that these results are also, in part, a consequence of Western NGOs strategies. Western groups have tended to rely on practitioners with little knowledge of the region (social activists from the American

Midwest, parliamentary staffers from Europe, political campaigners from Britain) to implement strategies - *blueprints* for building democratic institutions - developed in Western capitals. These technicians are poorly prepared for anticipating how their recommendations are likely to be received by local activists given historical legacy. In short, the political culture of different local organizations determines how they have responded to Western assistance.

The study's recommendations - that Western NGO strategies be driven more by local context and that funders create incentives for NGOs to do so - point to policy choices: adjust NGO strategies and increase funding for democracy assistance or stay home. Business as usual will support the development of institutions that are not sustainable. Donors should let Western NGOs do their job, but they can also help them be more responsive to the conditions in which they are working. An important way to do this is to provide adequate funding to hire regional and local experts *as well* as practitioners.

The introduction to this report lays out the method of evaluation. The report then summarizes the findings of the sixteen cases and draws general lessons about how ideas and practices diffuse and under what conditions. After a synopsis of the cases, the final section of the report makes a series of recommendations geared toward donors and NGOs working in these regions on issues relating to democratization and the reduction of ethnic conflict.

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## **BREAKING NEWS**

### **POLITICS**

**GOVERNORS CALL FOR RESTRUCTURING RUSSIAN POLITICAL INSTITUTIONS.** In an open letter to Acting President Vladimir Putin, Novgorod Governor Mikhail Prusak, Belgorod Governor Yevgenii Savchenko and Kurgan Governor Oleg Bogolmolov suggested reforming Russia's political institutions. Prusak is apparently the driving force behind the letter.

First the governors would radically reduce the power of local governments by letting governors appoint mayors with the agreement of a vaguely-defined Council of Representatives, which would include deputies from the region's legislatures, a variety of social organizations including trade unions, businesses, veterans' groups and others, political party activists, and members of workers' collectives.

The governors also suggested that the president should have the ability to appoint and remove governors with the agreement of a representative assembly formed according to similar principles as at the local level. The functions of the presidential representative in the region would be transferred to the governors and the post of representative would

be abolished. The governor and chairman of the regional legislature would no longer serve as their region's two members of the Federation Council.

In reforming the federal parliament, the governors suggest either turning it into a unicameral legislature elected strictly from single-member districts, with a State Council that would be made up of the governors and legislative chairmen as well as presidential appointments, or a bicameral legislature in which the lower house is elected strictly from single-member districts and the upper house contains one representative from each region.

The president would be elected for seven years either directly or through a chamber of representatives. The president would nominate a prime minister with the agreement of the Duma and the power ministers independently. The prime minister would appoint the other ministers. All deputy ministers but one would be eliminated.

In reforming the country, the republics would not be touched at first. Then, at an undefined later date, the entire country would be reformed with the goal of enlarging the units to increase economic efficiency and optimize management. Absolutely no details are given as to what the new structure would look like and how the three governors would entice republican presidents to accept their changes. The republics have more power than the oblasts now and oppose any attempts to reduce these privileges.

These proposals clearly strike at what the governors hate most, interference from mayors who disagree with them and presidential representatives who monitor them. The governors hope to get rid of mayors and representatives by allowing the Kremlin to appoint the governors. The governors who suggest this idea clearly assume that they would be reappointed by Putin and therefore would not lose any of their power. However, the proposals are extremely vague and would be difficult to implement in practice. Russia's current system of direct elections for governors and mayors is obviously more democratic, while the proposed system has strong authoritarian overtones. Putin has much more subtle means to improve his control over the Russian Federation and likely will not resort to these sorts of ideas, which smack of Gorbachev-style quasi-reform.

**YEDINSTVO HOLDS PARTY CONGRESS.** The pro-Kremlin Yedinstvo movement held its founding congress on 27 February bringing together 1,155 delegates from 88 regions. Minister of Emergency Situations Sergei Shoigu was unanimously elected as the movement's leader. *Nezavisimaya Gazeta* reported on 29 February that there were many skeptics among the well-wishers at the congress. Kaliningrad Oblast Governor Leonid Gorbenko announced that he was cutting his ties to the movement even though he had been one of the first governors to support it. Acting President Vladimir Putin's message to the congress expressed concern that the new party of power not become a party of officials since there is a great danger of it turning into a bureaucratic movement in the regions. Regional executives attending the event included Chukotka Governor Aleksandr Nazarov, Omsk Governor Leonid Polezhaev, Penza Governor Vasiliy Bochkarev, St. Petersburg Governor Vladimir Yakovlev, and Tyumen Governor Leonid Roketskii.

**YAROSLAVL OTECHESTVO BACKS PUTIN.** The Yaroslavl regional branch of Moscow Mayor Yurii Luzhkov's Otechestvo movement used Luzhkov's permission to choose the candidate it will support in the upcoming presidential election to back Acting President Vladimir Putin. The regional Otechestvo branch, at the initiative of Yaroslavl

Governor Anatolii Lisitsyn, prepared an appeal to the people to vote for Putin, which states that "many of Otechestvo's program directives coincide with the political aspirations of Acting President Vladimir Putin." The appeal claims that Otechestvo is ready to enter into a long-term, constructive cooperation with Putin. In addition to Lisitsyn and Otechestvo members, the heads of several prominent regional enterprises, the mayor of Uglich, and other authoritative figures in the oblast signed the appeal as well. (*Nezavisimaya Gazeta*, 23 February)

## **ECONOMICS**

**NOVOSIBIRSK CONSTRUCTION FIRMS UNITE.** Twenty-seven construction companies in Novosibirsk have formed an association whose primary aim is to force local authorities to share in the expense of building residences. Novosibirsk's construction sector has been in deplorable conditions in recent years. It has become more difficult to acquire and pay for building materials, as well as to find lots in areas that are both appropriate and profitable for building homes. Material costs have doubled since the August 1998 financial crisis, and no one can afford to purchase the new apartments. This situation makes building homes unprofitable. Regional construction companies believe that the only way to save their sector is for the city and oblast administrations to share in a part of their expenses. A similar scheme has been in operation in Moscow. The united construction firms plan to legally register their alliance, which will make them the first construction association in Western Siberia (*Kommersant Daily*, 29 February). The *Financial Times* reported on 28 February that a recent World Bank/EBRD study found that only 16 percent of Russian companies belonged to a trade association in comparison with 77 percent in Hungary and 91 percent in Turkey.

## **CENTER-PERIPHERY RELATIONS**

**KREMLIN HAS MANY TOOLS TO KEEP EVEN ELECTED GOVERNORS IN LINE.** Despite the enormous amount of decentratlization in Russian politics since 1991, symbolized most importantly by the election of governors by local constituents rather than direct appointment by the president, the governors' relationship with Moscow remains extremely important. The Russian president has an extensive set of tools he can use to keep the regions in line. Of course, the power of the president depends on how successfully he employs these tools. The governors have their own arsenal and we will explore their powers in a subsequent article. The following list roughly groups the president's implements in the order of their usefulness, starting with the most useful and proceeding to the least useful.

Perhaps the most important tool is psychological. Yeltsin came to power, in part, by telling the regions to take as much sovereignty as they could swallow. Putin, in contrast, built his political career on his campaign to prevent Chechnya from winning independence. The difference in the way the governors perceive the intentions of the two presidents and their estimation of the presidents' ability to impose their will is quite substantial. From the beginning of his rule until 1996, Yeltsin seemed to spread federal largesse on the regions that complained the loudest or had the most economic resources to deploy against the Kremlin. Regions, therefore, had an interest in expressing their

autonomy. Since the 1996 presidential election, the Kremlin has apparently focused its resources on regions that are politically loyal. Judging by Putin's campaign tactics, he seems much more interested in rewarding his allies than appeasing opponents. The governors have taken note.

A second tool the Kremlin can exploit to maintain strong authority over the regions is the numerous divisions among the regions themselves. The regions are clearly divided along several cleavages. Russia's main revenue producing resources, such as oil or proximity to Moscow or other major urban areas, are disproportionately distributed among regions. Many of the rich regions often are resentful that they have to carry a larger load in supporting the federal budget than the poorer regions. Regions are also divided on the basis of the privileges assigned them in the constitution, with the republics benefiting from more advantages than the oblasts and krajs. So far, the regional elites have failed to organize in any effective and consistent way against the Kremlin.

A third tool of Kremlin control is the ability to offer or deny backing to help governors win reelection. In the runup to the 1999 State Duma elections, for example, First Deputy Presidential Chief of Staff Igor Shabdurasulov barnstormed the country essentially offering the governors whatever they needed to win reelection in exchange for supporting Yedinstvo in the parliamentary elections and Putin in the presidential elections. In particular, the Kremlin can offer media exposure on the important national networks, expertise from Moscow-based political consultants, and financial aid timed to increase popular support for the governor just before the election.

A fourth lever the Kremlin has in its relations with the governors is its control over the appointment of law enforcement personnel in the regions. In Russia the law is applied selectively and the Kremlin can use it to reward loyal governors or punish uppity ones. The federal government controls the appointment of the top officials in the regional police forces (Ministry of Internal Affairs), procurator, and Federal Security Service (FSB). By appointing officials friendly or inimical to the governor, the Kremlin can influence the way the governor behaves. Moreover, if the Kremlin wants to crack down on a specific region, it can work to block regional laws that violate the Russian constitution or federal legislation. In cases where the Kremlin is generally pleased with a local executive's performance, it can ignore inconsistencies between regional and federal legislation.

A fifth form of influence is the distribution of federal funds. This power clearly decreased following the devaluation of the ruble in August 1998, but rose again in 1999 when oil prices were climbing. Since federal budgets are often unrealistic and not all projects listed in the official document are actually funded, the Finance Ministry has wide discretion in determining which regions receive the money designated for them. The federal government can also grant lucrative export-import privileges and tax breaks to specific enterprises that can dramatically help some regions. In 1998, the Kremlin introduced a treasury system in each region to enhance its control over the way taxes are collected and divided between government entities. Additionally, since many regions are in debt, the local manager of Sberbank, which controls the vast majority of the banking systems' assets, can make life easy or hard for governors by restructuring debt loads or demanding immediate payment.

Sixth, the natural monopolies, Unified Energy System (which controls electricity generation and distribution), Gazprom (natural gas extraction and distribution), the

Railroads Ministry, and Transneft (oil distribution pipeline), also have powerful influence over the regions since they set prices for and control access to vital energy supplies or transportation routes. Many regions owe significant sums to these organizations and are therefore beholden to them. By putting pressure on the heads of these concerns, the Kremlin can indirectly ratchet up pressure on the regions.

Seventh, the president has a personal representative in most regions who serves as his eyes and ears. During the Yeltsin era, these representatives did not prove to be very effective when the president tried to use them to ensure regional compliance with federal policy rather than merely monitoring what was going on at the regional level. In 1997 Yeltsin tried to transfer some of Primorskii Krai Governor Nazdratenko's powers to the presidential representative in the region, Viktor Kondratov. Kondratov proved incapable of countering Nazdratenko and the governor eventually won his removal. As acting President, Putin clearly signaled that he intended to use the presidential representatives more actively than Yeltsin had.

Eighth, the federal government has signed treaties with 46 regions, with the most recent being a 16 June 1998 treaty with Moscow City. Yeltsin used the early treaties with Tatarstan and Bashkortostan to offer them strong incentives to remain within the Russian Federation, particularly ceding them control over their natural resources, lucrative tax breaks, and greater control over their relations with foreigners. Some of the treaties give the regions a voice in federal appointments of top law enforcement officers in their regions. According to a law adopted on center-periphery relations in June 1999 (*Parlamentskaya gazeta*, 30 June), all of the existing treaties must be brought within compliance with the Russian Constitution by 2002. These treaties were signed between Yeltsin (or in some cases, the prime minister) and the regional executive, and were never approved by the federal or regional legislatures. Often, key provisions in the treaty were not published. It remains unclear what the practical effect of the new law will be since the constitution suffers from a number of internal contradictions. On one hand, it asserts that all regions should be treated equally, while other sections clearly favor some regions over others. The Russian president could use the new law to radically restructure the relationship between the federal government and the regions, a concern that was palpable in Tatarstan at the beginning of 2000, because the republic's leader had mistakenly backed Luzhkov over Putin in the December 1999 Duma elections. All new treaties, if any new ones are signed, must now be approved by the relevant regional legislature and the Federation Council.

Ninth, the president could reassert his right to appoint some or all regional executives. Prime Minister Yevgenii Primakov famously floated this idea in February 1999. Putin seemed to rule out such an option in his comments during a meeting with the Siberian Accord Interregional Association in February 2000. In any case, implementing such an idea necessitates changing the constitution whose Article 11 requires the regions themselves to define how they choose their leadership. Additionally, electing executives was a key part of federal law on regional political institutions adopted in October 1999 (*Rossiiskaya gazeta*, 19 October 1999). The Federation Council strongly opposed Yeltsin's attempt to remove Nazdratenko in 1997, sensing that the membership's collective power was at stake and any future attempts to reimpose such direct federal control over regional executives is likely to meet with staunch resistance from the governors.

Even if the president cannot appoint governors, they can be removed from office in a number of ways. If the courts convict a governor of a crime, he loses his position. Additionally, if a governor carries out an illegal act (as determined by a court), the legislature can remove him with a two-thirds vote if he does not reverse his decision within one month. Unfortunately, the law does not define the magnitude of a crime that would require removal from office, nor does it set up a mechanism for removing the governor once he is convicted or impeached. Even if a governor were removed from office, new elections would be held in six months and there is no guarantee that the Kremlin would be any happier with the new governor than the old one.

A variation on this theme is that the federal government could take action to restructure the Russian Federation, reducing the number of units from the current 89 to a smaller figure ranging from 10 to 35. When he was still a contender for the Russian presidency, Moscow Mayor Yurii Luzhkov proposed such an idea, and Kemerovo Governor Aman Tuleev resurrected it during the presidential campaign in February 2000. Preparing the kind of wide spread agreement required to carry out such a change in the federal structure would be extremely difficult so this scenario also seems unlikely.

Finally, the October 1999 law on regional political institutions sets limits on the governors' terms of no more than two five-year terms in a row. This law does not go into effect until October 2001 after many of the authoritarian leaders currently in power will have presumably won a third term, but it will encourage greater turnover among regional leaders in the future. Now that Yeltsin has voluntarily stepped down after two terms, his precedent may create more pressure for regional leaders to also end their tenure after two terms (or at least after a grandfathered third term).

In short, the president has a powerful arsenal that he can use to keep the governors in line. Even though they are elected by their constituents, the governors must maintain good relations with the Kremlin in order to assure that these weapons are not used against them. They also must maintain good ties with the Kremlin so that they can secure federal backing for their own initiatives and simply to conduct day-to-day business. Of course, having good relations with the Kremlin can help them secure preferential treatment, which will always make their lives easier. Under President Yeltsin, Sverdlovsk Governor Eduard Rossel discovered that it was possible to build a powerful political base in his home region by pursuing an antagonistic policy toward the Kremlin. He also discovered, however, that having an enemy in the Kremlin made it difficult to get things done. Thus, it is no surprise that once Yeltsin stepped down, Rossel announced that he would work hard to build a good relationship with Putin, a position adopted almost unanimously by the governors. - Robert Ortung

**IRKUTSK LEGISLATURE QUESTIONS GOVERNOR'S CONTROL OF IRKUTSKENERGO.** The Irkutsk Legislative Assembly held an extraordinary session on 29 February to examine the governor's handling of the oblast's 40 percent stake in Irkutskenergo. The local electricity utility is the only one in Russia that is not a part of the Unified Energy System (see *EWI Russian Regional Report*, 16 February). The federal government is trying to take control of the 40 percent stake from Irkutsk. To prevent such an outcome, the governor has handed management of a 20 percent stake over to the East Siberian Financial Industrial Group in trust, while retaining formal ownership rights.

The "energy lobby" in the oblast legislature, led by Deputy Yurii Faleichik, charged that handing management of the 20 percent stake over to the financial industrial group is a "form of illegitimate privatization" and therefore demanded that the transfer be annulled. Irkutsk Governor Boris Govorin replied that handing control of the utility to the group was part of his plan to maintain control of the situation at a time when the federal Property Ministry was trying to grab the entire 40 percent stake. Govorin said that by an earlier agreement, the federal government would take a 20 percent stake and the oblast would take a 20 percent stake. Since there was no legal basis for transferring the federal share to Moscow, the oblast kept control of the full 40 percent. Now the federal government is trying to takeover the 40 percent stake. When acting President Vladimir Putin came to the region in February Govorin asked him to start a negotiation process that would lead to the transfer of the 20 percent stake to the federal government.

At the end of the debate the legislature decided to support the governor. It passed a law allowing him to transfer the management of Irkutskenergo to the financial-industrial group. This law will be used as ammunition to prevent the federal Property Ministry from taking control of the 40 percent stake. Deputy Legislative Assembly Speaker Sergei Shishkin said that the oblast needed to be prepared in its battle with the ministry. "Can you agree with a bandit who bursts into your house with a knife in his hands?" As Journalist Galina Solonina noted, now the governor has firmed up his rear by neutralizing his opponents in Irkutsk and is ready to do battle with the federal government. - Teleinform in Irkutsk

## **GOVERNORS ELECTIONS**

**ST. PETERSBURG: SOBCHAK FUNERAL LAUNCHES CAMPAIGN.** At the beginning of February, St. Petersburg set its gubernatorial elections for 14 May, with a run-off (if required) on 28 May. The recent death and burial of former Mayor Anatolii Sobchak marked the informal beginning of the campaign. Practically all of the Moscow-based Petersburgers arrived in the city on the Neva on 24 February for the ceremony and the most influential of them spoke out before the funeral and at the burial in the cemetery. Governor Vladimir Yakovlev did not attend the ceremony after Sobchak's widow Lyudmila Narusova denounced him. Yakovlev, a former Sobchak deputy, had defeated him in the bitter 1996 campaign in which Sobchak sought a second term.

Former Prime Minister Sergei Stepashin made the most widely noted speech when he said, "Sobchak formed the best team in Russia and almost all the members are now in Moscow. The time has come for us Leningraders, Petersburgers to return to our city. I am ready for this." Both Yabloko and Soyuz pravykh sil announced their support for Stepashin even though local leaders of the parties had already committed themselves to supporting State Duma Deputy Grigorii Tomchin. It is not clear if Yurii Boldyrev will join this coalition since his own chances of winning the race are small. Stepashin claims that he has the support of Acting President Vladimir Putin (*Kommersant* 29 February) and said that he will announce his intentions on 2 March. Most likely, however, the Kremlin has not yet decided whom it will support, which would explain why the press is filled with contradictory information.

Among the other Moscow-based Petersburgers, the potential candidates include Deputy Prime Minister Valentina Matvienko, Railroads Minister Nikolai Aksenenko, the

former head of the St. Petersburg and Leningrad Oblast Federal Security Service (FSB) Viktor Cherkosov, and State Duma member Valerii Malyshev (Vsya Rossiya faction).

On the evening of 29 February Matvienko said in an interview with Russian Television that she "did not exclude the possibility" of running for governor. The broadcaster said that she could make a final decision by the end of the week after meeting with Putin.

Aksenenko's ambitions were widely discussed after his former deputy, Oleg Shigaev, who recently took over the Baltic Bank (which is owned by the railroad), accused the Yakovlev administration of not meeting its financial obligations. He said that for three weeks, the bank could not recover a \$5.5 million credit it had made for the construction of St. Petersburg's new hockey stadium (*Kommersant*, 11 February). The city administration considered this move the first blow by the railroads ministry against Yakovlev's most ambitious project, the construction of the hockey stadium, where the world championships will take place on the eve of the first round of the elections (29 April - 14 May). The city had to cover the debt, giving more ammunition to its enemies in Yabloko, who have charged that local taxpayers will take revenge for Yakovlev's economic mistakes.

Rumors that Putin preferred Cherkosov, who is now the FSB's first deputy chairman, have circulated all month. However, as the case of Boris Gromov's election in Moscow Oblast shows, Putin's backing is not enough to elect a governor. The Petersburg Yedinstvo is currently too weak to carry his candidacy. Moreover, in St. Petersburg it is impossible for a man who is thought to have persecuted dissidents to be elected governor (<http://www.apn.ru/lenta/2000/02/24/20000224185413.htm>).

Yakovlev has also tried to ride on Putin's coattails. In January the acting president publicly supported Yakovlev, and on 24 February reaffirmed his support in a personal meeting with the governor, according to Yakovlev. The incumbent governor has actively shown his support for all of Putin's initiatives. At the 27 February congress of Putin's Yedinstvo party in Moscow, Yakovlev offered the resources of his Vsya Rossiya organization and supported the proposal of Governors Mikhail Prusak, Yevgenii Savchenko, and Oleg Bogomolov about lengthening the presidential term to seven years (*Nezavisimaya gazeta*, 25 February).

A Gallup St. Petersburg poll conducted before Sobchak's death (11-15 February), shows that Yakovlev has a strong lead. With an expected turnout of 60 percent, 54 percent would vote for Yakovlev and 14 percent for Stepashin. All other candidates won less than five percent (<http://www.gallup.spb.ru/rus/guber3.htm>).

**SARATOV: AYATSKOV SET TO WIN, COMMUNIST REMOVED FROM RACE.** The Saratov Oblast Electoral Commission has refused to register Communist Party (KPRF) First Secretary Valerii Rashkin as a candidate in the region's 26 March gubernatorial election. Commission Secretary Galina Ananeva said that Rashkin had violated the law on the gubernatorial elections. Rashkin, who won a State Duma seat in the central Saratov district in the December 1999 elections, was the most dangerous opponent for incumbent Governor Dmitrii Ayatskov, who now will face only minimal competition in the race.

According to Gennadii Turuntaev, one of the leaders of Rashkin's campaign, the oblast political leaders are working together with the police to block Rashkin's



participation in the race. He charged that they had used dirty tricks to block Rashkin's registration. For example, he said that in Voskresenskii Raion three or four signature gatherers had arrived from Saratov city with a document allegedly from the Communist Party obkom. The alleged campaigners then began to hand out money and vodka in exchange for signatures. Soon the police showed up and arrested the supposed members of Raskhin's campaign staff and sent the appropriate documents to the electoral commission. KPRF leader Gennadii Zyuganov has sent a letter to the minister of internal affairs about the "lawless" situation in Saratov Oblast, but there was no response.

With Rashkin out of the race, Ayatskov will only face business man Spartak Tonakanian and Devon Company President Igor Karaulov in the election. The "eternal candidate" Tonakanian has never won an elected office, lost badly in the 1999 State Duma campaign, and is not considered a contender. The only thing known about Karaulov is that this is the first time he is participating in an election campaign. In his campaign literature, he stresses his admiration of Kemerovo Oblast Governor Aman Tuleev, lauding his efforts on social policy, fighting corruption, championing the regions, and developing industry.

Most people see him as a "klyuka," a slang expression for a candidate put on the ballot by the likely winner to ensure that the elections will still be valid even if all the real opposition candidates drop out. Russian elections are not valid if there is only one candidate running. In 1996 Agronomist Vitalii Pavlov played this role, ultimately winning only 7,000 votes in a region with more than 1.6 million voters.

In 1996, Ayatskov won 81 percent of the vote, but he is much less popular today. Whatever the final tally, it is clear that Ayatskov will win. - Aleksei Nikolaev in Saratov

## **REGIONAL BUDGETS 2000**

**NEW NOVOSIBIRSK GOVERNOR REJECTS PREVIOUS PRIORITIES.** The Novosibirsk Oblast Soviet adopted the region's budget in its second reading on 24 February. According to the draft budget, expenditures total 5.549 billion rubles, revenue will be 5.388 billion rubles, leaving a deficit of 161.6 million rubles (Finansovo-informatsionnaya sluzhba, 25 February).

The first draft of the budget had been adopted in December under former Governor Vitalii Mukha with a deficit over 500 million rubles. Mukha subsequently lost the gubernatorial elections to Viktor Tolokonskii, the former Novosibirsk mayor, who in January promised to present a new budget that would be more realistic in terms of income and more conservative in terms of expenditures (see *EWI Russian Regional Report*, 12 January).

Now the legislature has seen the new budget. The unrealistic expectations for income remain unchanged. Priorities for expenditures have been shifted but planned overall outlays have not been reduced. Ironically, the budget lines for healthcare and culture, which Tolokonskii had defended so ardently as mayor, received even less funding than they had under his arch-enemy Mukha. Instead of the planned 468.9 million rubles in the first draft of the budget, Tolokonskii included only 387 million. For culture, the figure dropped from 110.1 million rubles from the first draft to 103.9 million in the second. Despite Tolokonskii's promises to cut the fat out of the budget, planned outlays to support the regional and local bureaucracy rose from 136.1 million rubles to 187.7

million. The governor did keep some of his promises and funded social policy at a level of 467.3 million rubles and education at a level of 150.9 million rubles.

Tolokonskii said that all expenditures would be 100 percent financed except for repayment of the oblast's external debt. The oblast owes 2.5 billion rubles, about half of the 2000 budget.

One of the positive features of the new budget is that it increases financial support to the raions and cities in the oblast. These expenditures went up 373 million rubles to 1.866 billion rubles overall or 33.6 percent of all oblast expenditures. The oblast will spend more on industry, energy, transportation, and road construction. However, the sad fact remains that Novosibirsk's enormous debt prevents a quantitative turn around in financing the social sphere, housing, or otherwise improving the standard of living for oblast residents in the next three to four years. - Stanislav Okhvat in Novosibirsk

### **ROSTOV MAYOR CREATES MORE TRANSPARENT ELECTRONIC**

**BUDGET.** Currently, the approximately 200 departments and agencies of the city of Rostov-na-Donu keep their money in various commercial banks. It usually takes a few days for payments to be made and sometimes funds simply sit in the bank accounts. The banks of course can take advantage of these delays to make their own investments. One bank even held 10 million rubles of the city's money and only returned it in the form of mutual debt-canceling.

To radically improve on these practices, the city is now setting up a new treasury system that will minimize transaction costs and the time required to carry them out. To do this, the city has already set up a new electronic system to transfer funds. The system has already been tested in Rostov's Voroshilov Raion.

The electronic budget makes it possible to monitor at any moment the accounts of all city departments. Mayor Mikhail Chernyshev said that the new system is by no means a way of exerting pressure on the city raion chiefs, who are subordinate to him, but it is clear that all parts of the city budget will now be much more transparent. The mayor asserted that it will now be impossible to spend money designated for children's benefits on other purposes. The system will automatically monitor how the money is spent. The electronic system should go into full use at the beginning of the spring.

There are no similar systems in Russia, according to the head of the city treasury, A. Maksimov and counterparts in Moscow are already interested in taking a look at what is happening in Rostov. Among other features, this electronic system can find the best form of debt-canceling between various city departments, municipal enterprises, and the budget. These calculations can be made in seconds, which will greatly increase the efficiency of managing the city budget. - Andrei Miroshnichenko in Rostov-na-Donu

**TVER OBLAST REINSTATES SALES TAX.** Tver Oblast will reinstate its sales tax on 1 April 2000. Deputy Governor Ivan Raidur, the head of the oblast Finance Department, said that such a move was necessary to increase the flow of real money into the city budget (*Veche Tveri*, 22 February). The budget will need 8 billion rubles in 2000, according to preliminary estimates, and the sales tax has proven to be a reliable income generator. Additionally, the return of the sales tax is required by the need, beginning 1 January, to pay taxes at all levels in the form of money. Debt-canceling is (theoretically, at least) no longer acceptable. The deputy governor said that by bringing back the tax, the

oblast is simply doing what all other Russian regions are doing: 78 of Russia's 89 regions already have the sales tax. During the 11 months that it was in effect in 1999, it produced revenue of 16.5 billion rubles across the country.

The oblast legislature introduced a five-percent sales tax on 1 April 1999. Even though the oblast exempted from taxation a longer list of necessities than required by the federal government and ruled that educational institutions did not pay taxes, the burden seemed to be too large. On 1 May the legislature abolished the tax even though it only generated income of 20.2 million rubles during the one month it was in effect (12.3 million rubles went to local budgets). Restoring the tax on 1 April will allow the oblast to collect 127 million rubles this year (63 million rubles for the oblast, 47 million for the city of Tver, 17 million rubles for other localities).

Local observers believe that the new tax will cause prices to rise and put an increased burden on small and medium businesses. Retail trade will likely drop. Although the authorities say that necessities will not be taxed, the rise in the price of some goods should translate to higher costs all around (*Veche Tveri*, 24 February). Some journalists critical of the tax think it is not necessary to set it at the federally allowed maximum of 5 percent. They point to regions like Tatarstan and Amur which levy a 3 percent sales tax or Sakhalin and Vologda which take 2 percent. They also say it does not make sense to compare Tver to the relatively rich Novgorod where the introduction of the five percent tax did not have a dramatic effect on the standard of living. Despite these criticisms, however, the administration is not likely to revoke the tax a second time. - Boris Gubman in Tver

## **LOCAL GOVERNMENT**

**PUTIN ON LOCAL GOVERNMENT, ELECTING GOVERNORS.** When he was in Volgograd on 22 February, Acting President Vladimir Putin spoke extensively about local government in Russia. He said, "When I speak about strengthening the state, I do not have in mind widening the reach of the power ministries, which would repress the individual. To the contrary, the state should be required to guarantee the rights of the citizen..."

"Local government is a part of the Russian state system and cannot be removed. Its goal is to give the residents of a raion, microraion, city, or village the ability to participate directly in the resolution of problems which they consider most important. Local governments should not only have rights, but the necessary financing. But this does not mean that there should be an absolute divide between the interests of local government and the interests of the region. Now there are many conflicts between governors and mayors. However, there are also positive examples where good results are achieved from the cooperation of authorities at different levels. A good example is Kareliya. There the republican leader, who himself was once a mayor, understands the issues well, is able to set up good relations, and achieve concrete results in terms of state building to improve the living standards of the population.

"On the same theme, conflict is characteristic of relations between the federal government and the regional elite. But here I think that it would be incorrect to leave behind what has already been done. Since the population already has the right to elect its

governor, it is impermissible to take this right away." (*Novyi delovii vesti*, no. 7) - Ivan Kurilla in Volgograd

## **THE EFFECTIVENESS OF WESTERN AID IN THE RUSSIAN REGIONS**

**NOVOSIBIRSK: MANY PROGRAMS, BUT NOT ALWAYS FOCUSED ON TOP PROBLEMS.** Western governmental and non-governmental organizations are pursuing a wide variety of programs in Siberia. The largest players are the European Bank for Reconstruction and Development, the US Agency for International Development, the European Union's TASIC, and George Soros's Open Society Institute. In the last two years, several of these organizations have named Siberia as a priority.

Some of the projects sponsored by these agencies have brought concrete results while others have produced nothing. In my opinion, the priorities of the aid providers often do not correspond with local priorities and do not address the most pressing problems. It would be desirable for foreign organizations to better understand the needs of local society and work with local organizations that are respected in the region. Our experience shows that programs are often more effective when local organizations administer the competitions and distribute the funds. It is also necessary to increase the level of oversight on how funds are disbursed.

The local media gives wide and usually positive coverage to the activities of foreign organizations in Siberia. The local population generally is not xenophobic and takes advantage of the resources offered to them. Nevertheless, it is not uncommon to hear citizens ask of the foreign providers "Why do they need this?" (*Zachem im vse eto nuzhno?*)

The European Bank for Reconstruction and Development is the largest international investor in Russia. It works in 25 regions and has an office in Novosibirsk. Generally, it offers micro-credits (\$100 to \$30,000) and small credits (from \$20,000 to \$125,000) to small businesses. It usually replies to requests for funding within an amazingly fast four days. Moreover, 99.8 percent of its loans have been repaid.

One example of the EBRD's successful lending is the Elintranssib company which makes clothing. It received its first credit of 200,000 rubles in 1998 to buy equipment. It has since used several more credits to buy material, open a second factory, and purchase modern sewing equipment. It sells its popular clothing in its own salon, Elin, and other well known stores in Novosibirsk.

USAID finances programs in the region through the Eurasia Foundation and World Learning. The majority of programs support democratic and economic reforms. In 1995, the Program to Support Social Initiatives began and has spent about \$4 million. It operates in 12 Siberian cities. The Resource Centers of the network provide a variety of informational, technical, and educational services for local non-governmental organizations. It also develops cooperation between the private and public sectors. One of the most successful projects is a grant program which has given out about \$1 million in grants ranging from \$500 to \$7,500. The NGO recipients have implemented about 200 projects ranging from defending human rights, protecting the environment, and improving the social safety net. For example, Novosibirsk's Vera organization provided thousands of women the opportunity to have a free breast exam and raised social awareness of breast cancer. With the help of a grant, the Region-Trade (Novosibirsk)

company set up a Charity Fund that has raised more than \$150,000 from local sources to support children's homes in Novosibirsk Oblast and develop the necessary legal bases for them.

George Soros's Open Society Foundation has an office in Novosibirsk which supports projects that differ from the usual ecological programs or civil society efforts. Instead it has focused resources on culture, education, and traditional and modern art. It has local programs to train teachers, build the Internet, support jazz, and enrich the education of pre-school students. The Internet program has made Novosibirsk Russia's third richest region in terms of Internet resources.

The European Union's TACIS is the largest technical aid program in Russia and has already delivered 2 billion euros worth of aid. It has 43 programs in Western Siberia, including aid to small and medium businesses, the development of agricultural credit cooperatives, improving the competitiveness of the food processing industry in the Kuzbass, an effort to create a market in land, helping NGOs increase the number of for-pay services they provide, and increasing ecological awareness.

The Charles Stuart Mott Foundation supports two programs in the region. In Krasnoyarsk, Mott has a program designed to introduce school children to democratic values. The other project seeks to encourage corporate giving in six Siberian regions. With a grant of \$55,000, the Resource Center conducted a sociological study that discovered that 80 percent of businessmen give some form of charity, but that most of them do it through the "black market." The research laid the foundation for developing a way to direct this charitable aid into legal channels. A \$60,000 follow-up grant will help create charitable organizations designed to help local societies address local problems by bringing local resources to bear. - Irina Maslennikova in Novosibirsk

**VORONEZH: PUBLIC OFTEN KNOWS LITTLE ABOUT WESTERN EFFORTS.** In Voronezh there are more than one thousand active NGOs, many of which are funded by foreign foundations. Unfortunately, few of the residents have actually heard of them. However, there are numerous positive examples. Thanks to Soros' Open Society Institute, which set up an Internet center at Voronezh State University, the number of Internet users in the region has dramatically increased. In January this year, Friends and Partners, with funding from the Ford Foundation, set up a project to unite the information resources of the Central Black Earth region (*Kommuna*, 25 January).

Last year the EBRD gave significant aid to the regional Kodatel company, one of the main mobile phone service providers in the city. This program marked the first time the EBRD invested significant funds in this sector in the Central Black Earth region. In the short time of its existence, Kodatel has already signed up 6,000 clients while the oldest cellular phone service provider in the region, Votek Mobail, only has 4,000 clients (*Molodoi Kommunar*, 8 February).

In the field of education, the Tolstoi Foundation sent 18 teachers to New York for training in English. For the local police, the Charlotte (North Carolina) Police Department offered the Voronezh Department of Internal Affairs a program to exchange experience in street patrols, investigatory work, and criminalistics. During 2000 delegations from each side will visit the other.

Of course, there are many negative aspects to these programs as well. Some of the money donated by the western foundations is not used for the purposes for which it was

intended. In Voronezh, there are people who set up inactive organizations simply for the purpose of receiving grants. The newspaper *Molodoi Kommunar* (27 January) has published several examples of these kinds of problems. However, determining the veracity of the reports would require further research.

With very few exceptions, Western aid programs are poorly publicized and few of the residents of the city and oblast know about them or see their results. This lack of information creates a permissive environment for abusing the funds, something that happens in even the most successful programs. - Yuliya Fedorinova and Andrei Muchnik in Voronezh

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"Economic Geography and Structure of the Russian Territories of the Barents Region" (1999, 250 p.), the new publication by the Arctic Centre of the University of Lapland, Finland, provides an up-to-date analysis of key economic and environmental developments in north-west Russia.

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Economic Geography can be ordered at the price of USD 50 (incl. postage and packing) from:

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**BREAKING NEWS**

**POLITICS**

**TITOV SPEAKS OUT FOR DEMOCRATIC ALTERNATIVE.** In a 2 March news conference Samara Governor Konstantin Titov, a candidate in the upcoming presidential poll, announced his strong opposition to the constitutional reforms proposed in the open letter Novgorod Governor Mikhail Prusak, Belgorod Governor Yevgenii Savchenko, and Kurgan Governor Oleg Bogolmolov recently sent to Acting President Vladimir Putin (see *EWI Russian Regional Report*, 1 March). Titov denounced the governors' proposition as a "detailed plan for the liquidation of democratic achievements in Russia" (*The Moscow Times*, 3 March). He asserted that appointing governors would "break the ties between the authorities and the people" and that reducing the number of regions would restrict their political and economic

independence. Titov is trying to portray himself as the democratic alternative to Putin and has called on the democratic opposition to unite behind him.

Tatarstan President Mintimer Shaimiev had a different reaction to the governors' proposal. *Nezavisimaya Gazeta* reported on 2 March that he supported the idea of lengthening the term of the Russian presidency from four to seven years. Shaimiev has made clear, however, that he does not support any attempts by Moscow to strengthen its grip on the regions.

**SEMENOV SIGNS AGREEMENT WITH BELARUS.** Karachaevo-Cherkesiya President Vladimir Semenov recently traveled to Minsk where he concluded an agreement with the Belarus Ministry of Foreign Affairs on trade, economic, scientific, technical, and cultural cooperation. Belarus firmly supports developing close relations with Russian regions. *Nezavisimaya Gazeta* reported on 3 March that 80 percent of the regions support strong economic and cultural ties with Belarus. Annual trade between Karachaevo-Cherkesiya and Belarus is currently \$17.5 million. Semenov emphasized the republic's interest in Belarusian goods, in particular chemicals and tractors, and commented that the quantity of these goods in his republic has doubled over the past year. Belarusian President Aleksandr Lukashenka complimented Semenov, stating that Semenov has a sensible and intelligent position directed to improving the lives of his people.

**REPUBLICAN LEADERS ON FEDERATION AND CHECHNYA.** On 2 March Tatarstan President Mintimer Shaimiev announced that Moscow should sign an agreement with Chechnya. At the same time, the leaders of the Tatar nationalists have sent Acting President Vladimir Putin a letter stating that Tatarstan should be the third republic in the Russian-Belarusian Union. Shaimiev has not spoken directly on the issue of increasing his republic's status, and given his desire to stay on good terms with Putin, is unlikely to do so. In the past, he has used the demands of nationalists to extract more concessions from Moscow for his comparatively more moderate policies. However, he has taken a stand on the status of Chechnya and is encouraging Moscow to codify its relationship with the republic through a bilateral treaty. Shaimiev is pushing for an agreement between Chechnya and Moscow similar to that Tatarstan has. (*Izvestiya*, 3 March)

Ingushetiya President Ruslan Aushev feels that a referendum should be held in Chechnya to determine the republic's status and relationship to Russia. In a 3 March interview with *Vremya MN* Aushev explained, "After all of the tragedies to force the will of the Chechen people is amoral. Let them choose between full independence, a special status within the federation as a sort of associated member, or as a federation subject. People should know what are the conditions, privileges, losses, and advantages. We must respect the opinion of the people."

## **ECONOMICS**

**EES WINS BATTLE OVER NAZDRATENKO.** On 6 March the Primorskii Krai Arbitration Court ruled in favor of Unified Energy System (EES) in a case stemming from

actions taken by the governor's administration. The decision marked EES's first substantial victory over Primorskiy Krai Governor Yevgeniy Nazdratenko. EES Chairman Anatolii Chubais has long been at odds with Nazdratenko, and energy issues have been a constant source of conflict in Primorskiy Krai for many years as consumers refuse to pay for their electricity, leaving the utility unable to pay for its fuel supplies.

Last year the Vladivostok companies Gorsvet and Teplovye seti founded Vladenergo independent of EES, and on 17 November Acting Vladivostok Mayor Yuriy Kopylov issued a decree giving Vladenergo responsibility for collecting payments from electricity consumers. Dalenergo, a subsidiary of EES and primary electricity provider in the region, claims to have lost 12 million rubles a month as a result of this decision.

EES and the Russian Ministry of Fuel and Energy tried to settle the conflict between Dalenergo and Vladenergo for three months without success. Payments continued to flow to Vladenergo while the region's energy crisis persisted since the utility was starved of money to buy fuel. In February Dalenergo filed a suit against Vladenergo, demanding that the right to collect payments be returned to it. The court's decision in Dalenergo's favor determined that the mayor's decree interfered with the internal affairs of Dalenergo and that collecting the payments without a formal agreement with Dalenergo was illegal. Dalenergo intends to sue for the losses it has incurred due to Vladenergo. (*Kommersant Daily*, 7 March)

**FOREIGN INVESTORS REGAIN OWNERSHIP OF LOMONOSOV.** On 2 March the Northwest Regional Arbitration Court overturned the decision adopted by the St. Petersburg and Leningrad Oblast Arbitration Court in October 1999 which declared illegal the Lomonosov Porcelain Factory's 1993 privatization (see *EWI Russian Regional Report*, 14 October 1999). The decision has been hailed as a victory for foreign investors in Russia, with the US-Russian Investment Fund (TUSRIF) and the US investment firm Kohlberg Kravis Roberts & Co. (KKR) emerging as the main victors. TUSRIF and KKR collectively own 58 percent of the Lomonosov stock and stood to lose the over \$8 million paid for those shares if the October decision remained in force. Lomonosov General Director Douglas Boyce, who is also a vice-president of Delta Capital Management, which manages TUSRIF, stated that, "Justice has been done, and Russia has narrowly once again avoided destroying its reputation among international investors" (*The Moscow Times*, 3 March).

The foreign investors appeared to have made some progress towards reaching this result in January when they took control of the factory's board of directors and appointed Boyce general director. Once the new management entered the factory on 24 January, the court decided to suspend the factory's renationalization process until after the appeal decision was made (see *EWI Russian Regional Investor*, 26 January). Representatives of the factory's former administration intend to appeal this decision to the Supreme Arbitration Court, which, unlike the lower level courts, is not obliged to take up the appeal.

**MOSCOW TIGHTENS GRIP ON OPEN AIR MARKETS.** The Moscow City government plans to shut down approximately 50 of the city's 220 open air markets this year in order to increase tax collection and enforce compliance with sanitary conditions, *The Moscow*

*Times* reported on 3 March. According to the newspaper, an estimated 70 percent of Moscow residents shop at these markets, which sell items up to 40 percent cheaper than regular stores. By closing down 50 markets the city government can expect to collect an additional 2 billion rubles in tax revenue from stores that will benefit from the increase in customers. The city's open-air markets are estimated to average up to 30 million rubles a day in turnover, but only a small part of this amount is taxed. The markets that remain open will need to construct stationary pavilions and all vendors will have to undergo health checks and be required to buy special identification in order to be held responsible if customers complain about their products.

## **CENTER-PERIPHERY RELATIONS**

**SAVCHENKO'S INFLUENCE INCREASES WHILE RUTSKOI'S DROPS.** Over the past two weeks Kursk Governor Aleksandr Rutskoï's influence in Kremlin circles has clearly been on the decline while Belgorod Governor Yevgenii Savchenko's authority is increasing. This development was apparent at the 26 February Yedinstvo congress when Rutskoï shocked the delegates by pointing out that the party's program was as empty and meaningless as the Soviet Union's 1 May slogans. The hall fell silent and party leader Sergei Shoigu rebuked the governor. Rutskoï was insulted, as his observations were essentially correct. Yedinstvo's program is surprisingly empty. Behind the pretty words there is not a single serious political thought.

Moreover, Rutskoï did not manage to carry out Acting President Vladimir Putin's order that the Yedinstvo party organizations in the regions be headed by "ordinary people" instead of officials. In Kursk Rutskoï recruited his father-in-law, Deputy Governor Anatolii Popov, to head up the campaign. The Kursk delegation to the congress was also top-heavy, including Rutskoï, presidential representative to Kursk Leonid Bashkeev, deputy governors Popov and Gennadii Varfolomeev, and two Kursk State Duma deputies from Yedinstvo--Aleksandr Fedulov and Vladimir Bykov. Such a delegation did not counter assertions that Yedinstvo is a party of nomenklatura officials. Rutskoï's imperious claims became too noticeable and they clearly limited the governor's authority. Rutskoï's problem is that he continues to consider himself a federal level politician--no less than a vice-president. If he is right regarding Yedinstvo's program, he is sorely mistaken about his own standing.

Belgorod's governor took a more appropriate position in relation to Putin. The restructuring proposal Savchenko prepared with Novgorod Governor Mikhail Prusak and Kurgan Governor Oleg Bogomolov (see *EWI Russian Regional Report*, 1 March) on widening and reforming state power obviously played to the hearts of many in the Kremlin. After 25 February, when the open letter was published in *Nezavisimaya gazeta*, several Belgorod newspapers reported that Savchenko had received numerous proposals to work in Moscow, even in ministerial positions (*Vecher*, 1 March). On 3 March Savchenko confirmed the validity of such reports. However, he made it clear that he preferred to remain governor. The logic of such a decision is obvious--it is better to be the governor in Belgorod and have support from Moscow than to be a temporary minister in Moscow and not have firm backing. - Sergei Sarychev in Kursk

**COMMUNIST GOVERNOR LEANING TOWARD PUTIN.** Voronezh's Communist Governor Ivan Shabanov said in a recent newspaper interview that he might support Putin and not Communist Party leader Gennadii Zyuganov in the 26 March presidential elections (*Voronezhskiy Vestnik*, March 3). He explained his change of heart as a result of the present political situation in the country. He said that "Putin is a frontrunner and we have to take that into account. He is a business-like, practical, and clever man. He has an innovative approach to resolving problems. We have to unite and face the danger together."

In the same interview Shabanov also drew attention to the fact that although his victory in the 1996 gubernatorial elections drew heavily on Communist (KPRF) efforts, he also had the support of 34 different political parties and movements. Of course he did not say that most of them were minor and insignificant movements. Local media report that the governor's relationship with the local Communist leadership is not as good as it used to be. The governor himself says that local party officials expected that their people would fill all key positions in the oblast administration and that did not happen. Shabanov claims that he made this point clear during his campaign: "When I was running for governor I laid down the main condition – no party will have any privileges in the administration". (*Voronezhskiy Vestnik*, March 3)

Obviously, Shabanov is trying to distance himself from the party that once brought him to victory. It seems that what Shabanov says about Putin is also true about the governor himself. He is a very practical and business-like man. That is why after ruining his relations with KPRF, he is looking for another source of support. Putin and his entourage look like the right choice. Putin's sympathizers like to talk about restoring the "vertical power structure," meaning going back to the practice of appointing the governors from the federal center. That is what Shabanov likes to talk about, too. Realizing that he has a slim chance of reelection at best, Shabanov hopes to be appointed to his post by the future President.

Shabanov's initiatives may go unanswered, however. Even if the gubernatorial elections were cancelled and Putin appoints a governor, there is no clear reason why he would appoint someone as unpopular or ineffective as Shabanov. - Andrei Muchnik in Voronezh

### **ULYANOVSK BACKS PENZA INITIATIVE TO BLOCK UNFUNDED**

**MANDATES.** The Ulyanovsk Oblast Legislative Assembly has backed a Penza initiative proposing that the State Duma amend 12 laws which guarantee social benefits to certain groups in the population without providing adequate funding for them. A large army of federal employees, including the police, procurator, Federal Security Service, tax police, customs agents, judges, and others, claim reduced public transportation fares, rent reductions, and discount rates for utilities, fuel, and telephone usage. In the majority of the cases, the federal laws do not specify sources of funds to pay for these benefits. As a result the burden usually falls on regional and local governments. This outcome partially explains delays in paying salaries and benefits.

The Penza Legislative Assembly proposes freeing regional and local governments of the need to pay for these benefits, while placing the burden for covering federal benefits on the federal budget, which will make available money to the necessary ministries and agencies. They propose that federal employees pay full price for their housing and transportation and then collect reimbursements at their place of employment.



The Penza initiative is extremely relevant to Ulyanovsk. The city budget loses huge amounts of money because of the transfers that it fails to receive from the federal budget. For example, 50 percent of the people who use public transportation in the city have the right to do so without paying. As a result, last year the transportation authority lost 70 million rubles (one tenth of the city budget), according to Sergei Lebedev, the deputy director of Ulyanovskelektrotrans. Of the 70 million, 16 million were the result of local benefits and 54 were the result of federal benefits. - Sergei Gogin in Ulyanovsk

## **PATTERNS OF REGIONAL DEVELOPMENT**

**NEW GROUP SEEKS APPOINTMENT OF KALININGRAD GOVERNOR.** On 1 March three powerful Kaliningrad politicians set up a movement called Russia's Frontier (Rubezh Rossii) that seeks to have the region's governor appointed by the president rather than directly elected. The leaders of the new movement are Yurii Semenov, the co-chairman of the local branch of the pro-Communist Russian Popular Patriotic Union, State Duma Member Yurii Nikitin, and TransRailWest General Director Anatolii Khlopetskii. All three are now opponents of the governor.

The three men are well known figures at the top of Kaliningrad's political pyramid. Semenov led the region's Communist Party in the Soviet era. After he came in a surprising third in the 1996 gubernatorial election, Semenov threw his support to current Governor Leonid Gorbenko, allowing him to win the election. Semenov brought the leftist, rural vote to his coalition with Gorbenko (see *Russian Regional Report*, 9 October 1996). After Gorbenko was elected he appointed Semenov as a deputy governor, but then fired him several months later. Nikitin was elected to the Duma for a second term in 1999. In that race, Gorbenko had supported Yedinstvo's candidate Vitalii Lednik (*EWI Russian Regional Report*, 22 December 1999). Khlopetskii lost the 1997 Kaliningrad mayoral election to current Mayor Yurii Savenko. At the beginning of this year he tried to create the post of Russian government representative to Kaliningrad Oblast and have himself appointed to the position.

The leaders of the new movement say that it is necessary for the Russian president to appoint the Kaliningrad governor because of the special situation in the oblast due to NATO's announced intention to expand toward the east, the numerous conflicts between regional and local leaders, the region's weak social and economic development, and its inability to attract investment. The proposal is made in the spirit of the letter of the governors from Novgorod, Belgorod, and Kurgan seeking that the president appoint governors (see *EWI Russian Regional Report*, 1 March). - Yekaterina Vasileva in Kaliningrad

## **HORIZONTAL LINKS**

**TULEEV AND LEBED SIGN AGREEMENT.** Last week Krasnyarsk Governor Aleksandr Lebed met with Kemerovo Governor Aman Tuleev in the Krasnoyarsk village Krasnokamensk where they signed a cooperation agreement between their two regions. The village of Krasnokamensk is home to a well-known iron mine that has long been in crisis. The agreement provides that Kemerovo Oblast will invest 117 million rubles into the krai's mining

sector, which will go to building the Odinochnaya mine and a bridge across the nearby river. - Pavel Avramov in Krasnyarsk

## **CHEMICAL WEAPONS**

**LITTLE PROGRESS ON SARATOV DISPOSAL FACILITY.** Despite the assurances of Lt. Gen. Valerii Kapashin, the head of the federal program for destroying chemical weapons, Russia is unlikely to complete the construction of a factory in Gornyi (Krasnopartizansk Raion, Saratov Oblast) to destroy chemical weapons in December 2000. The construction of the factory, which is part of an international arms control agreement, has been delayed mainly because money set aside in the federal government's 2000 budget is only 10 percent of what is needed for the project. Russia's failure to carry out the program could lead the West to impose economic penalties.

The village of Gornyi, like six other sites in Russia, houses a significant number of chemical weapons. A 50 billion ruble federal program to destroy them has been under way for four years and the construction of the facility in Gornyi is a top priority. Although the site should be completed this year, construction is going at a very slow pace.

At the same time, according to Krasnopartizansk Raion First Deputy Mayor Ivan Bogdanov, intensive work to build 400 single-family houses for military specialists is well under way. Kapashin has apparently forgotten about his promises to help the raion build houses for 100 social sphere employees and improve the communication infrastructure of the village. Of the 160 million rubles set aside for housing, only 9 million has gone for civilian projects.

Additionally, the military units have used construction companies from outside Gornyi to construct their houses. These outsiders refused to declare their income to local tax authorities and pay taxes in Gornyi as they are required to do by law. The local government claims that just paying these taxes would help raise social conditions in the village. The local civilians feel that the military has not taken their interests into account by behaving in such a manner. - Vasillii Mikhailov in Saratov

## **SOCIAL ISSUES**

**SOCIAL BUDGET FUNDS MISUSED IN ADEGEYA.** One of Russia's great socialist projects was the construction of the Krasnodar Dam. However, in the land that was eventually flooded behind the dam there were dozens of Adegey villages. The residents of these villages were moved to the new city of Adygeisk, which was specially constructed for them. Many people were sad to leave their old villages, since they were leaving behind the graves of their ancestors and native places. Additionally, they had to put up with many new inconveniences in their move and new homes. In fact, many of the villages' residents never received the new housing they had been promised.

The question of addressing the social consequences of the dam's construction had particular resonance in the post-Soviet era and republican officials began to demand that the federal government provide money to remedy the problem. Like many other regions dependent

on federal subsidies, Adygeya receives investment from the federal budget. These investments are distributed according to letters from the Economics Ministry.

The Adygeya procurator, specialists from the Oversight Department of the Russian Finance Ministry, and the republican branch of the federal treasury are now looking into how the money budgeted for dealing with the consequences of the dam is being spent. This task was made difficult because the Finance Ministry only gives out money and conducts audits within the framework of various sectors, such as housing construction, water supply, and municipal infrastructure construction, rather than programs. Thus the auditors could not look at the program as a whole across social sectors, but only the specific components of it.

The investigation found that a significant amount of the money had been used for purposes for which it was not intended. One significant problem was the use of 4.2 billion non-denominated rubles in 1995-6 to build an Adygeya representative office in Moscow. Numerous other violations were found as well. The Adygeya legislature investigated the expenditures during the course of 1999. One deputy stressed how shocked the legislators were with the way that the state officials spent the money without regard for people's interests. The authorities are now trying to determine if there are grounds for filing criminal cases. - Amir Davletov in Maikop

## **ETHNIC CONFLICT AND REGIONAL SEPARATISM**

**NOGAI SEEK INCREASED INFLUENCE THROUGH PEACEFUL MEANS.** When Chechen aggressors attacked Dagestan in August-September 1999, the republic's numerous and fractious political and social movements united behind the republican leader. Since then, however, centrifugal processes have reasserted themselves. But this time it is not in the south, where Lezgins have traditionally demanded autonomy and unification with Azerbaijani Lezgins, but in the republic's northern Nogai areas.

During Nikita Khrushchev's rule there were attempts to address the consequences of the massive ethnic repression carried out in the Caucasus by Josef Stalin, which almost entirely changed the administrative and territorial borders of the area's republics and oblasts. The Nogai, one of the largest ethnic groups, were deprived of their territorial autonomy and the area where they lived was divided among Dagestan, Kalmykiya, Astrakhan, and Stavropol. A Nogai Raion was established in Dagestan, with the center in the city of Terekli-Mekteb. As a result of constitutional reform over recent years the Nogai have become recognized as one of Dagestan's official nations and received a seat in the republic's State Council. However, the Nogai rightly feel that their representation in the republic and raion-level leadership is small and does not correspond with their numbers.

On 5 March the sixth congress of the Nogai people was held in Terekli-Mekteb. It was organized by the initiative of the Nogai popular movement Birlık (Unity). Aside from the traditional agenda items for any public gathering such as approving Vladimir Putin's actions as acting president and promising him support in the elections, the congress drew up a resolution to form a national-cultural autonomous structure within Dagestan, Kalmykiya, Stavropol, and Astrakhan. The delegates sent a letter to Putin requesting his cooperation on settling this issue. These measures are considered a step in the creation of a single national-cultural autonomy. Whether or not a unified cultural autonomy can become the foundation for demands for further

territorial autonomy was not officially debated at the congress, however in the corridors this was discussed as the only possible way to maintain and develop the Nogai nation.

Regardless of the further development of events relating to Nogai statehood, the processes of the Nogai are noteworthy as there has been no example since the break up of the Soviet Union of a nation aspiring to self-determined statehood using such civilized and non-aggressive methods to reach their goal. - Nabi Abdullaev

## **TAX ISSUES**

**CENTER APPOINTS PRO-RUTSKOI TAX AUTHORITIES IN KURSK.** The meeting of the Federal Ministry of Taxes and Collections Collegium held in Kursk Oblast led to noticeable changes in the activities of the tax inspectorate and tax police. Head of the tax inspectorate in Kursk Oblast Viktor Dolgikh was removed from his post in favor of Aleksandr Bogoyavlenskii, who had been working as a deputy governor. In political terms the dismissal and appointment is good news for Aleksandr Rutskoi on the eve of gubernatorial elections.

The changes reflect Minister Aleksandr Pochinok's dissatisfaction with his subordinates in Kursk Oblast in 1999. The increase in tax collections in Kursk was 50 percent compared to 68 percent in Russia as a whole. Kursk enterprise tax debts of more than 6 billion rubles exceeded the oblast budget for 2000. Eighty percent of these debts (4 billion rubles) belong to the oblast's 20 largest enterprises (of the 73,000 organizations that pay taxes in the region). The Kursk Nuclear Plant owes nearly a billion rubles to the budget.

Another problem is that enterprises pay their taxes through "problem" banks such as SBS-Agro. This money, naturally, does not go to the federal treasury, but remains under the bank's control. In the beginning of March 58 million rubles in taxes were already tied up in this way. The governor was also very displeased with the tax police's practice of confiscating property for unpaid taxes. For example, Rutskoi was irritated that local collective farms could not use machinery they had recently purchased.

Bogoyavlenskii's main goal now is to crack down on tax evaders. "We have caught up with tax cheats utilizing problems and loopholes in the law, and now we plan to finish this," Kursk's head tax collector announced. Regarding abolishing barter and mutual debt cancellation, the tax inspectorate expects to collect up to 70 percent of local taxes from the real sector of the economy in the form of real money. Before 1 April the tax inspectorate plans to work on restructuring the 6 billion ruble debt and sign an agreement on debt repayment with the corresponding organizations. To ensure ongoing payments to the budget, the debtors have been freed from possible criminal prosecution regarding their previous tax evasion. - Sergei Sarychev in Kursk

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**BREAKING NEWS**

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**DEMONSTRATION RESUMES IN KARACHAEVO-CHERKESIYA.** After a few months of relative peace in Karachaevo-Cherkesiya, on 13 March the republic's Cherkes and Abazin populations once again demonstrated in front of the republican government building, demanding secession from the republic and the creation of a Cherkes autonomous oblast within Stavropol Krai. The demonstration was organized by the Adyge khase and Adgylara groups. According to Adyge khase Chairman Boris Akbashev, Karachaevo-Cherkesiya President Vladimir Semenov did not take the interests of the Cherkes and Abazins into consideration in forming the republican government. He blasted Semenov for not appointing a representative of

the Cherkes population to the government. Akbashev implied that Cherkessk Mayor Stanislav Derev, who had served as Semenov's main challenger in the election, should have been appointed to represent the Cherkes. The question of a separate Cherkes administrative unit will be settled in a referendum on 22 October at which time republican voters will decide whether or not to split the republic into Karachai and Cherkes units (see *EWI Russian Regional Report*, 28 October 1999). (*Nezavisimaya Gazeta*, 14 March)

**MOSCOW OBLAST STARTS FORMING NEW GOVERNMENT.** On 9 March the Moscow Oblast Duma adopted a law on changing the region's governing structure. One of Moscow Oblast Governor Boris Gromov's goals since taking the governor's seat two months ago has been to establish more effective political institutions in the region. According to the new law, the governor is also the head of the regional government. The number of oblast ministerial posts has been reduced to ten. With the new law in place, everyone is awaiting appointments. According to *Izvestiya* on 11 March, Gromov owes his victory to more people than he has positions to offer in the new government.

**MOSCOW SETS LIMITS ON FOREIGN WORKERS.** The Moscow city government announced on 2 March that it had set new quotas for the number of foreigners permitted to work in the city. This year the figure is set at 45,000, which is down 5,000 from last year and 10,000 from 1998. Rodian Borzhenkov, spokesman for the city's foreign labor commission, said that the measure was not repressive as there were 14,000 vacancies in 1999. He noted that if more foreigners come to Russia, the city would be happy to increase the quota, but meanwhile the limit was in place to protect the city against a surge of foreigners. Borzhenkov stated that the city annually inspects 5,000 Russian and multinational companies that hire foreign employees in order to enforce the quotas. Compliance with restrictions depends on whether or not the company is Russian and if the labor is skilled or unskilled. Firms hiring unskilled laborers must go through a three-step process for approval and Russian companies hiring skilled employees must give preference to Muscovites, while foreign companies hiring skilled workers are not limited by such regulations. Moscow City Hall estimates that approximately 30,000 unregistered foreigners live in Moscow, mostly from Afghanistan, Africa, and Southeast Asia. Last year the city deported 1,300 people. (*The Moscow Times*, 10 March)

## **ECONOMICS**

**NOVOSIBIRSK CREDITORS SEEK HELP FROM MINISTRY OF FINANCE.** On 9 March the MDM-bank announced its intention to appeal to the Ministry of Finance to transfer control of the Novosibirsk Oblast budget to the federal treasury. The bank hopes to use this unconventional strategy to force the oblast to pay off its debts. This case marks the first time that a Russian bank has tried such a method to secure repayment from the regions.

The Novosibirsk Oblast administration owes money to 19 commercial banks (*KommersantDaily*, 10 March). At the beginning of this year the debt to these banks was 826.6 million rubles. The oblast's full debt is nearly 2.6 billion rubles. MDM-bank is one of the

oblast's largest creditors, owed nearly 100 million rubles. The bank has extended and restructured the oblast's repayment schedule many times, most recently in March 1999. However, according to MDM-bank Vice President Oleg Mashtalyar, the bank has not seen a cent since this agreement was reached, and therefore, the bank took the issue to court (*Nezavisimaya Gazeta*, 14 March). According to Mashtalyar, MDM-bank's leadership met twice with oblast officials at the end of January and beginning of February--first with recently elected Governor Viktor Tolokonskii, and then with the head of the oblast's financial department. At the first meeting, the oblast promised the bank that it would receive 10-15 million rubles at the end of February, and at the second meeting--by 15 March. These various efforts have not produced any money, and therefore the bank decided to appeal to the Ministry of Finance. It considers this move the bank's last chance of getting any money back from the oblast.

In February the Ministry of Finance took control of regional budgets in Dagestan, Tyva, Gorno-Altai, and Kemerovo Oblast due to the regions' debts to the federal government. Whether or not the ministry took such action at the request of one of a region's creditors is unclear.

MDM-bank's request does not seem to have caused any major concern in Novosibirsk. Head of the Novosibirsk Oblast administration's finance and tax policy board, Sergei Aksenenko told *Kommersant*, "Let's fight it out. I am also a financial expert and am able to draw out this process for many years. They are not in our position and are not taking into account that we need to pay salaries and children's benefits."

#### **MINISTRY OF ECONOMICS INTRODUCES TAX PASSPORTS FOR REGIONS.**

The Ministry of Economics has developed a new system for establishing the tax potential of the regions. Now each region will have a tax passport containing all of the information necessary to determine the region's tax base and necessary expenditures. This information will be used to assess each region's tax potential, allowing federal and regional authorities to determine exactly how much tax they can expect to obtain from each region, thus making it easier to establish a balanced federal budget. Such a system is hardly attractive to the governors, as it will force them to become more diligent tax collectors and make it even harder for them to secure financial help from the center. By improving the transparency of financial flows between budgets, the tax passport system forces governors to be more accountable for their fiscal activities. Once the Ministry of Finance and the Ministry of Taxes and Collections approves the scheme, the Ministry of Economics will present it to the government. If it is approved, the tax passport system may be implemented this year in calculating the 2001 budget. (*Kommersant Daily*, 10 March)

#### **SHAIMIEV RECOMMENDS STATE OWNERSHIP OF SMALL OIL FIRMS.**

Tatarstan President Mintimer Shaimiev signed a decree recommending that all local oil companies sell 25.1 percent of their stock to the government. The decree was targeted at 28 of the republic's small oil companies. The local authorities already own a 40 percent stake in Tatneft. The affected firms produced 3.4 million tons of oil in 1999, and are expected to produce up to 8.5 million annually over the next several years. Shaimiev's decree recommends,

but does not require, compliance. However, as *Profil* noted on 13 March, the president's words have long been law in the republic.

**FIAT MOVES AHEAD WITH NIZHNI INVESTMENT.** Russian Deputy Economics Minister Sergei Mitin stated on 9 March that officials for Nizhnii Novgorod's Gorkii Automobile Plant (GAZ) and Fiat had submitted a joint business plan to the ministry for producing 100,000 cars annually in Russia with a total investment of \$850 million. This move marks an important step forward for the joint venture, which stalled after the August 1998 financial crisis. The drop in the value of the ruble has hurt the market for foreign cars, reducing the potential profitability of the Fiat project. Through the first half of 1999, Fiat sold only 600 automobiles in Russia. Nevertheless, Fiat and GAZ are progressing with the joint venture, although the initial investment and production are likely to be relatively small. As of fall 1999, Fiat had invested only \$30 million in the project. (*The Moscow Times*, 11 March)

## **CAMPAIGN 2000**

### **IRKUTSK GOVERNOR WORRIED LOW TURNOUT WILL RUIN ELECTIONS.**

At the most recent meeting of his political movement Pribaikale, Irkutsk Governor Boris Govorin expressed concern that the presidential elections would not be valid because turnout might not reach 50 percent. According to Russian law, if fewer than 50 percent of the voters participate, the elections must be repeated and the current candidates would not be allowed to run again (see Article 74 of the law on the presidential elections, [http://www.fci.ru/zakon/prez/zak\\_prez\\_150\\_20.htm](http://www.fci.ru/zakon/prez/zak_prez_150_20.htm)). If the elections are not valid, the country would be thrown into a period of chaos, which would reduce its ability to attract investment while sharpening the political battle. Such an outcome would be extremely destabilizing. In his comments, the governor blasted the oblast electoral committee for doing little to assure the necessary turnout.

Govorin noted that "significant" opponents had launched a "unconstructive" campaign against Putin. Among this group he named such figures as Boris Berezovskii, Roman Abramovich, and Anatolii Chubais who are "unhappy with the acting president's independence." Berezovskii and Abramovich have apparently bought a controlling stake in Irkutsk Oblast's Bratsk Aluminum Factory, while Chubais is waging a nasty battle to gain control of the oblast's electricity utility, which is currently independent of his Unified Energy System (see *EWI Russian Regional Report*, 16 February). Additionally, the governor claimed that Putin's election staff is sabotaging his campaign by forcing the regional campaign managers to win Moscow's approval for even the most trivial campaign activities.

The governor called for a maximal effort to assure an adequate turnout. He ordered the creation of special groups to travel throughout the region to collect information about election preparations and quickly resolve any problems on the ground. - Teleinform in Irkutsk

**PUTIN REJECTS CONTRIBUTIONS IN STAVROPOL.** Putin is running a minimalist campaign, including even the level of campaign contributions. Despite numerous organizations that are prepared to make contributions to the likely victor in Stavropol Krai, only two were

allowed to do so. The Stavropol Canning Factory gave 800,000 rubles and the local mineral water factory contributed 500,000. This money was transferred to the central campaign headquarters and the campaign is not accepting any more contributions.

Since Putin has rejected the use of paid and state-provided advertising, the unused air time has been donated to the krai electoral commission to broadcast ads aimed at increasing voter turnout. The greatest fear in the region is that low turnout will prevent Putin from winning on 26 March. - Olga Morozova in Pyatigorsk

**PUTIN DELIVERS ON PROMISES IN MORDOVIYA.** Mordoviya President Nikolai Merkulshkin said that Vladimir Putin's visit to the republic in December 1999 was the most productive visit to the region by a national leader in many years. During his visit, Putin promised the region a considerable amount of help and the experience of the first months of 2000 show that he has kept his word. First, the federal and republican governments have agreed to work together to finish the region's second heat-generating station. Second, the 17 million rubles Putin promised for a new surgical wing and equipment for the veterans' hospital have arrived. The new facility should be opened in the second part of March. Putin has also delivered money to a local school to set up a computer class and purchase a tractor. - Igor Telin in Saransk

## **ST. PETERSBURG GUBERNATORIAL CAMPAIGN**

**CANDIDATES LINE UP FOR ST. PETERSBURG RACE.** The gubernatorial race is shaping up in St. Petersburg, with 16 candidates registered to compete. In this early stage, it looks like Governor Vladimir Yakovlev's strongest opponent will be Deputy Prime Minister Valentina Matvienko. Matvienko is the candidate of choice for Acting President Vladimir Putin, and popular former prime minister Sergei Stepashin has announced that he would not compete in the race, but would support Matvienko's candidacy.

Stepashin's decision not to run came as a bit of a surprise since he had strongly hinted at his candidacy at last month's funeral for former St. Petersburg Mayor Anatolii Sobchak (*EWI Russian Regional Report*, 1 March). Now Stepashin states that St. Petersburg should be ruled by "someone who is not only politically important, but who is also a good manager and more than just a compromise figure" (<http://www.polit.ru>). Stepashin will remain head of the National Anti-Corruption Committee and the corresponding Duma committee. He refuted the assertions that his decision not to participate in the election resulted from pressure from federal agencies. In addition to the endorsement of Stepashin, Matvienko is also likely to benefit from the stated support of former Yakovlev allies Moscow Mayor Yurii Luzhkov and former Prime Minister Yevgenii Primakov.

Matvienko's prominence in the early part of the race is due in part to a strong PR campaign (on Matvienko's platform, see related article in this issue). She regularly appears on ORT and RTR television programs, where she has conducted an open meeting on social issues, accompanying Lyudmila Putin on hospital visits, traveling with the acting president to Ivanovo for Women's Day on 8 March, and consulting with various political groups from Soyuz pravyykh sil to the Communist Party. However, on the local scene, the only meaningful support Matvienko can count on entirely is that of the recently formed St. Petersburg Yedinstvo branch.

Other local political groups are putting forth their own candidates. On 13 March Yabloko announced that it was nominating Igor Artemev, who competed in the 1996 St. Petersburg mayoral elections but withdrew his candidacy before the first round in favor of Yakovlev. Upon winning election, Yakovlev appointed Artemev first deputy governor. Artemev held this post until January 1999 when the local Yabloko political council broke with the governor and Artemev subsequently resigned (*EWI Russian Regional Report*, 21 January 1999). He was elected to the State Duma in December 1999 on the Yabloko party list. However, just as in 1996, Artemev might pull out in favor of another candidate as election day nears. Yabloko has suggested that a union with Matvienko might be possible.

Communist State Duma Speaker Gennadii Seleznev has proposed nominating Kirov Factory Director Petr Semenenko as the Communist candidate. It is also possible that the Communists might support Matvienko, who worked in the Leningrad Komsomol until 1989. The Communist Party can count on support for its respective candidate from former Leningrad Oblast governor and former deputy prime minister Vadim Gustov, who currently heads the northwest branch of the Federal Mining and Technical Oversight Agency. Former Prime Minister Sergei Kirienko has stated several times that Stepashin's refusal to run is a mistake, and is likely to support the nomination of one of the St. Petersburg State Duma deputies, Yuliya Rybakov or Grigorii Tomchin, or Lenenergo General Director and former Vice-Governor Andrei Likhachev, in the first round.

Deputy Chairman of the Russian Audit Chamber Yurii Boldyrev submitted his registration documents to compete in the election on 10 March. Just hours later the wealthy Orimi company general director, Dmitrii Varvarin, was murdered outside of his home in what appears to have been a contract killing. Varvarin was a member of the Yurii Boldyrev Bloc political council and financed a large part of the Boldyrev campaigns in 1998-1999.

If Matvienko manages to gather the support of Yabloko, the Communist Party, and Soyuz pravyykh sil, a reasonably plausible scenario, then Yakovlev will be almost totally politically isolated. Nevertheless, as the incumbent, he is still a formidable opponent. The St. Petersburg gubernatorial election will be the first major regional executive elections in Putin's Russia and will serve as a trial for the new Kremlin administration. It will determine whether the Kremlin will be able to successfully elect a candidate for the governor's position who has no real claim on the job at the start of the campaign. Although Putin supported Seleznev in the Moscow Oblast elections earlier this year, Boris Gromov was able to prove victorious, so Putin's first experience is not encouraging. If Putin is not able to win his choice for the governor's seat in St. Petersburg, he may decide to try to abolish the system of electing governors in favor of direct appointments from the Kremlin. - Daniil Tsygankov in St. Petersburg

**MATVIENKO SEEKS TO "RETURN ST. PETERSBURG TO ITS FORMER GREATNESS."** Russian Deputy Prime Minister Valentina Matvienko, who has officially announced her candidacy for the St. Petersburg gubernatorial election, stated that her first goal if elected governor is to "return St. Petersburg to its former greatness." She emphasized that achieving this end requires "establishing all of the necessary conditions for economic and social development, increasing residents' incomes, and the flourishing of culture and science." Matvienko believes that the label St. Petersburg has acquired over the past several years as



Russia's "criminal capital" is unfair and incorrect. Appearing before supporters, Matvienko stated that it was insulting for St. Petersburg and its residents that the city had become involved in so many corruption scandals. She attributed this fact, "not only to poor city management, but also to the open tolerance of crime."

During the press conference at which Matvienko officially announced her candidacy, she said that the issue of uniting Leningrad Oblast and St. Petersburg into one administrative unit is not a key issue in the gubernatorial election. In Matvienko's opinion, the residents of the city and oblast should decide whether or not the two unite. Moreover, it is necessary to conduct a serious analysis of the pros and cons of the union since it is only being discussed in terms of economic benefits.

Matvienko stated that she was certain of her victory in the gubernatorial race and in her ability to help the city: "In my life I have only taken on those things in which I was sure that I would be successful. It will be a difficult and serious political battle, but if I had even the smallest hesitation, I would never run in the election." Matvienko plans to publish her platform as soon as official campaigning begins. - Marina Makova in St. Petersburg

## **CENTER-PERIPHERY RELATIONS**

*On 1 March, the RRR published an article examining the Kremlin's arsenal of weapons in dealing with the governors. This week we look at the tools the governors can use to build up their own power.*

**RESOURCEFUL GOVERNORS ABLE TO COUNTER KREMLIN.** While the Kremlin maintains a powerful arsenal that it can deploy in its relations with the regional executives, the governors also have considerable resources that they can use against the Kremlin and adversaries they face in their home districts. First, in the wake of the August 1998 financial crisis, the regions are more self-sufficient and less used to thinking that the federal government will bail them out. According to a recent study produced by Aleksei Lavrov's team at the Finance Ministry, about 25 of the 89 regions contribute more to the federal budget than they receive in federal spending. The conventional wisdom assumes that there are only 10-12 "donor" regions, so the Lavrov finding suggests that there are many more self-sufficient regions than is widely believed.

What is most important, however, is that the governors often have extensive control over the local economy and the resources located inside the regions they govern. In many cases, the governors control significant stakes in local enterprises. Moscow Mayor Yuriy Luzhkov, for example, controls extensive holdings throughout the capital, including large car factories, an oil company, hotels, and stores. The presidents of Tatarstan and Bashkortostan control the key energy companies in their regions and can use company resources for their own benefit.

Second, the governors can use their institutional resources to shape the outcome of federal, regional, and local elections conducted in their region. In presidential campaigns, the governor can often, but not always, deliver votes for one of the candidates. Presidential candidates thus make extensive efforts to win the support of as many governors as possible.

Most important in these efforts is the governors' ability to control some or all of the significant local media.

The governors also have a powerful voice in State Duma elections, in both the party-list and single-member district parts of the vote. In 1999, the regional executives played a major role in the campaign because they set up several of the parties, such as Otechestvo and Vsyā Rossiya, which worked against the Kremlin. Other governors were crucial in setting up the pro-Kremlin Yedinstvo party. In the single-member district races, the governor-backed candidate won in about 75 percent of the districts. As a result, members of the State Duma elected in 1999 from both parts of the ballot reportedly feel a much stronger link to the governors than their predecessors.

Through their control of the media and other institutional resources, the governors have powerful advantages in their reelection campaigns, but these do not necessarily ensure their ability to win reelection. In fact, until the elections of 1999, governors were more likely to lose to a challenger than win (see Table 1). However, in 1999 governors discovered the technique of moving up elections by six months or more as a way of throwing the opposition off balance. In the recent past their performance has much improved. Whether this trend holds in the numerous gubernatorial elections set for 2000 remains to be seen.

Table 1. The Role of Incumbency in Gubernatorial elections

Year	Number of elections	Incumbent winners	Incumbent winners (%)
1999	17	12	71%
1998	11	5	45%
06.96-03.97	48	21	44%

The governors have generally been more successful in winning the election of a regional legislature that is sympathetic to their policies, though there are several exceptions here as well. In the Federation Council, the chairperson of the regional legislature usually stands in the shadows of the region's governor, such as in the case in Saratov Oblast. In a few regions, however, executive-legislative relations are extremely conflictual. In St. Petersburg, the governor is in constant battle with the city's Legislative Assembly, to the point where the legislature could not elect a chairman for more than a year after it was seated in December 1998. In the Nenets Autonomous Okrug, the executive and legislative branches are battling over how to develop the region's extensive oil and gas deposits.

The governors often have trouble electing allies as mayors in the regional capitals of their constituencies. In several regions, there are intense battles between the capital mayor and the governor usually because they cannot agree on how to prepare the regional budget. The governor often seeks to use some of the tax money collected in the city to subsidize programs that benefit the region's poorer rural areas. The mayors resent the use of money generated in the city for projects that do not directly support its residents. Because of the differences between

the governor and mayor, the federal government can often side with the mayors to increase its leverage over the governors.

Third, the governors often are able to capture or circumvent federal agencies working in their districts. For example, many of Yeltsin's presidential representatives to the regions actually served more as regional advocates to the federal government than as representatives of federal power in the regions. Federal agencies are often dependent on the governors for their office space and other resources so they may be reluctant to oppose the governors as much as their Moscow-based superiors would like. Thus even though Moscow has established a federal treasury system to gain better control over tax flows, governors like Ulyanovsk's Yurii Goryachev can circumvent the treasury by forcing large local enterprises to pay their taxes directly to the oblast rather than through the federal system.

Fourth, the governors can use the prevalence of barter, tax write-offs, and other forms of soft budget constraints to hide how they are actually spending their money and other resources. The governors use the lack of fiscal transparency to pursue their own goals while evading oversight from the federal government and the public.

Finally, the regional executives can block the implementation of federal policies in their regions. The most prominent example of such an effort was Moscow Mayor Luzhkov's successful campaign to prevent Anatolii Chubais' federal privatization policy from being implemented in the capital and instead imposing his own program.

Thus, while the Russian president has a powerful arsenal, the governors remain a significant lobbying group at the federal level and somewhat autonomous players at the regional level. While the president can easily issue decrees in the Kremlin, he usually has to intimidate or entice the governors to actually implement them. In the later part of his term, Yeltsin often seemed powerless since he had to buy the governors' political loyalty by decentralizing power to them. As acting president, Putin seems to be in a much stronger position, but it is too early to tell how his relationship with the governors will ultimately evolve. - Robert Ortung

### **NAZDRATENKO BLASTS CHUBAIS, ELECTRICITY UTILITY REFORM.**

Primorskii Krai Governor Yevgenii Nazdratenko has stepped up his campaign against Unified Energy System Head Anatolii Chubais, who has long been his number one enemy. On 3 March, Nazdratenko published a long open letter to Chubais in the local newspaper *Vladivostok* in which he accused his opponent of destroying the country ([http://vl.vladnews.ru/0003/747\\_03/POLIT/POLIT01.asp](http://vl.vladnews.ru/0003/747_03/POLIT/POLIT01.asp)). Fragments of the letter have been widely circulated in the national press and the letter is now seen as an attempt to remove Chubais from power and deprive him of any levers of influence over acting President Vladimir Putin.

The immediate cause for the letter was Nazdratenko's opposition to Chubais's plans to restructure Russia's energy sector. The governor believes that Chubais is planning to sell Russia's best electric stations to his foreign friends at a time when he believes it would make more sense to give the stations to the regions where they operate. Nazdratenko likewise advocates transferring all electricity and heating distribution networks to the state.

A large part of the letter is given over to criticism of Chubais's career. Nazdratenko accuses him of sponsoring "bandit privatization" that shifted enormous resources out of the

country, creating the GKO pyramid which collapsed in August 1998, establishing stock markets that do not generate any investment capital, and adopting Western advice aimed at finishing off Russia.

Nazdratenko claims that the people standing behind Chubais want to elevate him to a higher position, perhaps even making him the Russian president. Putin's appearance at the top of the Russian Olympus angered Chubais's team because Putin would block Chubais's rise to power forever, the governor claimed. Nazdratenko concluded the letter by calling on Chubais to help Putin and voluntarily step down as the head of Unified Energy System.

Nazdratenko's letter was published one week before the governor's meeting with Putin in Moscow. Nazdratenko reported that the meeting went well and that it was unprecedentedly long, lasting one hour and 27 minutes.

The newspaper *Vladivostok* said that Nazdratenko criticizes only when his words can have a real impact. The governor was able to get rid of all of his opponents at the regional level. After the presidential elections, it will be possible to measure the relative strength of the statist, the group to which Nazdratenko is most closely associated. - Dmitrii Motovilov in *Vladivostok*

## **RESTRUCTURING THE FEDERATION**

**FAR EASTERN GOVERNORS PROPOSE ENLARGED GUBERNIYA.** On 10 March Jewish Autonomous Oblast Governor Nikolai Volkov and Khabarovsk Krai Governor Viktor Ishaev announced their idea to unite seven Far Eastern regions into a single Far East *guberniya*. In addition to their regions, the governors propose that Primorskii Krai, Amur, Magadan, Sakhalin, and Kamchatka should form the *guberniya*. Volkov feels that such a union would be beneficial from the perspective of providing supplemental resources to each region.

There are two possible explanations for this initiative. First, this proposal, like the well-known restructuring proposals of Novgorod Governor Mikhail Prusak and Kemerovo Governor Aman Tuleev, is just another trial balloon floated by the regional leaders for the sake of Vladimir Putin on the eve of the presidential elections (see *EWI Russian Regional Report*, 1 March). Second, this proposition could simply be an expression of Volkov's desire to unite his relatively poor Jewish Autonomous Oblast with the considerably better off Khabarovsk Krai. It is not surprising that Volkov was the person to announce the proposal of a Far East *guberniya* while Ishaev only supported the idea, trying not to mention the five remaining regions. Ishaev stated that the removal of the Jewish Autonomous Oblast from the jurisdiction of Khabarovsk Krai on 25 March 1991 was a mistake, claiming that the two neighboring regions cannot survive without each other.

Among the governors of the other five affected regions, only the opinion of Primorskii Krai Governor Yevgenii Nazdratenko is known regarding the proposal. Nazdratenko told *Izvestiya* (11 March) that he considered the idea a display of separatism and recalled that such changes demand a referendum or alterations to the Constitution and that there are more important problems to deal with in Russia. Nazdratenko expressed doubt that merging the

outlying territories of Russia would help their economies and stated that there were far better ideas for economic integration.

The reaction of other regional leaders is easy to predict. With the exception perhaps of the Amur Oblast governor, whose region has a lot in common with Khabarovsk, none of the others would want to serve under Viktor Ishaev, and it is no secret that the capital of a Far East *guberniya* would be Khabarovsk. It is doubtful that the idea of more widely sharing the benefits of the region's natural resources will evoke enthusiasm among the populations of resource-rich regions. For example, during the State Duma campaign last year, candidates in Sakhalin effectively employed the political slogan that Primorskii Krai and Khabarovsk were aiming to take a large cut in the profits of Sakhalin's oil and promised that they would not allow this if elected.

Volkov's and Ishaev's announcement made national headlines. Yet, in Primorskii Krai, many of the newspaper did not consider it newsworthy. - Dmitrii Motovilov in Vladivostok

## **LOCAL GOVERNMENT**

**KARELIYA'S KATANANDOV ON LOCAL GOVERNMENT.** On a recent trip to Volgograd, Acting President Vladimir Putin singled out Kareliya Prime Minister Sergei Katanandov as good role model on local government issues (see *EWI Russian Regional Report*, 1 March). Before winning the northwestern republic's highest office, Katanandov served as mayor of Petrozavodsk. He recently expressed his opinion on the problems confronting the development of local government. His words ostensibly back local government, but seem to minimize its role.

Katanandov said that "As a member of the presidential Council on Local Government and a member of the Union of Russian Cities, I do everything I can to preserve local government. New people are coming to power in Russia and they could alter the way the country is governed. More and more, people are talking about a 'strong hand.' More and more, a desire is emerging to determine everything from the top and establish order in this manner. Accordingly, it is necessary to understand that over the past ten years we have done a lot of important things and did not allow for many mistakes. I believe that local government saved the situation. And if it were not for local government, our population would be in a much worse situation than it is now.

"Local government needs to be relieved of functions that are not appropriate for it, and helped in its development. My work in the Federation Council is linked to this goal, including my amendments to several Russian laws on this matter," Katanandov explained.

At present the Council for Local Government is working in the republic preparing agreements between the federal, republican, and local levels; transferring the financial base downwards; and strengthening the role of the state (namely, the federal and regional governments) in the spheres where it should carry the full responsibility: healthcare, education, employment, and social security. According to Katanandov, "We will remove all functions unusual for local government that overload it and focus its efforts on work with people, creating new jobs and social security." - Boris Matveev in Petrozavodsk

## **REGIONAL BUDGETS**

**ULYANOVSK CITY DUMA ADOPTS UNREALISTIC BUDGET.** The Ulyanovsk City Duma adopted the city's 2000 budget, rejecting a version prepared by the mayor and unanimously backing an alternative that calls for significantly higher expenditures. At the demand of Duma Budget Committee Chairman Alsu Balakishieva, an additional 66.5 million rubles were added to the budget, bringing its total size to 912 million rubles. However, this sum represents a hidden deficit since it is taken from questionable income sources, according to Vladimir Fedoseev, the chairman of the mayor's financial department.

Election fever explains the actions of city Duma members. Many of them are interested in competing for the six seats in the more important Oblast Duma that will be contested in June. The city Duma itself will be reelected in December. During the campaigns, the deputies will undoubtedly point to the inflated budget as one of their accomplishments for their constituents. In fact, Duma Chairman Aleksandr Balandin said that the deputies acted out of necessity determined by the demands of the voters and the requirements for developing the city's infrastructure. He claimed that the mayor's budget would have frozen the city's construction, anti-drug, and vaccination programs.

In favor of her argument for increasing budget revenue and expenditure, Balakishieva pointed out that by the end of 1999, the mayor had managed to reduce the city's giant budget deficit. She claimed that the deficit was filled by income that the city Duma had not approved, meaning that income was likely to increase again this year.

In 1999, the mayor did reduce the deficit from 337 million to 43 million rubles. However, Fedoseev pointed out that the mayor achieved this goal by tax debt swapping with enterprises that owed money to the city. Now the Russian Ministry of Finance and the Ministry for Tax Collections require real money payments for four key taxes (value-added, income, property, and land) in an effort to provide hard budget constraints. The city's tax income from 1999 suggests that it would be unrealistic to expect a rapid growth of real money tax payments in 2000. In fact the requirement that taxes be paid in real money has already had a dramatic effect on tax collections and in January the city collected only half of the planned amount.

The federal government's decision to require real money tax payments likely means that the Ulyanovsk budget will lose 100 million rubles for 2000. By invoking these measures, the ministries sought to increase budget discipline. However, this move also deprives the cities of much room for maneuvering. It is no secret that the city received an enormous amount of goods it needed through tax debt cancellations. In particular, the city paid for heating and housing support this way in 1999.

Ironically, the city Duma is hoping to generate much of the additional income through the sales tax, a reliable producer of cash. Last year the city Duma requested that the oblast Duma not impose the sales tax since the city legislators feared that it would create an undue burden on the city's already struggling population. - Sergei Gogin in Ulyanovsk

## **MEDIA ISSUES**

## **KURSK LEGISLATURE VOTES NOT TO FINANCE PRO-GOVERNOR**

**NEWSPAPER.** In discussing the region's 2000 budget, the Kursk Oblast Duma focused considerable time on expenditures for the media. This theme is not surprising since this year Kursk's residents will be heading to the polls at least three times, for Russian presidential elections this spring, Kursk gubernatorial elections in the fall, and oblast дума elections in December. The issue of control over newspapers in this situation is very important. Whoever controls the media wields considerable power.

One of the main issues discussed was why the newspaper "Kursk," which has a clear bias in favor of the governor, receives subsidies from the oblast budget. Kursk Oblast Duma Chairman Viktor Chernykh stressed that the media did not give sufficient coverage to the legislature. He said that the activities of the deputies should appear on the pages of all state media, including oblast and raion media. Oblast дума deputies recalled that they never approved the establishment of "Kursk" and that "Kursk" was the only oblast newspaper that printed the word governor in capital letters. Deputies Anatolii Popov and Vladimir Yerokhin, who are also deputy governors, felt that their colleagues' attack on "Kursk" was an attempt to "suffocate an unbiased newspaper." Yerokhin further explained that the governor had proposed giving copies to 6,000 veterans and pensioners who could no longer afford the subscription. However, his дума colleagues did not share his sympathy for the paper.

Ultimately, the deputies voted against giving "Kursk" any financial support from the oblast budget. If "Kursk" continues publication, it will be with other resources. Additionally, the newspaper Kurskaya pravda, which was founded in part by the Kursk Oblast administration, has had its financing reduced by 30 percent. - Sergei Sarychev in Kursk

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### **Advertisements**

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**BREAKING NEWS**

**POLITICS**

### **BEREZOVSKII TRIES TO CALM SITUATION IN KARACHAEVO-CHERKESIYA.**

In response to the resumed protests on 13 March by Cherkes and Abazins (*EWI Russian Regional Report*, 15 March), State Duma Deputy from Karachaevo-Cherkesiya Boris Berezovskii traveled to the region to help resolve the situation. The demonstrators were angered that Karachaevo-Cherkesiya President Vladimir Semenov had not appointed a representative of the Cherkes population to the government. Berezovskii was instrumental in calming the Cherkes protests this fall and assisting the feuding republican presidential candidates, Karachai victor Semenov and defeated Cherkessk Mayor Stanislav Derev, reach a peaceful agreement that allowed Semenov to take office.

Upon arriving in the republic Berezovskii met with Derev. Berezovskii commented that he had tried to communicate with Semenov, but the republican president claimed that he did not have time to speak with Berezovskii. Following his meeting with Derev, Berezovskii told journalists that the two discussed how to stop the demonstrations. He further stated that, "Unfortunately, what Semenov is doing in reality contradicts what we agreed upon. But in Russia there is a sufficiently strong authority to force politicians to answer for their words. Semenov will not be allowed to leave his promises unfulfilled," (*Kommersant Daily*, 16 March).

In response, Semenov stated, "It is strange that Deputy Berezovskii is beginning to identify himself with state authority. Regarding 'force'--it is unnecessary to force me. As a military man, I carry out all concrete promises." Semenov further stated that the Cherkes have not upheld their end of the deal. When the consultative council formed in January by Berezovskii and then Deputy Prime Minister Nikolai Aksenenko asked the Cherkes to provide Semenov with 10 candidates for prime minister, they proposed only Derev, whom Semenov rejected. *Nezavisimaya Gazeta* reported on 16 March that Semenov refused to meet with Berezovskii because he felt that the Duma deputy had no business in regulating the situation in the republic. He stated, "From Deputy Berezovskii we expected and continue to expect economic help."

**LUZHKOV ANNOUNCES SUPPORT FOR PUTIN.** Accepting the inevitable, Moscow Mayor Yurii Luzhkov announced on 15 March that his Otechestvo movement would back Acting President Vladimir Putin under certain vague conditions. Putin will keep Luzhkov's support as long as he maintains democratic freedom in Russia, rejects dictatorship by oligarchs, develops the real sector of the economy, and mobilizes resources in support of the social sphere, sciences, culture, and strengthening state authority. Putin has already stressed his support for these points in his electoral campaign.

Luzhkov, who has watched his former supporters line up behind the acting president and the pro-Kremlin Yedinstvo movement over the past several months, had little choice but to align with Putin. In February Luzhkov announced that he was allowing Otechestvo's regional branches to determine for themselves which candidate they would support in the election (*EWI Russian Regional Report*, 24 February). Many regional branches have already adopted a pro-Putin stance. Additionally, rumors are circulating that Luzhkov-ally and Otechestvo-Vsya Rossiya State Duma faction leader, former Prime Minister Yevgenii Primakov, will leave the

Duma to join the new cabinet. Such an event would leave Luzhkov without any real influential allies on the federal level. (*Vedomosti*, 16 March)

**KARACHAI TERRORISTS OPEN FIRE IN STAVROPOL.** On 18 March two Karachai brothers opened fire on policemen in a Stavropol bus station when the policemen tried to inspect the men's baggage. The two policemen were killed as well as two women caught in the crossfire and the older brother. One other woman was injured. The Salpagarov brothers are well known in Karachaevo-Cherkesiya as part of a powerful and influential clan and are rumored to have connections with Chechen terrorist groups. Their suspicious baggage was found to contain various weaponry and grenades. (*Izvestiya*, 20 March)

### **ECONOMICS**

**SIDANKO CHOOSES AMERICAN PRESIDENT.** The board of directors of the formerly bankrupt Sidanko has appointed American Robert Sheppard president of the company. Previous Sidanko President Boris Volkov vacated the post in February 1999 when it became clear that Sidanko was headed for bankruptcy. External manager Sergei Kitin served as president until the company came to an amicable settlement this January (*EWI Russian Regional Report*, 2 February). Sheppard has worked for Amoco and Amoco related enterprises for 18 years (BP Amoco owns a 10 percent stake in Sidanko), and in June 1999 became Sidanko's executive vice-president. Sheppard's goal is to change the company's management structure, including increasing the share of responsibilities given to subsidiary leaderships. One obstacle highlighted extensively in the press that Sheppard may have to overcome is his minimal knowledge of the Russian language. However, Sheppard does not feel that the language barrier is significant, pointing out, that even businessmen who are native speakers of Russian are often unable to negotiate with Transneft or governors. (*Profil*, 20 March, *Kommersant Daily*, *Vedomosti*, 17 March)

**SAKHALIN GOVERNOR APPEALS TO PUTIN ON OIL PROJECTS.** Sakhalin Oblast Governor Igor Farkhutdinov issued an open letter to Acting President Vladimir Putin expressing concern for the future of the region's oil investment projects. The letter complained that delays in the exploratory drilling for the Sakhalin-1 and Sakhalin-2 projects had caused more than \$30 million in losses. In August 1999 drilling on the Sakhalin-1 project ceased after an environmental impact study recommended that the project not proceed (*EWI Russian Regional Report*, 11 August 1999). The expense required to make Sakhalin-1 ecologically safe significantly reduced the project's profitability, making it easier to just halt the project altogether (*Kommersant Daily*, 15 March). Similar problems also endanger Sakhalin-2, which is now operational. At a 14 March press conference Farkhutdinov stated that the amount of investment in Sakhalin Oblast this year connected to the Sakhalin-1 and Sakhalin-2 projects will be only one-third of what it was last year. Farkhutdinov's letter further stated that the situation in Sakhalin undermines Russia's authority in the international market and discredits attempts to attract foreign investment to the country.



According to *Kommersant Daily*, Farkhutdinov wrote the letter to Putin under pressure from Exxon, which owns a 30 percent stake in Sakhalin-1. Exxon has repeatedly threatened to leave Sakhalin altogether, as the Atlantic Richfield Company (ARCO) did in February when it bowed out of Sakhalin-4 (*EWI Russian Regional Report*, 16 February). Exxon has also refused to finance drilling for Sakhalin-3, of which it also owns a stake.

Though Farkhutdinov has pushed for developing the region's oil resources, the local population is less enthusiastic. They have seen virtually nothing of the supposed wealth these projects are bringing to Sakhalin (see *EWI Russian Regional Investor*, 5 August 1999, *EWI Russian Regional Report*, 21 October 1999). Farkhutdinov's popularity is on the decline, and he faces considerable opposition in the Communist controlled oblast Duma.

**IKEA HITS ANOTHER ROAD BLOCK ON MOSCOW HIGHWAY.** Sweden's IKEA has encountered yet another obstacle in breaking into the Moscow furniture market. First the company struggled with the government for lower customs tariffs (*EWI Russian Regional Report*, 29 April 1999), then encountered opposition to the ads it sought to place in the Moscow metro, and now it is battling the Moscow City government over an access bridge. Moscow claims that the bridge crossing Leningradskoe Shosse is illegal because IKEA did not receive permission from the city to construct something blocking the view of the Protivotankovie Yezhi (Tank Trap) World War II memorial. Khimki, Moscow Oblast, the town in which the IKEA center is located, wants the bridge to be completed. Moscow and regional authorities apparently approved the bridge plan last year. According to *The Moscow Times* on 18 March, sources close to the project believe that Moscow City was angry that IKEA chose to set up its store in Moscow Oblast instead of the capital, preventing the city from benefiting from its tax revenue. IKEA claims that the bridge conflict would not hold up the store's 22 March grand opening or hurt sales, but would rather result in increased potential for traffic jams outside the store. IKEA plans to open seven stores throughout Russia.

## **RETHINKING THE RUSSIAN STATE**

### **PUTIN BRAIN TRUST SEEKS TO IMPROVE FEDERAL AGENCIES IN REGIONS**

by Leonid Smirnyagin, former presidential advisor

MOSCOW - Federalism in Russian is in crisis. After the swift successes of the 1990s, Russia is now going through a period of what can only be described in Russian political language as a "recoiling" (*otkat*) against federalism. It seems that the successes were too rapid and the headlong changes frightened society, which clearly underestimated the role that federalism played in preventing Russia from falling apart the way the Soviet Union did. The vast majority of the country's leaders not only do not understand the subtle mechanisms of federalism, but are incapable of adapting to them even passively. It is not surprising that at the beginning of the year when the recoiling was obvious several regional leaders attacked federalism in the hopes of breaking its very back.

The first to speak out in February was Kemerovo Governor Aman Tuleev who recommended combining Russia's krais and oblasts (but not the republics) into 10-12 large *guberniyas*, which would be ruled by governors appointed directly by the Russian president (see *EWI Russian Regional Report*, 24 February). He proposed uniting the regions on the basis of mutual economic advantage. Tuleev's announcement caused a sensation particularly because he has a reputation of winning Kremlin approval in advance for all of his statements, even the most extravagant. Similar thoughts were quickly ascribed to Acting President Vladimir Putin, particularly because his thinking on the country's key problems is generally unknown, leaving plenty of room for speculation.

Quickly thereafter, Novgorod Governor Mikhail Prusak, Belgorod Governor Yevgenii Savchenko, and Kurgan Governor Oleg Bogomolov put forward their own ideas (see *EWI Russian Regional Report*, 1 March). Their proposal took the form of an open letter to Putin with a detailed plan to radically restructure the state's political institutions. The central idea was the destruction of federalism as such. This goal was not explicitly defined in the text, but the document includes sentences like the following: "As Russia's historical experience shows, the enormous territory, sparse population, and the complicated military-political situation on the borders demands a powerful, centralized system of state management. Russia must be a presidential democratic republic with a strong vertical executive branch" (The text of the letter appeared in *Nezavisimaya gazeta*, 25 February).

Following this logic, the governors proposed a series of fundamental changes to the constitution, including: doing away with gubernatorial elections and having the president appoint the governors with the agreement of some sort of "assembly of representatives" in the newly-created guberniyas. The liquidation of the Federation Council and replacing it with a consultative State Council. And, in the future, combining the regions into larger units, again without touching the republics "during the first phase!" They essentially proposed liquidating local government by pushing its functions down to the level of the microraiion, block, or village. Additionally, they wanted regional governments to define the structure of local governments rather than letting the federal government continue to perform this task.

The letter discussed numerous issues of public and private life beyond federalism. The governors' suggestions all have a common theme. They are politically conservative and marked by a semi-Soviet statism which takes us back to strict state administration in political and social spheres. The source of these beliefs is largely emotional. The authors are clearly upset that it is no longer possible to manage Russian society and that the state has been deprived of the many levers for controlling social life which it once used quite frequently. It is easy to understand the governors' annoyance because people are now living more by their own wits than under the strict guidance of their political leaders.

The most superficial analysis of these proposals shows that implementing them would have extremely negative consequences. Imagine what would happen if Russia's existing regions were combined into larger units and ruled by a presidentially-appointed governor. Then two-thirds of the members of the Federation Council would represent republics, while the ethnic Russian regions would only comprise one third of the members. The republican leaders would have more legitimacy since they were elected by their constituents, while the governors would

be transformed from politicians into bureaucrats answering to the president but not their constituents. The current asymmetrical features of the federation, about which numerous governors have complained, would only be extended.

A lot can be said about the anti-democratic character of proposals to abolish local government or depriving the residents of a region of the right to elect governors. But for the people making such proposals, this is not an argument. Words like "democracy" do not appear in Tuleev's speeches or in the three governors' open letter and this is completely normal for them. Imagine if we were to unite the existing regions as Tuleev and the governors propose into 10 regions that have essentially self-sufficient economies and little need for contact with their neighbors who are also part of the same united state. Wouldn't this lead to the disintegration of the country, with a political division following the economic division? Today none of the regions, even powerful ones like Samara or Tatarstan, could cut ties with the other regions because they are not capable of economic autarky, not simply because their economy is not big enough, but because they benefit from the territorial division of labor and the deep economic specialization of the regions in specific industries. Combining the current regions into larger units would only provide these new units with the ability to be autarkic.

Clearly the governors who made these proposals do not want to stimulate the dissolution of the federation. Undoubtedly they realized the consequences of what they were suggesting. They probably never intended their ideas to actually be implemented, but wanted to get credit for suggesting them. Several journalists have pointed out that the governors are trying to demonstrate their loyalty to the future president, and in this it does not hurt to go too far...

There have been numerous commentaries on the governors' proposals (see North Osetiya President Aleksandr Dzasokhov's comments in *Nezavisimaya gazeta*, 14 March). However, only one voice denounced the attempts to rework Russian federalism as potentially dangerous. Samara Governor Konstantin Titov said that federalism is an effective but complex weapon, and several politicians who do not have the ability to grasp how to use it are trying to reduce it to their ability to understand. Unfortunately, Titov is alone. Most governors accepted the proposals in the letter of the three (although some complained about losing the right to stand for election) and the idea of subordinating local government directly to the regions was particularly popular.

The Kremlin's reaction was, as has become characteristic in the last several months, very evasive. Putin said that there was no need to rush or to deprive citizens of the right to elect their governors, but he was clearly interested in extending the presidential term to seven years, as Prusak and his colleagues suggested. The media said that the president was using the governors to push public opinion in favor of reducing federalism and gradually introduce a unitary state. There have also been rumors that Prusak, the key author among the three governors, is now part of Putin's inner circle.

However, much of these stories are exaggerated. Putin is seriously thinking about the problem of improving the state structure, but is hardly talking about a radical reform that would include the abolishment of federalism and local government. In the famous Aleksandr-House, where German Gref's Center for Strategic Planning is preparing a strategic plan for Putin's team, there is a special section working on federalism. No one there is talking about getting rid of federalism. The leader of the section is the former leader of the Perm legislature and former

Nationalities Minister Yevgenii Sapiro. In February, he and I held a special seminar in Aleksandr-House where we were sharply critical of Tuleev's comments and the letter of the three. Sergei Shakhrai agreed with us and none of the other speakers disagreed with the "anti-Tuleev" parts of our presentation.

The ideas of enlarging units and appointing governors could be used by Putin's team, but only in a different way than the governors suggest. For years the Kremlin has been discussing how to better organize the management of federal agencies working in the regions. One of the key proposals has always been to create in Russia several large districts consisting of several of the 89 regions, and coordinating the work of the federal agencies in these larger units. As part of the Analytical Department of the presidential administration, I organized a scheme of 34 such units. When Anatolii Chubais was in charge of the presidential administration, his team organized a plan with 25 such units. However, in both cases, we were only speaking about coordinating federal activities in the regions, and there was no discussion about reorganizing the structure of the country. We suggested placing presidential representatives at the head of such districts, and these individuals would play the role that governor-generals did a century ago, however they would not have the right to interfere in the affairs of the regional authorities.

The idea of appointing governors was discussed many times in regard to the special status of Kaliningrad Oblast. This exclave is closer to Berlin than Moscow and could be isolated once Poland and Lithuania join the European Union. The oblast's leadership has long demanded a special form of management and greater independence. The Kremlin agrees that the exclave is special but believes that it requires tighter control from the center, including potentially the appointment of the governor. Many have applauded the Kremlin's idea and consider its implementation as inevitable. Such a change in the oblast's status would require a constitutional amendment, but now there is a good chance that it would pass. The next gubernatorial elections in Kaliningrad are set for October.

Tuleev's proposals and the letter of the three governors are often seen as sacrifices. The governors seem to be rejecting their independence and the legitimacy they gain from being elected rather than appointed. However, the proposals more accurately reflect the governors' cunning. The majority of governors were against being elected in the first place and they accepted it only under pressure from Moscow and the Kremlin team because electing governors was seen as a part of the overall plan for democratizing the country. It is easy to understand the governor's opposition if you remember that more than half of the incumbents were defeated in the first major round of elections held in 1996. For many, elections are too difficult a test and it is much easier to deal with the Moscow dignitaries or the president than with their own voters. As one member of the Federation Council explained, it is much easier to lick one boot clean than 400,000. Russia's regional elite were always adroit in the ways of the czar's court and had mastered the Byzantine skills of saving their posts. It is no accident that Communist Party of the Soviet Union oblast secretaries held their jobs for 15 years, with some surviving twenty or even thirty years. Why should governors fight for elections when even in the best circumstances they will only be able to stay in the post for eight years because of the two-term limits imposed by oblast charters?

The attack on federalism has begun. Such events take place in all countries which have started to introduce federalism in place of a unitary state, particularly where the process has

moved too quickly as in Russia. The response to the attacks should not be the abolishment of federalism, but its perfection and the transition from widening it to deepening it.

**PUTIN ON HIS RELATIONS WITH THE GOVERNORS.** In an interview with the editor of the Komi newspaper *Respublika* (15 March) Acting President Vladimir Putin said, "Russia should have a clear order of management. I think that in terms of the question of whether to appoint or elect governors, we have already climbed to a certain height. The population has become used to its right to influence who will be its leader. The governors themselves do not have a united position on this question... It is clear that our vertical management structure has been destroyed from top to bottom and from the bottom to the top. The governors all complain about local government. They say that the chain of state management is broken. Between the federal government and governors there is another break. Now the regional authorities often subordinate the procurator and the press to themselves. In fact now the center has more responsibilities than the regions. If all state obligations add up to 100, then the federal government has 65 [percent of all tasks] and the regions 35. However, resources are now divided 50:50. To compensate for the break between the federal government and regional authorities, the federal government instituted the office of the presidential representative. But the majority of governors say 'Why do I need a presidential representative? Let me be the presidential representative.'" - Yurii Shabaev in Syktyvkar

**IRKUTSK GOVERNOR: DANGEROUS TO APPOINT GOVERNORS.** On 16 March, Irkutsk Governor Boris Govorin said that appointing governors would be "dangerous." He said that if a governor were appointed, he would become dependent on the person who appointed him and would try to work in the interest of the federal government rather than the residents of his district. He argued that in Irkutsk Oblast it was better to elect governors to resolve global problems and problems in the region.

As for the idea of appointing mayors, he said that this idea deserves thorough legal and organizational preparation. He noted that the oblast has only four territories that contribute to the oblast budget, while the rest survive on subsidies. The governor said that it was necessary to create a system of recalling mayors who do not work effectively and devote more resources to training leaders at the city and rural district level. - Teleinform in Irkutsk

**KARELIYA LEADER BACKS EXTENSION OF PRESIDENTIAL TERM TO SEVEN YEARS.** Kareliya Prime Minister Sergei Katanandov said that he supports the idea of lengthening the president's term to seven years. "If we have a normal, authoritarian leader, able to lift the country out of crisis and once again make it a superpower, then why shouldn't we give him a seven-year term instead of two four-year terms? I would even agree to let such a person rule for life, if he has the support of the people."

Katanandov also expressed support for the idea of appointing governors. "I think this is realistic. I do not cling to my job since I feel that I have carried out my duty: the republic's economy has improved, industrial output has increased. But if suddenly the state decides that I am working badly and wants to remove me, then there is nothing I can do. Let new people come who are able to work more effectively." Katanandov is clearly trying to demonstrate his

loyalty to Putin. In the State Duma elections, he was a staunch supporter of Moscow Mayor Yurii Luzhkov's Otechevstvo-Vsya Rossiya, which had opposed Putin. - Boris Matveev in Petrozavodsk

## **CAMPAIGN 2000**

**KOMI AUTHORITIES WORRIED ABOUT PUTIN'S LOW POPULARITY.** The Komi Republic authorities are concerned that Putin is less popular in their northern region than he is in other parts of Russia. Accordingly the Political Council of the organization Preobrazhenie severa had issued a declaration of support for the acting president, which in part states "thanks to him the senseless confrontation between the federal government's legislative and executive branches has come to an end. With great difficulty, but confidently and decisively, he is resolving the difficult Chechen problem. He is also solving many social and economic problems in the Russian regions, including in the north (*Respublika*, 15 March)." In Komi, as in many other regions, the authorities are mobilizing all their resources to demonstrate their loyalty to Putin. Their campaign, in its spirit and character, has a lot in common with the campaigns of the Soviet era. - Yurii Shabaev in Syktyvkar

**IRKUTSK GOVERNOR MAKES CASE FOR PUTIN TO HOSTILE AUDIENCE.** On 18 March Irkutsk Governor Boris Govorin met with about 500 veterans to discuss the political situation in the country. Govorin stated that, "For the first time in the history of our country, we, inhabitants of the Russian Federation, do not know what will happen to us after the presidential elections. Why was it necessary to develop the political system in such a way that the results of the elections are anticipated not with some sort of new hope, but with caution and fear? We are all anxious over what will happen."

Govorin continued, "Let's be frank. If Boris Nikolaevich Yeltsin was in better health, I assure you, he would have been elected many more times [this comment incited noise in the hall from veterans both supporting and rejecting Yeltsin]. This man labored for himself and to stay in power. If his vitality had been greater, then he would have made himself 'the eternal president of Russia.' Therefore our country is deprived of a system to prepare new, young, progressive people to lead the country."

Regarding Acting Russian President Vladimir Putin, Govorin commented, "In what situation did he receive the country? In a difficult one! We need to give him his due in that he has been consistent not only in his words, but in his actions. Many wanted to ignore the enormous threat from Chechnya. He had to have courage to take such a burden on his shoulders. Now, if some sort of failure occurs in the military operation in the North Caucasus, everything will be blamed on Putin. But a person who has been acting president for two months cannot be blamed [for all these problems]. I have thought for a long time about what Russia needs to do to head in the right direction. It should not be run by a family, as it was under Yeltsin. Also, the future president should not be connected to financial-industrial groups. I am reporting to you, dear friends, that Putin, in forming his campaign staff and financial resources, refused financial support from Berezovskii, Chubais, Potanin, and other oligarchs." Following

this last statement there was considerable noise in the hall. The veterans doubted what they had heard, forcing Govorin to state again that his information was reliable.

Govorin praised Putin further. "I have known Putin since 1997 when he was first deputy head of the presidential administration. He left me with the impression of a respectable and decent man, unlike Skuratov, for example. I feel that Putin may justify all our expectation and hopes. Of course, if Primakov had not withdrawn his candidacy, most of us would have voted for him. But he left the race, and therefore on 26 March I will vote for Vladimir Putin." The volume in the hall reached its loudest point after this statement. Some veterans approved of the governor's choice, but the majority was indignant, calling Putin the same as Yeltsin. Putin's decree granting Yeltsin and his family immunity had evoked the anger of many pensioners. The governor did not want to touch on this issue, but the veterans insisted. Govorin explained Putin's step in one phrase, "Otherwise, he would not have been put in power."

The governor explained that he himself does not participate in any Moscow or local political groups. His reasoning: "The governor is a person for everyone. My only exception is for the regional patriotic movement Pribaikal, which brings together honorable people in the oblast. There is only one real party in the country--the Communist Party of the Russian Federation, which has its ideology and program. And all remaining parties are "Moscow groupings." - Teleinform in Irkutsk

## **CENTER-PERIPHERY RELATIONS**

**CENTER, REGIONS BATTLE TO CONTROL PROCURATOR.** On 10 March, the State Duma spent an hour discussing amendments to the federal law on procurators submitted by Ingushetiya President Ruslan Aushev. He proposed that procurators at the level of cities and rural districts (raioni), and deputy procurators at the regional (republican and oblast) level be appointed by the federal Procurator General with the agreement of the respective republican president or oblast governor. Currently, according to Article 129 of the Russian Constitution, the Procurator General appoints the regional procurator with the agreement of the regional authorities, but has the exclusive right to appoint all "other procurators."

In supporting this amendment, Aushev rejected claims that his proposal would stimulate separatism in Russia. "When we as a republic say 'listen to our opinion' it is because we are also responsible for many things and the public also criticizes us, ... we are asking that you examine the candidates that we suggest." He claimed that Article 72 of the Constitution requires that all law enforcement agency leaders working in the regions must have both federal and regional support. He asserted that the "other procurators" mentioned in Article 129 referred to officials such as the military and transportation procurators. [A literal reading of the Constitution does not really support Aushev's contentions.]

The chief critic's of Aushev's plans were State Duma Security Committee Chairman Viktor Ilyukhin and the President's Representative in the State Duma Aleksandr Kotenkov. Kotenkov said that the procurator had a watchdog function and accused Aushev of wanting the very organizations that the procurator was supposed to supervise to appoint him. "You understand very well, that after this there will be no supervision." Kotenkov also warned that the way the amendment was worded would allow the regions to choose the procurators, leaving the

federal government only the right to sign off on them. Kotenkov said that this provision posed the threat of regional separatism.

Yabloko Deputy Vladimir Lukin argued that there was no contradiction between articles 72 and 129 of the Constitution. Since the Federation Council, which is made up of the governors and regional legislative chairmen, appoints the procurator general at the recommendation of the president, it had a voice in choosing who would be appointed as procurators at the lower levels as well.

In the end Aushev's proposal went down to a lop-sided defeat. Only 32 members of the Duma voted for it, 231 voted against, and 3 abstained. Duma experts suggest that the vote shows the balance of power between the factions that support a stronger or weaker center in relation with the regions. On the one hand, there is no real support for proposals like Aushev's to give the regions a greater voice in appointing federal law enforcement officers. On the other, few members of the Duma would be willing to let the president once again appoint the governors.

One interesting detail in the discussion was that many of the deputies who spoke against Aushev's proposal were members of the Otechestvo - Vsyaya Rossiya bloc, of which Aushev was a leader before the December 1999 State Duma elections. The vote shows the decisive break between the Moscow and gubernatorial leaders of the bloc. Moreover, since Moscow Mayor Yurii Luzhkov has now come out in support of Putin, the State Duma members of the bloc seem determined to convince Putin that they are holier than the pope in combating the idea of regional separatism. - Petr Kozma in Moscow

**MYSTERIOUS PUTIN DECREE COULD LAUNCH NEW FAR EAST SHIPPING SCANDAL.** At a 22 March press conference at the Vladivostok airport immediately following his return from Moscow, Primorskii Krai Governor Yevgenii Nazdratenko announced that Acting President Vladimir Putin had signed a decree maintaining state control over the 50 largest Russian enterprises, and that the Far Eastern Shipping Company (FESCO) topped the list. The governor called Putin's decision his first real and effective step on the path to restoring the state's lost position of power in the economy. The pro-governor media recalled that in 1993 Nazdratenko stopped the government's decision to privatize 20 enterprises of strategic importance to Primorskii Krai and the country, bringing upon himself the wrath of Anatolii Chubais and his team, which at that time controlled the Kremlin. Six years later Putin's decree confirms the correctness of his policies, Nazdratenko claimed.

The announcement immediately raised several questions. First, no one from Primorskii Krai has seen the decree yet. Local journalists' attempts to find the decree through their colleagues in Moscow have proven fruitless. Therefore it is unclear which 50 enterprises are concerned and why FESCO is number one. Second, it is not quite clear how the state intends to maintain control of the largest shipping company in the country. At present the state owns 19.8 percent of FESCO. Foreign investors hold 45.8 percent, and the remaining stock belongs to companies (18.6 percent) and individuals (15.8 percent), who are allowed to sell their stock to whomever they choose. When the foreign stockholders tried to take a controlling stake in summer 1999, a scandal erupted that spread across the globe. The governor summoned Andrew Fox, who managed the foreign-held shares, and essentially threatened him with



violence if he did not transfer a share of his stocks to the krai administration (see *EWI Russian Regional Report*, 15 July 1999, *EWI Russian Regional Investor*, 24 June 1999). Following this incident, Fox, the honorary British consul in Vladivostok, left Russia for a long time. Therefore it would be very interesting to know by what mechanism Putin's decree seeks to assert state control over FESCO.

One opinion is that the news of a decree is nothing more than a bluff on the eve of FESCO's annual stockholders' meeting. At the meeting the shareholders will decide on a new general director and chairman of the Board of Directors. Rumors are flying of a compromise--those who favor state control will choose the general director and the chairman of the Board of Directors will be a foreigner. In particular, Aleksandr Kirilichev, the general director of the successful Primorskii Shipping Company (PRISCO) and leader of Nazdratenko's political opposition is being suggested as a candidate for general director. According to Nazdratenko, Minister of Transportation Sergei Frank (a former FESCO worker) and his deputy Aleksandr Lugovets (who became the chairman of the FESCO Board of Directors after the 1999 scandal) are deeply concerned that the chairmanship might go to a foreigner. The governor stated, "I hope that the Russian Federation will protect its position in FESCO, including on the basis of this decree." - Dmitrii Motovilov in Vladivostok

## **REDISTRIBUTION OF PROPERTY IN THE REGIONS**

**VOLZHskii PIPE FACTORY UNEXPECTEDLY SOLD.** Last week the Volgograd Oblast authorities and many residents of Volzhskii, the oblast's second largest city (population 300,000), were surprised to learn that that the region's largest enterprise, the Volzhskii Pipe Factory (VTZ) had been sold by its previous owner, Rosprom, the financial-industrial group controlled by Mikhail Khodokovskii. The factory is one of the few in the region which produces world-class goods and is turning a profit. In recent years, it has won prestigious competitions to supply pipes to companies like Exxon and the Caspian Pipeline Consortium (see *EWI Russian Regional Report*, 2 April 1998 and *EWI Russian Regional Investor*, 14 January 1999).

Rosprom gained control of the factory in 1996 and fought off a number of attempts by the oblast authorities to overturn the results of the privatization. The latest in the series of scandals surrounding the factory was the Sergei Kirienko government's decision to declare the factory bankrupt. At that time the owners simply transferred the assets of the factory to a new legal entity, leaving behind only the debts (see *EWI Russian Regional Report*, 4 June 1998). During recent years, the factory has dramatically increased output. In 1999, it produced 403,000 tons of pipe, making up 168 percent of the 1998 level and three times the output of 1996. It has also created new jobs and increased its tax payments. Today its taxes make up one third of Volzhskii's budget. Nevertheless, for reasons that remain unclear, Rosprom decided to sell the factory.

MDM-Bank (Bank Moskovskii Delovoi Mir) bought the factory, according to Vice Governor Vladimir Kabanov. The bank is led by Aleksandr Mamut, alleged to be a member of Yeltsin's "family," with close ties to Sibneft head Roman Abramovich. The bank also has ties to Volgograd State Duma Deputy Yevgenii Ishchenko.

Volgograd Governor Nikolai Maksyuta claims that he did not know anything about the sale until a new director was appointed. The new director is the 35-year-old Ivan Li, who is unknown in the oblast. Until his appointment, he led the Ural-Siberian Industrial Company. The former director, Oblast Duma Deputy Vitalii Sadykov, was appointed vice president of the YUKOS oil company, which is a part of Rosprom's holdings.

The regional authorities are very concerned about the sale because they do not know the aims of the new buyers. Some fear that the buyers are Volzhskii competitors who simply want to shut down the plant. In any case, it is clear that the local authorities are for the first time in a situation in which they have no influence over events, and only find out about important deals after the fact.

Along with the news of the sale of VTZ, there are increasing rumors that the region's second most important plant, the Volzhskii Brewery, was also sold after the new year. However, there is no official information on this sale, which only increases the uncertainty of the city and oblast authorities.

Taking into account the sale of the Krasnyi Oktyabr Metallurgical Factory last fall (see *EWI Russian Regional Report*, 29 September 1999), one can see that the transfer of property from one owner to another is a fact of life in Volgograd. The director of VTZ is an important player in regional politics so the sale could have important political consequences. When the mayor of Volzhskii faced difficulties, he turned to former VTZ Director Sadykov for help. When Sadykov ran for a seat in the regional legislature, he was able to easily beat out the Communist candidate in his district. Thus the new people coming to power could have a direct impact on the future of the region's politicians. - Ivan Kurilla in Volgograd

**MOSCOW INVESTORS BUY ANOTHER ROSTOV PLANT.** The Moscow industrial group MAIR has purchased the Rostov Oblast Sulin Metallurgical Factory (Staks). MAIR is the largest processor of ferrous scrap metal in Russia, with the capacity to process up to 250,000 tons of metal a month. It is the fifth largest processor in the world, according to *Vremya MN*. By purchasing Staks, MAIR now has its own metal smelting plant.

Until the sale, the Doninvest financial industrial group owned Staks. However, in recent years Doninvest has concentrated on building a Daewoo automobile assembly plant in Taganrog. The factory was built in September 1998, but because of the financial crisis and difficulties obtaining the car kits from South Korea, the project has been suspended. Since the Taganrog project required a large capital investment, the group is currently experiencing some difficulties and decided to sell off some of its assets. Staks was heavily in debt, owing 37 million rubles to its 4,000 employees alone.

The new owners quickly appointed a new director, Aleksandr Belenkov, who had managed the Verkhnesinyachin Metallurgical Plant, and intend to reconstruct the factory. The French firm Sofres Conseil developed such plans in 1995 within the framework of a TACIS project. There is also a plan prepared by the Gipromez Institute. Belenkov hopes to increase output by the end of the year, but the first tasks are to pay off the wage arrears, bring skilled workers back to the plant, and reconstruct the semi-ruined production lines.

The arrival of new owners at Staks continues an on-going trend in Rostov industry. New owners are buying up local factories with the intention of becoming strategic investors.

Most of these investors are from outside Rostov Oblast. While once locals believed it was necessary to maintain local control over Rostov's factories, at a January meeting Rostov Governor Vladimir Chub said that if an outside investor had money and wanted to restore a local enterprise, he would have the support of the regional authorities. Earlier in the year the Moscow-based Sodruzhestvo purchased control of the giant Rostselmash (*EWI Russian Regional Investor*, 26 January). Additionally, Siberian Aluminum is negotiating to buy the Belokalitven Metallurgical Factory, according to the newspaper *Gorod N*, but this deal has not gone through yet.

The first redistribution of property in the region, in which new owners purchased plants but postponed renovations, is over. Now it is obvious that local capitalists do not have the resources to develop local enterprises. Thus, in the second redistribution of property, new owners with the resources to both buy and renovate the factories are coming to the fore.

The new owners are also replacing the former 60-year-old directors with a new generation of 30-year-olds (see also *EWI Russian Regional Investor*, 16 February). The director of Rostselmash is now 27 years old. Belenkov, the new director of Staks, is 33 years old. These young men are bringing new skills to bear to solve many of the plant's problems. - Andrei Miroshnichenko in Rostov-na-Donu

**CONFLICT CONTINUES OVER NIZHNI'S KRASNOE SORMOVO.** The management of Krasnoe Sormovo, a large Nizhnii Novgorod-based ship builder, and the regional leadership are continuing their battle with Kakha Bendukidze, the director of Sverdlovsk Oblast's Uralmash Holdings, who owns 35 percent of the stock in the plant and recently announced his intention to increase his representation on the factory's board of directors (see *EWI Russian Regional Investor*, 12 May 1999). To achieve this goal, he needs to change the factory's charter and hold new elections to the board. Now three of the nine directors are appointed by the state which owns a 33.5 percent stake. A special meeting of the board called for this purpose was declared invalid. In response, Bendukidze has taken his battle public, accusing Nizhnii Novgorod Governor Ivan Sklyarov of threatening the federal government with the possibility that many local voters will support the Communists instead of Putin in the 26 March presidential elections.

However, the governor has not interfered in the battle at the plant. Bendukidze's real enemies are representatives of the state, which owns the second largest set of shares. The managers of the plant have joined with the state against Bendukidze because they are afraid of what will happen if Bendukidze gains control of the factory. Plant Director Nikolai Zharkov said that often customers work with him directly and it is not clear that they would continue to buy ships from Krasnoe Sormovo under new ownership. However, the Boris Berezovskii-controlled newspaper *Kommersant Daily* claims that Bendukidze intends to bring investment to the company, including \$20 million for a project to build Caspian Sea oil platforms. Director Zharkov claims that he has seen no such plans and if they did exist, he would negotiate them himself, without Bendukidze.

Bendukidze bought a stake in Krasnoe Sormovo in 1994 but only began to display a real interest in it two years ago when it became clear that it was one of his most profitable

holdings. At that time the factory was negotiating a deal to sell submarines to the Chinese, which could bring the plant \$150 million. Bendukidze bought his original shares for a tiny fraction of this sum. The factory managers warn that Bendukidze might fire some of Krasnoe Sormovo's staff in order to support his other businesses.

Despite accusations in the central press that Governor Sklyarov has illegally influenced the plant against Bendukidze, the governor and managers deny any such collusion although the governor openly supports the managers against Bendukidze. The oblast does not own any of the shares in the plant. However, since the central media controlled by Berezovskii is supporting Bendukidze, the plant managers now expect Bendukidze to try to take control of the plant through an information war. - Yuri Rodygin in Nizhni Novgorod

## **GOVERNORS' ELECTIONS**

**KHAKASIYA LEADER HAS STRONG BACKERS.** The term of Khakasiya Prime Minister Aleksei Lebed, the brother of Krasnoyarsk Krai Governor Aleksandr Lebed, will come to an end this fall and preparations for the upcoming elections are already well under way in the republic. Lebed has strong support since President of the Siberian Aluminum group Oleg Deripaska is actively backing his reelection for a second term.

It is no secret that Lebed ran his 1996 campaign on the basis of funds provided by the Sayansk Aluminum Factory, which is now part of Siberian Aluminum. Upon election, he appointed people from the factory to high posts in the republican government and used the region's financial resources to help the aluminum magnates. Siberian Aluminum now controls several profitable enterprises in the region, including the aluminum factory, the Sayano-Shushen Hydro Electric Dam, the Sorsk Molybdenum Combine, Abakanvagonmash, and Sayansk folga.

Rumors circulating in the region suggest that Lebed will face serious competition and it is not clear that he will be reelected given the enormous social and economic difficulties currently facing Khakasiya. - Pavel Avramov in Krasnoyarsk

**INCUMBENT SUMIN EARLY FAVORITE IN CHELYABINSK.** Chelyabinsk will not elect its governor until December, but incumbent Petr Sumin is working hard for a second term. The next governor will be elected for five years, the maximum term allowed under federal law. Sumin, a Communist leader in the 1980s and the chairman of the Oblast Soviet before winning his first term in December 1996, is the early front-runner. The single worthy opponent, Deputy Prime Minister Viktor Khristenko, who was served as a first vice governor, is conveniently out of the way in Moscow.

Sumin is considered an experienced politician and a master of bureaucratic intrigue. In 1993, as chairman of the Chelyabinsk Oblast Soviet, he was in strong opposition to Yeltsin and Yeltsin-appointed Governor Vadim Solovev. The soviet had called elections in 1993 which Sumin would have won, but Yeltsin cancelled them and Solovev remained in power until 1996. Under Solovev, the oblast was a leader in terms of privatization and introducing market reforms, but he made two key mistakes. First, he consistently defended the interests of the federal government and criticized Sverdlovsk Governor Eduard Rossel's plans to build a Urals Republic. Second, he constantly repeated that the market would sort everything out. Such

statements were not reassuring to a society that had witnessed the shelling of the parliament in 1993 and was facing devastating economic difficulties. Under the banner of the Communist-Patriotic movement "*Za vozrozhdenie Urala* (Revival of the Urals)," Sumin easily won the 1996 elections.

During his nearly four year term, Sumin has achieved several successes. He has completely eliminated wage and pension arrears owed to public sector workers. He has reduced debts for children's benefits and to the housing sector. Under his leadership, the oblast has adopted a new industrial policy that encourages the establishment of cooperative ties among the region's industrial enterprises. Output increased 15 percent over the previous year in 1999.

Moreover, Sumin's policies are well received in the Greater Ural Interregional Association and it has created a committee on industrial policy under Sumin's leadership. Increasingly often the Urals governors entrust him, rather than Rossel, to represent the region's position in Moscow. Bashkortostan President Murtaza Rakhimov traveled to Chelyabinsk in the beginning of February and gave his strong support to Sumin. Rakhimov's words carry weight because there is a significant Bashkir population in the rural areas of Chelyabinsk. Sumin constantly talks of a strategic partnership with Bashkortostan and Tatarstan.

On the federal level, Sumin has made some serious blunders, but has been able to recover smoothly. He loudly backed Viktor Chernomyrdin just before the State Duma rejected his second bid to be prime minister. In the 1999 State Duma elections, he joined Vsyá Rossiya, which opposed Vladimir Putin's Yedinstvo. Later, however, he expressed his support for Putin so well that many forgot that he had not always been on the side of the new party of power. At the same time, Sumin somehow manages to be in opposition to the federal authorities and presents himself as a defender of the people's interests. At least that is the image that he presents inside the region for internal consumption. - Igor Stepanov in Chelyabinsk

## **INTERNET IN THE REGIONS**

**INTERNET BOOMING IN NOVOSIBIRSK.** Among Russian cities, the Internet resources in Novosibirsk lag behind only Moscow and St. Petersburg, according to ROSTELEKOM. In terms of the rate of growth, the region is even in second place. The communications sector in the region is one of the most developed in the country outside of the two capitals. Estimates of the number of users in the area are 100,000. In the latest edition of the "Yellow Pages of Virtual Novosibirsk-99" ([www.novocybersk.ru](http://www.novocybersk.ru)) there are more than 400 local corporate sites.

The city boasts four large Internet service providers with high-quality service. Novosibirsk's telephone service makes it possible for many rural users to hook up to the Internet, a service not available in all regions. Connect time is relatively cheap and has not risen since the 1998 crisis. Rates are about 6 rubles an hour. Such low fees are particularly important for individual users.

Because of its large concentration of institutes and students, Novosibirsk has a much higher proportion of non-commercial users in the region than elsewhere in Russia. Many individuals have access through their university or institute. However, during the last 18 months the number of commercial users has started to skyrocket. Moscow-based companies have begun to invest in the region, and to a much lesser degree, so have local firms.

More and more people are now receiving their news from the Internet because it is quicker than traditional media and sometimes even cheaper. The local media widely use news from the Internet and it often makes up a significant proportion of their content. Often the papers simply reprint stories that they downloaded from the web. Usually no one bothers to double check the information.

Both the governor ([www.adm.nso.ru](http://www.adm.nso.ru)) and mayor ([www.novosibirsk.sol.ru](http://www.novosibirsk.sol.ru)) have their own web sites and information is updated several times a day. The local authorities have not tried to suppress the Internet, perhaps because they do not yet understand its potential. About 15 newspapers and five radio stations have sites, with the best being *Novaya Sibir* ([www.sicnit.ru/siberia](http://www.sicnit.ru/siberia)) and *Vechernii Novosibirsk* ([www.vn.ru](http://www.vn.ru)). *Novaya Sibir* was one of the first Russian newspapers to go on-line.

The main problem for Internet retailers is that most of the Internet users (academics and students) do not have a lot of money to spend. The lack of credit cards is also a problem, but is quickly being solved as more banks are offering them. There are two main e-commerce sites: Top-kniga ([www.top-kniga.ru](http://www.top-kniga.ru)), which sells books, videos, and CDs, and Bacup Ltd. ([www.bacup.ru/shop2](http://www.bacup.ru/shop2)), which sells computer accessories, books, and CDs. They usually take orders over the Internet, but then customers have to pay in cash. Wholesale e-trade is much more common and pharmaceutical companies have long sold over the Internet. They even offer drugstores free computers and modems to get started. (Thanks to Aleksandr Laryanovskii, [www.nsk.su/nc](http://www.nsk.su/nc) and [wal@nstu.ru](mailto:wal@nstu.ru), who provided most of the information for this overview.) - Irina Maslennikova in Novosibirsk

## **EFFECTIVENESS OF WESTERN AID IN RUSSIAN REGIONS**

### **WESTERN PROGRAMS TURNING INTO RUSSIAN PROGRAMS IN ROSTOV.**

Many of the western organizations offering technical support in Rostov Oblast are now turning their projects into joint ventures or purely indigenous organizations, according to the head of the Department for External Affairs of the Rostov Chamber of Commerce, Yurii Alekseevskii. In both cases, the foreigners are reducing their participation, but that does not mean that they are no longer interested in Russia. Additionally, the time has passed in Russia when no one knew how to put together a business plan, Rostov Chamber of Commerce Deputy Director Vyacheslav Zinchenko said. Now there are many domestic business training centers and there is less need for this kind of technical assistance from western organizations.

While contact with various international organizations remains strong, Rostov's contacts with foreign countries is growing. Germany is interesting for Rostov particularly as a source of industrial technology transfers, according to Zinchenko. Turkey would like to set up a wholesale market in Rostov which could supply consumer products to the region, and then through shuttle traders, to the rest of Russia. The UK could offer help in reorganizing enterprises and entire industries and in financial and banking management.

Zinchenko was one of the few individuals working with westerners in the region who noted a decline in contacts. However, he pointed out that the decline was purely for economic reasons. "Until the crisis, almost any entrepreneur could spend \$1,500 for a trip abroad. Now that is expensive and only a few can travel. Of course, to set up a partnership, one must make

more than one trip. Therefore the Chamber of Commerce is trying to participate in more exhibitions. Recently, the chamber has worked in Germany, Greece, and in April is planning a trip to Glasgow.

The most intense partnership is between Rostov and the German land of Rhein-Westphalia. The Germans plan to invest in several large investment projects in Rostov. Additionally, the governors of both regions have met several times, cementing the ties at the political level. The Germans hope to have a strong position in Rostov in the future. They believe that the competition in the European Union markets will intensify and therefore seek to secure success by opening new markets in the east, according to Chamber specialist Yurii Alekseevskii.

Overall, there is no diminution of Western programs in Rostov despite concerns about Russia's default in 1998, the cooling of Russian-Western relations at the highest levels, and the on-going Chechen war. Almost all western organizations are continuing their work in Rostov and western businessmen are seeking to expand their contacts, seeing Russia as a lucrative market in the future. - Andrei Miroshnichenko in Rostov-na-Donu

**IN PERM, CIVIL SOCIETY DEPENDS ON WESTERN SPONSORS.** Western aid given to the regional authorities in Perm Oblast is important for the development of specific programs, but it does not represent a significant part of the state budgets, and the very existence of the regional government does not depend on it. The situation is completely different for the non-governmental organizations in the region. Essentially, all the significant social organizations of Perm, the ones making a contribution to the construction of democracy in Russia, receive financial support from western sponsors. Only three of them could survive on the basis of financial aid from other sources: Memorial, the History of Political Repression Museum, and the Medical Human Rights Center. During the last two years they have received grants which allowed them to significantly expand their activities. All the other organizations either would not be able to exist or could work on only a very minimal level without the support of western sponsors. As the experience of asking for aid from successful companies in the region shows, the chances of receiving even small grants are small. It is possible with great effort to collect support for a one-time activity, such as the construction of a monument to victims of political repression or the publication of a booklet on human rights, but not for the functioning of the organizations themselves. The situation is undoubtedly similar in other regions of Russia.

Thus, however sad it may seem, we must recognize the clear dependence of Russia's incipient civil society on western support. Without the western money, the weak shoots of civil society would simply sink back into the mud, to the great delight of the Communists and the national-patriots.

The western aid providers and Russian social organizations should pay attention to this last issue. Communist propaganda today often claims that organizations that receive grants are carrying out the orders of those who provide the money. Therefore the organizations must patiently explain what the grants are, how the competitions are run, what projects the money supports, and the independence of the recipients from the state policy of the country where the grant-maker is based. A similar explanation is also necessary from Russian officials.

At the same time, the Russian authorities pay very little attention to the development of civil society. One has the impression that they are not interested in the development of a democratic civil society, but the preservation of the old authoritarian-bureaucratic structures. Russia's third sector must simply hope for western support. - Andrei Suslov in Perm

## **PRESIDENTIAL ELECTION INTERNET RESOURCES**

**Russian President's New Web Site** (<http://www.president.kremlin.ru/>) - Acting President Vladimir Putin has launched a new web site at this address. Among other things, it offers Putin's speeches, schedule of meetings, and most recent press releases.

**Putin: For and Against** (<http://www.panorama.ru:8101/works/putin/index.html>) - This web site has an extensive collection of press clippings about Putin arranged thematically.

**The Gubernatorial Alternatives** Two governors are running against Putin, Samara's Konstantin Titov and Kemerovo's Aman Tuleev. Check out their programs at: [www.titov2000.ru](http://www.titov2000.ru), [www.titov.samara.ru/index-r.html](http://www.titov.samara.ru/index-r.html), and [www.tuleev.ru](http://www.tuleev.ru)

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**RRR SPINS OFF FUTURE MILLIONAIRE.** Dear readers, it is with a heavy heart that we announce the departure of our colleague and friend Natan Shklyar with this issue. Natan has been at the EastWest Institute since 1996 and has contributed to the RRR since 1997. During this time, he honed his skills as an e-capitalist and net entrepreneur. In fact this summer, he has landed an internship with the premier consulting firm of McKinsey, where he will be in charge of at least one cubicle in the research department. After that he is on to Columbia Business School, where the e-enterprising lad will undoubtedly build a lucrative network of contacts. Yes, dear readers, an unnatural interest in all things Russian regional does not consign you to a life of poverty. Not only does Natan have a new job, he recently decided to settle down as well. Natan got married two weeks ago in the shadow of the United Nations, an auspicious beginning for a couple that is bound to go far. Of course the RRR will go on to track the evolution of Putin's relations with the regions, but we will be building on the foundation that Natan helped establish. Mazel tov Mr. Shklyar - keep in touch!

\*\*\*\*\*

EastWest Institute  
Russian Regional Report  
Vol. 5, No. 12, 28 March 2000

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## BREAKING NEWS

### POLITICS

**MARII EL MAYORS WANT DIRECT PRESIDENTIAL RULE.** The heads of several cities and raions in the Republic of Marii El, including Ioshkar-Ola Mayor Veniamin Kozlov, appealed to Acting President Vladimir Putin "to introduce direct presidential rule" in the republic, *Nezavisimaya Gazeta* reported on 23 March. The authors of the appeal contend that the republic's social and economic indexes are steadily deteriorating under Marii El President Vyacheslav Kislitsyn. Financing for social guarantees, health care, education, and agriculture decrease from year to year. The republic ranks 84th among Russia's 89 regions in per capita income. The mayors feel that the situation is so extreme because Kislitsyn "ignores federal and local laws." Following the announcement of this appeal, ten other local government heads announced their support for Kislitsyn, while another three added their names to the appeal, *Izvestiya* reported on 29 March.

### **PUTIN WINS OVER REPUBLICAN LEADERS DAYS BEFORE THE ELECTION.**

Acting President Vladimir Putin visited Tatarstan and Bashkortostan on the eve of the presidential election last week, boosting his popularity in the important ethnic republics prior to the 26 March vote. Putin's relations with the republics have remained unclear as the acting president has spoken multiple times of the need to equalize relations among the regions and bring regional laws into conformity with federal legislation, yet seeks to maintain good relations with the powerful and influential leaders of the ethnic republics. In 1994 both Tatarstan and Bashkortostan signed power sharing treaties with the federal government. Accompanying these treaties, several other agreements dealing primarily with taxation issues were also negotiated.

According to *Nezavisimaya Gazeta* on 23 March, Putin's trip to Kazan suggested that Putin and Tatarstan President Mintimer Shaimiev had resolved their apparent differences. It seems that Shaimiev has set aside his intention to raise the status of republics and is now prepared to agree with Putin. According to Putin, "We are obliged to guarantee the equality of federation subjects as outlined in the Constitution. And Tatarstan President Mintimer Shaimiev understands that." After his visit to Kazan, Putin proceeded on to Naberezhnye Chelny and then made an unplanned trip to Ufa (for the texts of Putin's speeches in these regions, see [www.president.kremlin.ru](http://www.president.kremlin.ru)).

The purpose of the Bashkortostan visit was to sign an agreement with Bashkortostan President Murtaza Rakhimov on regulating relations between the federal and republican budgets. In the past Bashkortostan has kept some of the federal taxes collected on its territory



to finance federal programs. Rakhimov agreed to follow Russian tax standards and transfer the appropriate tax sums to the federal budget that other regions contribute, forfeiting the special tax privileges the republic had enjoyed. In particular, the new agreement strengthens the federal treasury in the region, giving the federal government greater control over tax collection. For example, since 1996 Bashkortostan has kept all income tax collected in the region, while other regions transfer 10 percent of this tax to the federal budget. In 1999 Bashkortostan was the only region to not transfer income taxes to the center. Now the republic has agreed to follow Russian rather than regional law. *Segodnya* hailed the agreement as a serious victory for the Kremlin (24 March).

In Ufa, Putin told journalists that the center did not intend to redivide the territory of federation subjects. Rather he is interested in a more intelligent management of economic issues in regard to the regions, which Putin says he is working on with regional executives (*Nezavisimaya Gazeta*, 24 March).

**DEPUTY GOVERNOR MURDERED IN KAMCHATKA.** Kamchatka Deputy Governor Aleksei Kotlyar was killed on 27 March in Yelisovo when leaving his apartment building, *Kommersant Daily* reported on 28 March. Attackers threw sulfuric acid in his face and then hit him on the head twice with a blunt object, most likely a hammer. The attackers escaped climbing over to the roof of a neighboring building.

This is not the first assassination attempt of a high level figure in Yelisovo. Two years ago Yelisovo Mayor Aleksandr Polozov was attacked when leaving his apartment. He suffered serious wounds, but survived and has returned to his work.

The Kamchatka Oblast administration has declined to comment on the murder so far. Local media connect Kotlyar's assassination with the beginning of the campaign for the oblast's gubernatorial election, which will take place in December.

**SHABDURASULOV PLANS TO RESIGN?** On 23 March First Deputy Chief of Staff Igor Shabdurasulov announced that he would issue his resignation immediately after the presidential election. Shabdurasulov stated that, "After the elections Vladimir Putin should have full carte-blanche in issues relating to staff selection," (*Segodnya*, 25 March).

Speculation that Shabdurasulov would be vacating his post appeared almost immediately after the State Duma elections in December 1999. According to *Kommersant Daily* on 24 March, Shabdurasulov was never invited to participate in any of the meetings of Acting President Vladimir Putin's unofficial electoral staff in the Kremlin. This exclusion was a sign to Shabdurasulov, particularly since all of Presidential Chief of Staff Aleksandr Voloshin's other deputies were part of the internal election staff.

Apparently Shabdurasulov was blacklisted for not performing well in promoting the pro-Kremlin Yedinstvo movement prior to the State Duma ballot. Shabdurasulov did not expect the movement to get more than 5-6 percent of the vote though it went on to finish second only to the Communists. So far, Putin has not been eager to dismiss Shabdurasulov and it is not clear what his fate will be.

### **CONSTITUTIONAL COURT STRIKES DOWN ORENBURG ELECTION LAW.**

The Constitutional Court has declared that the formation of single mandate and multiple mandate districts for regional elections in Orenburg Oblast are unconstitutional, striking down two oblast laws on electing deputies to the oblast's Legislative Assembly. The case was submitted to the Constitutional Court by a group of individuals who felt that the oblast's system did not give equal voting rights to all of the oblast's citizens. To elect the 47 members of the oblast's Legislative Assembly, Orenburg is divided into 33 electoral districts. Of these districts, 24 each elect one deputy, 6 elect 2 deputies, 1 elects 3 deputies, and 2 elect four deputies. In the 9 multiple mandate districts, voters chose 2, 3, or 4 candidates at once in the elections. Therefore, while some of the oblast's voters are able to vote for only one representative, others have the chance to vote for up to four. Additionally, the number of voters is usually not proportional to the number of seats. While one deputy may be elected with 100,000 votes, another can earn the same seat with 20,000 votes. The Constitutional Court noted that its decision would not be applied retroactively and thus the current Legislative Assembly deputies, who were elected in March 1998, would not be affected by the decision.

*Kommersant Daily* (24 March) noted that the court's decision could call into question federal legislation defining party list voting. The paper explained that the Constitutional Court is already discussing this issue in regard to the composition of the State Duma.

### **ECONOMICS**

**ST. PETERBURG TELECOMS ANNOUNCE MERGER.** St. Petersburg's three largest telecommunications firms have announced a \$450 million merger. St. Petersburg Telephone (PTS) will acquire St. Petersburg National-International Telephone and St. Petersburg Telegraph through a stock-swap that will create a new \$450 million enterprise. The merger will put the new company closer to larger telecoms like Moscow Telephone, which has a market capitalization of \$686.5 million. PTS will issue a total of \$86.5 million common and preferred shares to complete the deal. The merger is being praised as promoting Russian telecoms to a new level of structural development. Similar mergers are planned in Yekaterinburg, Kostroma, Rostov, and Novosibirsk. Analysts say that the current inefficient telecom system resulted from a flawed privatization of the industry, which broke up local networks and long distance and international providers. (*The Moscow Times*, 22 March)

**LUKOIL STRIKES OIL OFF ASTRAKHAN COAST.** LUKoil has discovered the first Russian oil in the Caspian Sea. The deposit is located about 350 kilometers south of Astrakhan in the Severnyi field, containing an estimated 300 million tons, or 2.2 billion barrels of crude oil. According to LUKoil Vice President Leonid Fedun, the company invested \$156 million in drilling the Severnyi area. LUKoil intends to spend \$6.7 billion over the next five years to prepare the area for industrial exploitation (*Kommersant Daily*, 24 March). The location of the deposit is also advantageous for LUKoil, which has a refinery in Volgograd, about 300 kilometers from Astrakhan. LUKoil's subsidiary Astrakhanmorneft will take responsibility for sea drilling and shipping, and a new LUKoil office will be opened in Makhachkala (Dagestan)

for distribution and marketing. Fedun said that the new subsidiaries will employ up to 100,000 people (*The Moscow Times*, 24 March).

As *The Moscow Times* reported on 27 March, LUKoil's discovery could shift the balance of power in the Caspian region back in Russia's favor, yet will also force several difficult issues to the fore. Thus far Russia has advocated that the Caspian Sea be treated like a lake, with all neighboring countries exploiting the oil reserves through a system of mutual exploration and production. This initiative, however, has not found support from most of the affected parties. Now that LUKoil has discovered its own oil in the Caspian Sea, Russia may shift its position to support the maintenance of sectors divided between states. Additionally, LUKoil's discovery will give Russia greater leverage in solving the problem of transporting Caspian crude oil to world markets. The most viable option may be the Caspian Pipeline Consortium (CPC), which is building links to the old Soviet pipeline system to deliver Kazakhstani oil to Russia's Black Sea port in Novorossiisk.

LUKoil intends to seek outside investment to develop the Severnyi reserves. One potential challenge to attracting such investment is Russia's relatively unfriendly law on production sharing agreements. Fedun has stated that the company is already pushing for the government to submit a proposal to the State Duma to adopt more foreign investment-friendly amendments to the current legislation. Deputy Prime Minister Viktor Khristenko announced that he was willing to help LUKoil in this regard (*Kommersant Daily*, 25 March). He said that the state will support LUKoil's development of the deposits and that the means of support will be based on the balance of interests of Russia, the oil firms involved in the project, and the interests of Astrakhan Oblast (*The Moscow Times*, 24 March).

**TRAFFIC STOPS FOR IKEA'S GRAND OPENING.** Sweden's IKEA opened its \$100 million Moscow Oblast furniture store on 22 March, creating massive traffic jams along Leningradskoe Shosse. According to *The Moscow Times* on 23 March, some patrons waited in line for 2 hours to get into the store. With 1,000 people waiting when the store opened its doors twenty minutes early, IKEA Marketing Director Johannes Stenberg estimated that 40,000 people had visited the store on its inaugural day. Thus it was no surprise that traffic along Leningradskoe Shosse, the main route to the Sheremetevo Airport, was backed up for several kilometers throughout the day. IKEA officials claim that they expected the traffic problems and hoped that it would influence the Moscow City government to rethink its opposition to a bridge IKEA is trying to build to ease traffic problems (see *EWI Russian Regional Report*, 22 March).

IKEA has sold Russian-built furniture since 1976, and its orders accounted for about 30 percent of Russia's furniture exports in 1999. IKEA has invested \$23 million in local producers and plans to increase the volume of Russian goods sold in its stores around the world. Eight percent of the stock at the Moscow Oblast store is domestically produced, and IKEA officials hope to raise this figure to 30 percent. Stenberg said that IKEA expects to attract 15,000 customers to the store daily with a daily turnover of \$200,000 within three years.

## **2000 PRESIDENTIAL ELECTIONS**

**REGIONAL OVERVIEW OF PRESIDENTIAL ELECTIONS.** With 95.51 percent of the ballots counted, Vladimir Putin scored a first round victory winning 52.64 percent of the vote to become Russia's second president. Putin's strongest support came from Ingushetiya, where he gathered 85.42 percent of the vote. His top showings tended to be in other regions with "questionable electoral reputations" in which the regional executives have heavily courted the acting president, such as Tatarstan (68.74 percent), Bashkortostan (60.34 percent), and Dagestan (76.69 percent). The leaders of these regions have successfully influenced previous elections in the favor of their chosen candidates by employing their administrative resources in the candidate's favor. Just three months ago in the State Duma elections, these same regions voted heavily in favor of the Otechestvo-Vsya Rossiya (OVR) bloc, which was endorsed by the regional executives. While OVR gathered slightly over 13 percent overall, it pulled in 87.98 percent in Ingushetiya, 40.65 percent in Tatarstan, and 35.20 percent in Bashkortostan. Additionally, Putin broke in to several of the traditionally red-belt regions, such as Krasnodar Krai, where he earned 51.50 percent to Communist candidate Gennadii Zyuganov's 37.38 percent. Putin also pulled a slight victory over Zyuganov in the Communist leader's home region of Orel Oblast, gathering 45.84 percent to Zyuganov's 44.61 percent.

Putin's poorest showing was in Kemerovo Oblast, home to another presidential candidate, Kemerovo Governor Aman Tuleev. Putin gathered 25.01 percent of the vote in Kemerovo, second to Tuleev's 51.57 percent. Although Tuleev did not manage to gather more than 10 percent in any of the other regions, he came in fourth overall with 3.02 percent of the vote, outdoing Vladimir Zhirinovskiy, who gathered 2.72 percent of the vote overall. Zhirinovskiy's top showing came from Kamchatka, where he came in fourth with 6.13 percent of the vote.

Overall, Putin won in all but six regions. Zyuganov, runner-up with 29.34 percent of the overall vote, earned first place in Chechnya (38.69 percent), Bryansk (45.99 percent), Lipetsk (47.41 percent), Omsk (43.64 percent), and Gorno-Altai (42.72 percent). Zyuganov also did surprisingly well in the Far Eastern Primorskiy Krai, winning 36.36 percent of the vote. His poorest showing was in Ingushetiya, where he gathered only 4.63 percent of the vote.

Yabloko leader Grigoriy Yavlinskiy, who finished third overall with 5.84 percent, had his best showing in Moscow City, where he gathered 18.57 percent of the vote, less than a point behind Zyuganov's 19.16 percent. In St. Petersburg, Yabloko's traditional stronghold, Yavlinskiy earned only 10.55 percent to Putin's 62.40 percent and Zyuganov's 16.99 percent. Putin's success in St. Petersburg is of little surprise as the city is his home region in which he launched his political career.

Samara Governor Konstantin Titov finished sixth overall with 1.5 percent of the vote. He gathered 20.06 percent of the vote in his home region, coming in third behind Putin (41.06 percent) and Zyuganov (29.74 percent), but failed to pull in more than 3 percent in any of the other 88 regions.

Polling took place in Chechnya, and Chechen candidate Umar Dzharbailov came in third behind Zyuganov and Putin (29.65 percent) to gather 14.90 percent of the vote. Dzharbailov finished last overall among the 11 candidates with 0.08 percent. Voter turnout in Chechnya was approximately 65 percent.

Overall voter turnout was 68.88 percent, about the same as in 1996. The Evenk Autonomous Okrug had the lowest voter turnout of 57.3 percent. Only 1.9 percent of the population voted against all candidates, compared to 1.5 and 4.8 percent respectively in the first and second round of the 1996 presidential elections. The largest against all vote of 5.94 percent was in Moscow City, the second largest of 4.66 percent in Chechnya. (*Kommersant Daily*, *The Moscow Times*, 28 March, *Vedomosti*, 27, 28 March, the Central Electoral Commission, [www.fci.ru](http://www.fci.ru))

**PRIMORSKII KRAI: ZYUGANOV DOES SENSATIONALLY WELL.** The results of the presidential elections in Primorskii Krai were a surprise for most observers. The region, which has never shown a strong preference of the Communists, gave 36.36 percent of its votes to Zyuganov. Putin was only able to win by a few points with 40 percent of the vote. Turnout was 63.7 percent. If one takes into account that the Pacific Ocean fleet and other military units are based in Vladivostok (turnout among the soldiers was 99.45 percent) and that these people usually vote for the party of power, then one can consider the vote in Primorskii Krai a sensation.

Governor Yevgenii Nazdratenko explained the strong Communist showing by suggesting that the voters had too little time to become acquainted with the results of Putin's work. He said that the activities of the reformist governments spawned an inertia of destruction, angering people and increasing their distrust of the authorities.

On the other hand, the local branch of Soyuz pravyykh sil believes that the Communist success was a result of the local population's disgust with Nazdratenko. The governor's support for Putin compromised him in the eyes of many voters, they believe.

Many observers suggest that the election results will complicate Nazdratenko's relationship with the Kremlin, particularly since the relations between the new president and Nazdratenko are not as friendly as many of the media claimed on the eve of the elections. Thus, former Speaker of the regional legislature Sergei Dudnik said that Nazdratenko's meeting with Putin in the beginning of March was really a dressing down in which the acting president criticized the leaders of four poorly performing regions (Primorskii Krai, Kabardino-Balkariya, Kaliningrad, and Yaroslavl). The newspaper *MK vo Vladivostoke* reported that the Kremlin had offered Nazdratenko a position as Russian ambassador to Pyongyang and noted that the president had the resources required to make the head of a recipient region accede to such a request.

The repeat State Duma election in the region also put Nazdratenko in a difficult position. Old Nazdratenko enemy Viktor Cherepkov won with 28.83 percent of the vote, beating Nazdratenko's candidate Valentina Kudryavtseva by 11 points. In December the elections were declared invalid because the majority of the voters voted "against all" after Cherepkov had been removed from the race. This time, Cherepkov did not campaign at all so that there would be no grounds for the Electoral Commission to remove him from the race.

However, there are likely to be legal battles surrounding this campaign any way. On 25 March the electoral commission excluded Orysiya Bondarenko, another Nazdratenko ally, from the race for allegedly trying to buy votes by handing out gifts at a disco. An appeal has already been filed. In such cases, local judges usually decide in favor of the governor. Thus Vladivostok

is the only city in Russia without an elected city council or mayor because of similar problems with previous elections. In the past Moscow has looked the other way in these cases, but it is not clear what the new Kremlin elite will do. - Dmitrii Motovilov in Vladivostok

### **NIZHNII NOVGOROD: GOVERNOR HOPES PUTIN WILL HELP CRACK DOWN ON LOCAL GOVERNMENT.**

Nizhnii Novgorod Governor Ivan Sklyarov announced that he was extremely pleased with the results of the presidential election. In the region, Putin won 53.80 percent of the vote, Zyuganov took 29.01 percent and turnout was 64.18 percent. Following the election, Sklyarov said, "I am sure that together with Putin we will succeed in strengthening the state and establishing vertical authority."

In this regard, Sklyarov's main concern is the relationship between regional and local authorities. Sklyarov is involved in a bitter dispute with Nizhnii Novgorod Mayor Yurii Lebedev and there are similar situations in many other regions. Sklyarov wants to change the federal structure so that mayors are elected from the city council rather than directly by the population. He claims that this process would be more "legitimate."

During his visit to the region in the week before the election, Putin, who had worked as St. Petersburg Mayor Anatolii Sobchak's assistant for many years, denounced situations in which governors and mayors are constantly fighting. The local leaders particularly liked his statement that "without the normal development of local government, there cannot be a good system of management. It is important to divide power appropriately." Whether Putin will act to strengthen local government in the future remains unclear.

Across the oblast's 52 raions, Zyuganov won in 8. In the near future a commission from the oblast administration will visit these regions to determine what happened. Sklyarov sharply criticized these regional leaders for failing to supply the necessary votes. Sklyarov made clear that he was in charge of the political campaign in the oblast. He named representatives from the oblast administration to work in each of the raions and warned that if they did not produce the desired results, they should look for work elsewhere. - Yurii Rodygin in Nizhnii Novgorod

### **KARELIYA: COMMUNISTS TRAIL BADLY IN FORMER OTECHESTVO**

**REGION.** In Kareliya, Putin won 64 percent of the vote, while Zyuganov took only 17 percent, with turnout of 47 percent according to preliminary results. Kareliya's leader Sergei Katanandov had supported Moscow Mayor Yurii Luzhkov's Otechestvo in the 1999 State Duma elections, but threw his support behind Putin in the presidential elections. While the Communists were able to hold on to second place in the republic, the strength of their support declined considerably. In the 1991 presidential elections, the three Communist candidates gathered more than 30 percent of the vote. In 1996, Zyuganov won just over 26 percent. This year his backing dropped nine points to 17 percent. Grigorii Yavlinskii also lost half of his supporters. In June 1996, he won 14.27 percent of the local vote, but now only 7 percent of the voters supported him and many of these were concentrated in the capital Petrozavodsk. Vladimir Zhirinovskiy's support dropped from 8.48 percent in 1996 to just over 3 percent this year.

In a republican referendum, voters backed the idea of maintaining a unicameral regional legislature (69.85 percent) and elected to rename the leader of the republic as "glava respublikii,"

essentially meaning president. The latter change is the result of a new federal law which requires that each region have a division of powers between the executive and legislative branches (see *EWI Russian Regional Report*, 10 November 1999). The republican executive was already elected directly by the people, so the change is more symbolic than anything else. The vote was much more meaningful in Udmurtiya, which replaced its parliamentary system with a presidential one (see related story in this issue). - Boris Matveev in Petrozavodsk

### **PUTIN VISIT TO VORONEZH BOOSTS HIS RATINGS IN FORMER RED**

**REGION.** Putin won 56.15 percent of the vote against 33.48 percent for Gennadii Zyuganov in Voronezh Oblast, with turnout of 62.75 percent. The results mean that the region has finally exited the "Red Belt," particularly following the 1999 State Duma elections when Yedinstvo edged the Communist Party 32.54 to 30.90 percent.

Putin visited Voronezh one week before the elections. During his visit he discussed practically all the problems of the oblast and observers believe that his comments had a great impact on the more than two million voters who live in the region. His speech at the Black Earth Interregional Association focused on social issues and seemed to strike a chord with voters. In Voronezh, which has a higher than average population of pensioners and youth, social policy is a very important issue. Putin also spoke of promoting small and medium business, creating new jobs, and fulfilling the federal government's program to provide regional subsidies.

Putin also sharply criticized Governor Ivan Shabanov, pointing out that social policy should be a priority for the regional administration and the governor personally. The presidential candidate cited the example of an 80 million ruble subsidy intended for paying off debts to public sector workers which was inappropriately used for other purposes (*Bereg*, 24 March).

In a meeting with Voronezh aircraft builders, Putin promised help in developing a leasing program and selling IL-96T aircraft on foreign markets. By the time of the visit, Aeroflot had already ordered six of the planes. Putin also promised to nearly double the state order from the region's defense enterprises (which make up a majority of Voronezh's enterprises). The voters were particularly happy to hear this news because they believe the additional income will help lift regional industry out of crisis. Finally, Putin promised to help solve the problem of supplying the region with natural gas and gave a personal order to Gazprom President Rem Vyakhirev to address this issue (*Efir 365*, 21-27 March).

Among Putin's key supporters in the region were medium and small businesspeople who hope that Putin will be able to counter the tax policy abuses of the local authorities, and students and pensioners, who hope he will improve the region's social policy. Governor Shabanov has not commented on Putin's victory yet, but since the acting president basically blamed the region's problems on him, he clearly does not expect any support from Moscow. - Yulia Fedorinova in Voronezh

### **ROSTOV: LITTLE REGIONAL CONFLICT DUE TO CENTRALIZED**

**CAMPAIGNS.** Putin won 52.4 percent to Zyuganov's 32.5 percent in Rostov Oblast with turnout of 73.9 percent. The electoral campaigns this year were extremely centralized and the local staffs largely acted as conveyor belts. Therefore there was no sharp battle between the various teams at the local level. Putin and Zyuganov had by far the most visible campaigns.

The defining characteristic of Putin's campaign was a lack of public activity. His strategy dictated that an excess of appearances of the candidate on TV or in the newspapers would be counterproductive. Putin also ordered his staff to carry out an extremely clean campaign. Presidential Representative in Rostov Viktor Usachev, who ran Putin's campaign while taking a leave of absence from his official duties, stressed this point at a press conference for journalists at the end of February. The campaign team could only spend money given to it by the headquarters in Moscow. Thus, the campaign had only 210,000 rubles to spend in the oblast and was very modest in its efforts.

Usachev declared that our guiding principle was "not to do any harm." The team did a good job running a low-cost campaign that was apparently clean. All of the social groups loyal to the governor came out with statements supporting Putin. The list included mothers with many children, students, Cossacks, the regional branch of Otechestvo, and even five business associations.

Since Moscow handled the strategic tasks of building Putin's image, the regional offices' job was to ensure a high turnout. This goal was accomplished by holding a festival to welcome spring to the region. On election day celebrations were organized on all the main streets and important parks. The results were positive. - Andrei Miroschnichenko in Rostov-na-Danu

**ST. PETERSBURG: PUTIN'S HOME TOWN GEARS UP FOR GUBERNATORIAL ELECTION.** The results of the elections in St. Petersburg were particularly interesting for Putin. The city is his hometown and the place where he launched his political career. Moreover, he is actively recruiting people for his team from the city's political and professional classes. Putin won 62.42 percent of the vote in St. Petersburg, Zyuganov took 16.99 percent, and turnout was 65.5 percent. Zyuganov did better in the city than he had in the 1996 presidential elections and even improved on the showing of the Communist Party in the December 1999 State Duma elections. Yavlinskii took third place with 10.55 percent of the vote, 4 percent less than his result in 1996 and a half point lower than Yabloko scored during the December elections.

The presidential election results were no less important for the main candidates in the city's 14 May gubernatorial elections, incumbent Governor Vladimir Yakovlev and Deputy Prime Minister Valentina Matvienko, Putin's choice in the upcoming election. On 14 March Yedinstvo State Duma faction leader Boris Gryzlov had accused Yakovlev of trying to blackmail Putin's Moscow team with a low turnout in St. Petersburg, saying that Putin's support for Matvienko might keep Petersburgers at home on 26 March. According to Gryzlov, Yakovlev had suggested that if Putin backed him, there would not be any problems. On the next day, Yakovlev denied Gryzlov's statement and appealed to the city's residents to vote in a television address. On the night of the elections, both Matvienko and Putin's campaign manager in St. Petersburg, Vladimir Litvinenko, recognized Yakovlev's contribution to Putin's success in the city. Putin also personally thanked Yakovlev in a telephone call once it became clear that a second round was not necessary.

In the repeat State Duma elections, Businessman Konstantin Sevenard (20.93 percent) won a narrow victory over incumbent Yabloko State Duma member Anatolii Golov (20.54 percent), while 17.5 percent voted against all. Golov announced plans to protest the results,



charging that Sevenard used money from the city council to provide additional payments to pensioners. The Yedinstvo candidate's failure to place suggests that Putin does not have long coattails.

In Leningrad Oblast District 99, television journalist Aleksandr Nevzorov, who had served in the last Duma, won another term. Nevzorov's victory was made easier because the top two vote-getters in the race did not run the second time.

The terms of St. Petersburg's 111 municipal soviets ran out in February 2000, but only five of them held elections at that time (6 February). A total of 94 soviets held elections on 26 March, but the results were valid in only 25 districts, mostly in the suburbs. In 1997, these then newly created soviets got off to a bad start because in most cases the elections to them were not valid due to low turnout, when participation rates did not exceed 25 percent (see *EWI Russian Regional Report*, 12 February 1998). Since then the 25 percent requirement was dropped. Now, in most cases, voters who did not recognize any of the names on the ballot simply voted "against all." Since the soviets are elected in multi-member districts, fewer than the necessary number of deputies were elected. It is not clear when the repeat elections will be held. Unfortunately, there is no legislation explaining who will carry out the duties of the city's local-level government if there are no council members. Legal experts are now trying to decide whether to preserve the powers of the old deputies or transfer the soviets' powers to local executives (*Sankt-Peterburgskie vedomosti*, 28 March). - Daniil Tsygankov in St. Petersburg

#### **KURSK: RUTSKOI HOPES TO BUILD NEW RELATIONS WITH THE**

**KREMLIN.** Kursk Governor Aleksandr Rutskoi was clearly pleased that Putin had won more than 50 percent of the vote in Kursk Oblast. Communist candidate Gennadii Zyuganov was surprised that he failed to repeat his 1996 performance in which he scored over 50 percent, and even accused Rutskoi of falsifying the results on national television (Russian Television, 26 March).

Rutskoi believes that Putin's strong showing in Kursk improves his chances for cooperation with the president and may mean presidential support for the governor's reelection bid in October. Rutskoi had very bad relations with President Yeltsin, but now there are new people in the Kremlin. In Kursk's neighbors, Belgorod and Voronezh, Putin won a smaller share of the vote, and in Bryansk and Lipetsk, Zyuganov won more votes than the acting president. Thus, Rutskoi looks quite good by comparison. - Sergei Sarychev in Kursk

#### **GUBERNATORIAL ELECTIONS**

**SERGEENKOV EASILY WINS REELECTION IN KIROV.** Incumbent Kirov Governor Vladimir Sergeenkov was reelected on 26 March, winning 65.3 percent of the votes, leaving the remaining four competitors far behind. Founder of the Vyatskaya Universal Commodity Exchange and Vyatinvestfond, former First Deputy Chairman of the Oblast Property Committee Andrei Alpatov came in second with 12.3 percent, followed by Chairman of the Oblast Property Committee Valentin Pervakov (9.6 percent), head of the local branch of the Russian Socialist Party Sergei Sharenkov (4.1 percent), and director of the Kirskabel factory Ivan Kozunin (1.9 percent).

Local sociologists anticipated Sergeenkov's reelection. Sergeenkov has essentially been campaigning for reelection for the past three years since his election in 1996. Moreover, by using his control of the regional power ministries and tax collecting authority combined with strict administrative pressure, Sergeenkov has managed to bring the local authorities and the directors of the majority of large enterprises in the region under his control. His campaign fund of more than 2 million rubles was made up of contributions from more than 80 enterprises, several of which are bankrupt. Additionally, other resources, such as the "governor's charitable fund" were used to finance Sergeenkov's campaign. This fund is not registered anywhere, is not subject to public oversight, and it is not clear where its funds come from.

Sergeenkov considers himself a "supporter of the Swedish model of socialism," which in politics means supporting Communist Gennadii Zyuganov, and in economics signifies attempts to nationalize large privatized enterprises. However, it does not bother the governor to be on friendly terms with Interkhimprom, which owns 22 percent of the Kirovo-Chepeskii Chemical Combine, or the UK-based Trans World Group (TWG), which controls the Kirskabel factory. Likewise, the local oligarchs from Sputnik are not offensive to Sergeenkov. In Sputnik's conflict with Pervakov, who demanded that the 1993 transfer of the Tsentralnaya hotel complex over to Sputnik be declared illegal, Sergeenkov took the oligarchs' side and dismissed Pervakov after the Oblast Property Committee filed a suit in the arbitration court.

However, Sputnik did not return the favor, but responded by supporting challenger Alpatov in the race. Alpatov also confessed to having support from "large Moscow banking and commercial structures" and is rumored to have used the good graces of Deputy Prime Minister Viktor Khristenko. However, neither large sums or advertising campaigns on Sputnik-controlled Grand-TV and Channel 9 were able to help Alpatov. The Vyatinvestfond founder's success at collecting vouchers from 150,000 oblast residents and not paying them any dividends ultimately crippled his campaign against Sergeenkov.

A week before the elections Alpatov, Pervakov, and Sharenkov announced that they were forming an "anti-Sergeenkov front" and would remove two candidates in favor of a single candidate. However, negotiations among the opposition were not successful and in the elections the opposition proved weak and uncoordinated. - Marina Bakhtina in Kirov

**PUTIN, AYATSKOV WIN IN SARATOV.** Putin won 59.22 percent of the vote in Saratov Oblast, while Zyuganov took 27.5 percent, with turnout at more than 70 percent. In the region's gubernatorial election, incumbent Dmitrii Ayatskov won with about 70 percent of the vote, while just under 20 percent voted "against all." Comparing the number voting "against all" in the gubernatorial race with the number supporting Zyuganov in the presidential race (27.5 v. 20 percent), some observers believe that the number of votes for the governor was artificially increased. The local branch of the Communist Party claims that some of their votes were stolen because voters would not have supported Zyuganov in the presidential race and then voted for Ayatskov. The Communists' gubernatorial candidate, State Duma member Valerii Rashkin, was not registered as a candidate in the election. The Communists felt that Rashkin would do well against Ayatskov since he had won a State Duma seat in Saratov city's downtown district in the December 1999 elections. Neither the oblast nor the Supreme Court supported Rashkin's attempt to sue the oblast electoral commission.

Many voters claimed that the 26 March elections were the dirtiest in Saratov's history. Worried that he could be thrown out of office, Ayatskov ensured that he essentially had no competition in the election. He also sought to derive as much benefit as possible from his position as the incumbent. Oblast bureaucrats "worked with" the local leaders of all 36 rural regions of the oblast and the members of the electoral committees. The form of such work was simple - they named representatives of the local authorities as the heads of each district's electoral committee. Each committee had the task of ensuring a specific number of votes for Putin and Ayatskov. This figure was usually 70-75 percent. It was up to each commission to figure out how to achieve the result. If they did not reach the desired number, Ayatskov threatened them with removal.

Even though Ayatskov's opponents placed observers at 70 percent of the polling places, the observers could not provide independent monitoring of the vote counting. There is some evidence that unwanted observers were kicked out of the polling places when they closed and then were not given copies of the results. When the results came into the oblast electoral commission, they were further corrected in favor of Putin and Ayatskov, some claim.

The elections in Saratov were not free and fair. In battling to prevent the Communists from coming to power, Ayatskov and his associates felt it was fair to use all means, such as removing potentially powerful candidates from the race. This dangerous tendency could ultimately mean that the post-Communist authorities differ from their Communist predecessors only in the absence of Communist ideology. - Yurii Denisov in Saratov

**GOVERNORS WIN LANDSLIDE VICTORIES IN SIBERIAN OKRUGS...** Of the seven governors who won reelection on 26 March, Khanty-Mansi Autonomous Okrug Governor Aleksandr Filipenko can claim the largest victory, winning 91.12 percent of the votes. Not one of the three other candidates competing in the race managed to gather more than 1 percent of the vote. Neighboring Yamal-Nenets Governor Yurii Neelov also scored a major reelection victory, pulling in almost 90 percent of the vote. The success of these two incumbents is of little surprise. Khanty-Mansi and Yamal-Nenets, both of which are located on the territory of Tyumen Oblast and are simultaneously equal federation subjects and subordinate to the oblast, are two of Russia's wealthiest regions due to their oil and gas reserves. Both governors have clear interests in maintaining as much wealth as possible for their respective regions, a view shared and supported by the electorate. (*Izvestiya*, Lenta.ru, 28 March)

**...AND IN THE NORTHWEST.** Murmansk Governor Yurii Yevdokimov won an 87 percent victory to secure another term in Russia's northwest. Former Murmansk Governor Yevgenii Komarov, whom Yevdokimov defeated in the second round of the oblast's gubernatorial elections in 1996, was considered Yevdokimov's top competition this time as well. Komarov, however, had a poor showing of only 3.9 percent. The early elections left little time for challengers to campaign effectively.

Murmansk held mayoral elections as well on 26 March. Incumbent Murmansk Mayor Oleg Naidenov also won an easy reelection, gathering 81.99 percent of the vote. His closest competitor, Valerii Zvontsov, earned 3.5 percent. The "against all" option was exercised by 8.6 percent of the city's voters. (Lenta.ru, 28 March)

**COMMUNIST WINS ANOTHER TERM IN ALTAI KRAI.** Communist Altai Krai Governor Aleksandr Surikov gathered more than 77 percent of the vote on 26 March to win another term in office. Former governor and former presidential representative to the region, Vladimir Raifikesht, came in second with about 10 percent of the vote. Surikov was first elected governor of Altai Krai in 1996, when he edged past incumbent Lev Korshunov. Korshunov had been appointed in 1994 to replace Raifikesht, who resigned from the post on 20 January 1994 for personal reasons. Raifikesht was appointed governor of Altai Krai on 8 October 1991. (Lenta.ru, 28 March)

**JEWISH AUTONOMOUS OBLAST INCUMBENT HOLDS ON TO SEAT.** Jewish Autonomous Oblast Governor Nikolai Volkov also won reelection on 26 March, but with a smaller victory margin than his other colleagues standing for early elections. Volkov's popularity is clearly on the decline. He was appointed governor by Russian President Boris Yeltsin in 1991 and won election to the post in 1996 with 70.09 percent of the vote. In Sunday's poll, Volkov gathered 56.8 percent of the vote, a marked decline from his showing in 1996. The 26 March voter turnout of 68.8 percent nearly doubled that of the 1996 gubernatorial poll. (Lenta.ru, 28 March)

#### **OTHER IMPORTANT REGIONAL ELECTIONS**

**UDMURTIYA VOTERS BACK REPUBLICAN PRESIDENCY.** In a referendum vote, 68.8 percent of Udmurtiya voters backed a proposal to establish a presidential system in the republic. The measure had the strong support of State Council Chairman Vladimir Volkov, the chairman of the regional legislature who serves as the republic's executive. Today Udmurtiya is the only Russian region with a parliamentary system. The main opponents to the institutional reform were the city newspapers *Izhevsk-Ekspress* and *Vechernii Izhevsk* and the television station Alva. The adoption of new political institutions was required by a new federal law that requires all regions to establish the division of executive and legislative branches at the regional level (see *EWI Russian Regional Report*, 10 November 1999). As the elections drew close, proponents of the change warned that if Udmurtiya voters did not act to create a presidency, then Moscow would appoint one for them. In the end, even the usually opposition-minded cities of Izhevsk (59 percent) and Votkinsk (53-57 percent) gave the proposal majority support. The rural areas backed it with around 80 percent support. Udmurtiya will hold its first presidential elections no later than June 2001, but most likely in October 2000.

Volkov tried to persuade the State Council to hold a referendum on introducing a presidency in 1997, but was unable to muster enough support at that time. The republic held a referendum on the question in May 1995 before Volkov came to power, but it did not pass. - Andrei Bystrov in Izhevsk

**NOVOSIBIRSK DEPUTY MAYOR BECOMES MAYOR.** Fifty-two year old Novosibirsk Deputy Mayor Vladimir Gorodetskii pulled past five other competitors gathering more than 52 percent of the vote with a 65 percent voter turnout to become Novosibirsk's new

mayor on 26 March. His former boss, Viktor Tolokonskii, was elected governor in January 2000. Gorodetskii had the support of the four most influential political parties in the region, Yedinstvo, the Communist Party of the Russian Federation (KPRF), Otechestvo, and Yabloko, making him the consensus candidate.

Gorodetskii has a reputation as a strong, apolitical manager. How did the quiet and unassuming first deputy mayor become the favorite among parties that rarely find common ground and then go on to win the support of half a million Novosibirsk residents? The economic reality in the oblast and the city means that bringing to power an unprepared outsider with no practical experience could lead to catastrophe. According to a poll conducted before the election, three-fourths of Novosibirsk residents wanted to see a professional manager in the mayor's seat. They got what they wanted.

No surprises are expected from Gorodetskii. For the next four years Novosibirsk will likely avoid the bitter conflicts between oblast and city authorities that have characterized and hindered regional and city politics for the last several years and brought the oblast to the verge of default. Gorodetskii's relationship with Novosibirsk Governor and former Novosibirsk Mayor Viktor Tolokonskii should be much more amiable than was Tolokonskii's relationship with former Novosibirsk Governor Vitalii Mukha. - Irina Maslennikova in Novosibirsk

## INTERVIEW

### **KHAKASIYA'S LEBED ON BASHKORTOSTAN AND THE USELESSNESS OF TREATIES.**

*This week the RRR publishes an interview with Khakasiya's leader Aleksei Lebed conducted by Vasilii Filippov and Dmitrii Grushkinin Moscow. Aleksei Lebed is the younger brother of Krasnoyarsk Krai Governor Aleksandr Lebed.*

**Aleksei Lebed:** ... I have not signed an agreement with the federal government and I will not sign one because I have seen how such agreements are implemented: everything that the regions proposed is emasculated and the only thing that remains is what the center needs. There is nothing useful in them for the regions. When we developed a draft treaty (Khakasiya has Russia's largest hydro-electric station and large aluminum and molybdenum factories), we offered our view of the principles for dividing power between the center and the regions. But the center, which was then represented by Sergei Shakhrai, crossed this out. All that remained was a framework agreement that was completely senseless for us.

**RRR:** Didn't the "rich" republics get anything from signing such two-sided agreements?

**Lebed** In 1994 Bashkortostan won additional benefits for excise fees and other budgetary deductions. However, according to an Audit Chamber analysis, no one can say for sure who on the Bashkortostani side signed this document: neither the stamp nor the signature is decipherable. In 1995 this agreement was not extended and [by December 1999] it was not extended, and all this time they do not pay. As a result, the Russian Federation budget has lost

more than 2 billion rubles. We now give 600 million rubles to every region, and we are thinking how we can help whom. Despite the Audit Chamber finding, the government did not do anything to recover this debt. This is what the agreements are! Bashkortostan is a region that can do whatever it wants. But we cannot work that way.

Therefore I do not see any need to sign a treaty. Sometimes bureaucrats from the center, such as the Nationalities Ministry, ask me to fulfill some point from a treaty, but they don't even know that we don't have such an agreement. Our actions are guided first of all by the Russian constitution.

**RRR:** Is there a possibility of equalizing the rights of all regions and eliminating the asymmetries in all federal structures?

**Lebed** I believe that such a possibility does not exist and that such conditions have not been created. The regions are all different. If you look at the republics, they have different levels of dependence on the center, different industrial structures. Some republics, like Tatarstan and Bashkortostan, are donors but unfortunately give little to Russia. Others, like Ingushetiya, Gorno Altai, and Tyva, depend on the center for 90-95 percent of their budget.

In Khakassiya we depend on the federal government for no more than 10-11 percent of our budget (about 140 million rubles we receive from the center, while we generate income of 1.5 billion rubles). ... We have a new program for developing our region. We believe that by the end of 2000 we will be fully independent and no longer need federal subsidies.

**RRR:** What do you think about the idea of combining regions?

**Lebed** I believe that not one region will allow this to happen. Particularly the republics. People waited for sovereignty a very long time.

Earlier people had doubts: "When we were a part of Krasnoyarsk Krai, it was better and easier." But every year opinions are changing. Why should we share our successes with someone else?

There are some very poor regions on our borders which unfortunately do not have any industry. Tyva and Gorno Altai depend on federal subsidies for 94 percent of their budgets. They owe civil servants at least six months' salaries. With a small federal subsidy we can pay salaries on time and pay down the debts that built up over the last several years.

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**BREAKING NEWS**

**POLITICS**

**FEDERATION TREATY MARKS ANNIVERSARY.** The Russian federal government and regions signed the Federation Treaty eight years ago on 31 March. Although the treaty has been partially superseded by the 1993 Russian Constitution and bilateral agreements in determining center-periphery relations, at the time of its signing, the Federation Treaty helped lay the foundation for the development of a federal system in post-Soviet Russia. The treaty was made up of three documents outlining the division of powers between the center and the republics; oblasts and krais; and the autonomous okrugs. Even though the Constitution declares that all regions are equal, the federal government still deals with them differently.

Ramazan Abdulatipov, head of the working group that prepared the treaty, told *Izvestiya* on 31 March that, "The treaty stopped the disintegration of the federation. With this treaty we did what Gorbachev did not succeed at doing or was unable to do. If the treaty had been signed half a year earlier, Chechnya and Tatarstan would have signed also. In October 1991 the treaty was ready and we voted for it in the Nationality Council of the RFSFR Supreme Soviet. Everyone, including Tatarstan President Mintimer Shaimiev and Checheno-Ingushetiya President Doku Zavgayev, voted for signing it then [Tatarstan and Chechnya, however, ultimately did not sign the agreement]. The only person who abstained was Boris Nikolaevich Yeltsin, at the suggestion of his advisors."

**ANOTHER PLAN FOR STRUCTURING CENTER-PERIPHERY RELATIONS.** On 31 March, the news service Lenta.ru published another potential plan for restructuring federal oversight of the regions (see *EWI Russian Regional Report*, 22 March). This proposal is just one of many that President Vladimir Putin may consider in improving his control over the regions in the course of the next several months. Developed at Putin's order, it envisions the government working exclusively on economic issues and the presidential administration focusing on political matters, leaving no room for competition between the two parts of the executive branch. The two dozen existing departments in the presidential administration will be whittled down to less than ten, which will be formed on a territorial basis and take over the function of monitoring regional authorities. The authority and role of the presidential representatives in the regions, which at present is determined significantly by their relationships to the regional elite, will be strengthened allowing them to be more independent of the governors. If this plan were implemented, the presidential representatives would be directly in charge of the activities of the territorial subdivisions of law enforcement agencies.

**PRESIDENTIAL RULE IN CHECHNYA?** Empowered with a popular mandate earned largely through his campaign in Chechnya, Vladimir Putin may choose to end the war in Chechnya by imposing direct presidential rule, the acting president's representative in the republic announced on 31 March. Nikolai Koshman stated that Putin should govern the republic from the Kremlin because the war has destabilized Chechnya to the extent that people are too divided to accept a ruler from among their own ranks, as none of the Chechen leaders has enough clout to rule over the republic (*Moscow Times*, 1 April). Koshman claims that Chechens may need two or three years before they will be ready to elect their own leader.

In spite of discussion of taking such extreme action in regulating Chechen affairs, the Kremlin still refuses to meet with Chechen President Aslan Maskhadov to discuss peace negotiations. Maskhadov consults regularly with Ingushetiya President Ruslan Aushev and North Osetiya President Aleksandr Dzasokhov, who have repeatedly asked the Kremlin to meet with the Chechen president (*Nezavisimaya Gazeta*, 31 March). Both Aushev and Dzasokhov have spoken out against the introduction of presidential rule in Chechnya.

**MOSCOW AND DAGESTAN STEP UP COOPERATION.** On 30 March Moscow Mayor Yurii Luzhkov and Chairman of the Dagestan Republican State Council Magomedali Magomedov signed an agreement on economic, technical, and cultural cooperation. Luzhkov

promised to give Dagestan, which has struggled with economic development as a result of its dangerously close proximity to Chechnya, both moral and material support. Moscow imports of Dagestani produce are expected to increase, and plans for establishing food canning and packaging enterprises in both Moscow and Makhachkala are in the works. The Bank of Moscow, TV-Tsentr, and Internet-Telefoniya will all open branches in Dagestan. Another aspect of cooperation between the two regions will encompass coordination in law enforcement issues and the exchange of information on the regions' respective crime situations.

(*Nezavisimaya Gazeta*, 31 March)

**GOVERNORS SEEK TO END TERM LIMITS.** At the 29 March meeting of the Federation Council, the governors called for ending the two-term limit that a federal law adopted last October imposed (see *EWI Russian Regional Report*, 10 November 1999). *Izvestiya* regarded the upper house's move as the beginning of a counter attack by the governors against federal controls and an attempt to exact a price for their support of Putin in the presidential campaign. On a related issue, Nizhnii Novgorod Governor Ivan Sklyarov said that all governors in the upper house's Committee on Federal Issues were against the appointment of governors and any attempt to redraw regional boundaries in Russia. Just a month ago, few governors were willing to speak so openly on this theme, but now as their fear of Putin is waning, they are beginning to realize that they had been willing to give away too much, the paper commented.

### **ECONOMICS**

**ALUMINUM WAR REACHES SURPRISING CEASE FIRE.** The battle that has been brewing for several months for control of the Russian aluminum sector has reached a surprising turning point with the warring factions uniting forces to form a unified holding company to coordinate their activities. Sibneft, which is controlled by director Roman Abramovich and financier Boris Berezovskii, is joining the Siberian Aluminum Company, headed by Oleg Deripaska with strong support from Unified Energy System's head Anatolii Chubais, to form Russian Aluminum. Alfa Group is also participating in the new entity. The new organization does not intend to merge the participating institutions, but plans to coordinate price and resource policies. Collectively, Russian Aluminum will control nearly 10 percent of the world production of aluminum (Russia overall controls about 10 percent). Eighty percent of Russian aluminum is exported (*Nezavisimaya Gazeta*, 4 April).

The new friendship between the various players came as a shock, particularly in light of the mounting hostilities over the last few months. The Abramovich/Berezovskii alliance enraged its opponents less than two months ago when it purchased large stakes in the Bratsk Aluminum Factory (Irkutsk Oblast), Krasnoyarsk Aluminum Factory, and Novokuznetsk Aluminum Factory (Kemerovo Oblast) from the Trans World Group and Lev Chernoi (see *EWI Russian Regional Report*, 16 February). These purchases gave Abramovich/Berezovskii control over an estimated 70 percent of Russia's aluminum supply. In response, Siberian Aluminum acquired a controlling stake in the Nikolaev Alumina Plant in Ukraine, the alumina supplier for two-thirds

of the product at the Krasnoyarsk Aluminum Factory. Additionally, Krasnoyarskenergo, the electricity supplier for the plant, raised its rates by 49 percent. Alfa Group fits into this picture due to its status as the external manager of the Achinsk Alumina Factory, another top alumina supplier for Krasnoyarsk. On 1 April the Krasnoyarsk Krai administration announced that Alfa Group had handed over the management of Achinsk to the stockholders of the Krasnoyarsk Aluminum Factory, and that the factory had been removed from oversight by external management.

Given this background, the decision to establish Russian Aluminum can be viewed perhaps more as a cease-fire than an amicable alliance. Nevertheless, the two sides are making good on their word to coordinate activities. On 31 March General Director of the Krasnoyarsk Aluminum Factory Aleksei Barantsev announced that he was going on leave 3-25 April, clearing the way for a new leader to take over. Unofficial sources claim that Barantsev does not expect to ever return to the factory (*Vedomosti*, 3 April). Barantsev has always been looked on as a crony of former owner, Chernoi, an arch rival of Deripaska. The formal grounds for Barantsev's departure concern the recent increase in electricity costs, which the general director was unable to prevent.

The creation of Russian Aluminum suggests that President-elect Vladimir Putin's plans to crack down on oligarchs' political influence may be no more than a campaign promise. Additionally, due to the alleged loose structure of the new organization, it is unlikely to encounter any problems with anti-monopoly legislation. The new organization is likely to lobby Putin to reinstate the practice of tolling, which significantly lowered import and export fees for the aluminum industry and made it more profitable. Putin ended the practice as of 1 January 2000.

**UNIFIED ENERGY SYSTEMS CONSIDERS MAJOR RESTRUCTURING THAT WOULD WEAKEN GOVERNORS.** On 4 April the Board of Directors of Unified Energy Systems (EES) met to discuss plans to restructure the company. On the eve of the meeting *Vedomosti* (31 March) published EES Director Anatolii Chubais' plans for the utility. In the first stage, regional energy systems ("energos") would be liquidated. EES then would begin setting itself up exclusively as a company that provides electricity lines connecting producers and consumers. All power stations, which are owned by EES, will become independent joint-stock companies. Owners of the energos will automatically become shareholders in the power stations. Then, the management of these businesses will be transferred to three companies founded by EES, hydro-electric stations will go to GES-Generatsiya, fuel-stations to TETs-Generatsiya, and the transmission lines will become part of the new EES. In the second and third stages, EES intends to "decrease its presence in the power stations," in other words, sell them and serve only as a network company.

The restructuring of EES will greatly reduce the influence governors currently wield over electricity prices. Presently, a regional energy commission, which generally is ruled by a deputy governor, determines the cost of electricity in a region. Governors can even control the price of electricity for specific factories. Under the new arrangement, each power station will be part of the federal market, giving the federal energy commission control of prices. Control over



electricity prices has been one of the governors' most powerful tools in wielding power over local enterprises.

The meeting is simply one of the first steps in the reform process. Ultimately Putin and the government will have to sign off on the final decisions.

**GROMOV ENTERS INTO CONFLICT WITH GUTA BANK.** On 29 March a group of 40 Moscow Oblast law enforcement officials raided the headquarters of Guta Bank in search of documents relating to criminal activities from a year ago when the bank took over Unikombank. Moscow Oblast Governor Boris Gromov explained that Unikombank had begun to sink in spite of the fact that the oblast owned a controlling stake in the bank and had invested substantial resources into it ([www.apn.ru](http://www.apn.ru)). He claims that Guta Bank, which bought out 15 Unikombank branches in the oblast, had initiated bankruptcy proceedings against the bank instead of working to rehabilitate it. As a result, Moscow Oblast lost nearly \$20 million. According to Gromov, the previous oblast administration took out loans from Guta Bank at terms that were disadvantageous to the oblast. For example, the oblast took out a \$3 million loan using \$40 million worth of property as collateral. Gromov asserts that he asked Guta Bank to discuss conditions for restructuring the oblast's debt, but in response received an ultimatum from the bank to hand over the property.

However, officials from Guta Bank reject these claims and argue that the raid and accusations are connected to tensions between the bank and recently elected Gromov. After the raid Guta Bank held a press conference at which chairman of the bank board Artem Kuznetsov told *Segodnya* (30 March), "We consider this a psychological attack. It is most likely connected to our bank's relations to the administration of Moscow Oblast, which have deteriorated sharply as of late. We simply have been unable to find a common ground with the new team of Moscow Oblast Governor Boris Gromov." Guta Bank had close relations with the previous Moscow Oblast governor, Antalolii Tyazhlov.

**US STATE DEPARTMENT LIFTS LOAN BAN AGAINST TYUMEN OIL.** The United States government has revoked its decision to block a \$500 million loan from the US Export-Import bank to Tyumen Oil Company (TNK). The loan was withheld in December 1999 due to the dispute between TNK and BP Amoco over Sidanko (see *EWI Russian Regional Investor*, 22 March). The US State Department used a law allowing it to interfere with financing that contradicts national interest in order to block the loan. Sidanko's bankruptcy was overturned in January, and TNK and BP Amoco have reached a settlement regarding disputed property (see *EWI Russian Regional Report*, 2 February).

THK President Semen Kukes stated that, "The detailed analysis carried out by the State Department has shown that TNK is acting in accordance with the legal standards of the state. This is a very important decision for the reputation of our company in Russia and overall," (*Ekonomicheskie novosti iz regionov*, 4 April). Kukes hopes that the State Department's decision will influence the ExImBank to grant TNK the loans, which it intends to use to modernize the Ryazan Oil Processing Plant (RNPZ) and develop the Samotlor oil and gas field with the help of the Halliburton Co (see *EWI Russian Regional Report*, 22 October, 1998).

**YAROSLAVL TO ESTABLISH REGIONAL TREASURY.** Yaroslavl Governor Anatolii Lisitsyn does not want to give the regional branch of the federal treasury the right to distribute funds from the oblast budget and instead intends to create an oblast treasury for this purpose. Yaroslavl Oblast Deputy Prime Minister Anatolii Fedorov stated that his federal colleagues were not prepared to work with mutual offsets, a form of non-monetary exchanges which currently make up nearly 30 percent of the oblast's income. Oblast officials are preparing standard documents for establishing an oblast treasury and soon Lisitsyn will adopt a decision on transferring part of the budget expenditures to the new regional treasury. A full transfer is planned to begin in 2001. (*Nezavisimaya Gazeta*, 30 March)

## **CENTER-PERIPHERY RELATIONS**

**PUTIN MEETS WITH KEY GOVERNORS IN KREMLIN.** On 29 March President-Elect Vladimir Putin met with 18 key governors. The meeting was shrouded in secrecy and the presidential administration did not mention it on its press web site, nor was it widely covered in the media. The governors were apparently chosen because their regions delivered strong support to Putin in the 26 March presidential election and Putin is likely to focus on this group as he develops his policies regarding Russian federalism. RRR sources suggest that the attendees included Kareliya's Sergei Katanandov, Vologda's Vyacheslav Pozgalev, Novgorod's Mikhail Prusak, Leningrad Oblast's Valerii Serdyukov, Sverdlovsk's Eduard Rossel, Saratov's Dmitrii Ayatskov, Bashkortostan's Murtaza Rakhimov, Tatarstan's Mintimer Shaimiev, Moscow Oblast's Boris Gromov, Moscow City's Yurii Luzhkov, and Irkutsk's Boris Govorin. According to Irkutsk's Govorin, who was the only representative of Siberia and the Far East at the meeting, Putin thanked the governors for their support and expressed the hope that they would help him develop and implement proposals for improving the country's social-economic situation.

The governors present at the meeting represented the regions that determined the outcome of the presidential race. The Irkutsk Oblast elite, for example, was extremely happy that 50.08 percent of the region's voters supported Putin in the race. Because of this relatively strong support, governors like Irkutsk's Govorin expect to have preferential access to the president, a benefit that will be extremely important during the transition period.

It is not clear why the meeting was held in secrecy. When Irkutsk journalists asked Govorin who else was at the meeting and what the criteria were for determining the participants, he said "it's better to ask the president and his administration." Govorin said that the governors did not discuss the question of including regional leaders in the federal government. However, Govorin noted that the governors had no choice but to play a role in national politics.

The inclusion of Luzhkov and several governors who aligned with him in the 1999 State Duma race shows that these governors are too important for Putin to oppose directly and he has clearly decided to bring them into the tent, rather than keep them outside. Putin is apparently pursuing a different strategy toward Samara's Konstantin Titov, who opposed him in the presidential elections (see related story in this issue). - compiled by Robert Orttung from

material supplied by Teleinform (Irkutsk), the Irkutsk Governor's Press Service, and Boris Matveev in Kareliya

**PUTIN AND TATARSTAN.** Candidate Vladimir Putin probably had two key issues in mind when he visited Tatarstan on the eve of the presidential elections. First, he undoubtedly wanted to build up support among the voters. Putin's campaign managers recognized that there are a lot of Muslims in Tatarstan and they may not like the fact that the Russian government is killing numerous Muslims in Chechnya. The managers also undoubtedly worried that Putin's tough line against regional separatism and demands that the regions bring their laws into line with the Russian constitution and federal legislation could reduce his support in the republic. However, these fears were misplaced. The population of Tatarstan would have voted for Putin even without the calls to do so by Tatarstan President Mintimer Shaimiev. In the end, Putin won nearly 70 percent in the region, much more than he did in Russia as a whole.

Putin's other reason for coming to Tatarstan undoubtedly has to do with Yeltsin. It was in Kazan that Yeltsin had told the republics to "Take as much sovereignty as you can swallow." In Kazan, Putin repeated what he had said in other regions, again stressing the need to strengthen the state and the need to bring Tatarstan's constitution and laws into conformity with the constitution and laws of the Russian Federation.

For Shaimiev and the republican political elite, the visit was important for demonstrating the close ties between the regional leadership and Putin. After Shaimiev ditched his erstwhile allies, Moscow Mayor Yurii Luzhkov and former Prime Minister Yevgenii Primakov, it was important for him to show that he had established ties with Putin.

It remains to be seen where Putin and Shaimiev have found a common language. However, the relationship between Shaimiev and Kazan Mayor Mamil Iskhakov is clearly deteriorating, as was demonstrated during Putin's visit. During the 19 December 1999 elections to the Tatarstan State Council Iskhakov managed to successfully elect many of his own candidates in Kazan, defeating candidates backed by Shaimiev. While Putin was in Kazan, Iskhakov conducted himself relatively independently in his conversations with the acting president, a fact that did not go unnoticed.

Tatarstan is clearly making a move closer to the federal government. Bashkortostan President Murtaza Rakhimov has already made a step in this direction by signing a budget agreement with Putin (see *EWI Russian Regional Report*, 28 March). Kazan is likely to capitulate also. Shaimiev will probably give up his claims for sovereignty and change the republic's constitution and laws on the condition that Putin will not block his campaign to win a third term in 2001. It remains unclear how Putin will react. It is conceivable that once he has achieved his main goals, restoring a vertical management hierarchy, subordinating Kazan to the federal government, and returning Tatarstan to a unified Russian legal system, he will be willing to compromise. Naturally, he will not be concerned about the fate of Tatarstan's population. - Midkhat Faroukshine in Kazan

**PUTIN CALLS FOR OPENING CLOSED CITIES.** On 31 March, President-elect Vladimir Putin visited the closed city of Snezhinsk (Chelyabinsk Oblast) to discuss issues related to Russia's nuclear weapons program. He stressed that the weapons would be a priority for the

country and that they were what made Russia a superpower. However, Putin emphasized the need to base the country's policies on a solid economic footing. He also made clear the need to ratify START-2 and start working on START-3.

Putin declared that all closed cities should be opened, "as in the entire civilized world." He also called for ending tax breaks for closed cities, arguing that all cities should work in equal condition. While the locals were happy to see Putin, few supported these ideas. In 2000, Russia will only give such tax benefits to two closed cities, Snezhinsk and Sarov (Nizhnii Novgorod Oblast). In exchange for ending the benefits, Putin called for 100 percent financing of the nuclear sector from the federal budget. He also threatened to bankrupt enterprises that do not pay their bills to the nuclear weapons producers. Additionally, Putin said that he would not cut any jobs in the sector. - Igor Stepanov in Chelyabinsk

## **PATTERNS OF REGIONAL DEVELOPMENT**

**TITOV RESIGNS AS SAMARA GOVERNOR TO PAVE HIS WAY BACK.** Samara Governor Konstantin Titov sent a resignation letter to the regional legislature early in the morning of 4 April. On 6 April the legislature will formally accept the resignation and set elections for the region's gubernatorial elections.

Titov refused to explain his decision to resign, but two reasons are obvious. First, Titov is clearly afraid that if the gubernatorial elections are held when they were scheduled, 1 December 2000, he might not be reelected governor. During the presidential campaign, just over 20 percent of Samara Oblast voters actually voted for him. If that reflects his popularity as a regional leader, he would face serious competition in the elections. However, if the rescheduled elections are held in July as seems likely, he would have a much better chance of winning since any potential opponents would have less time to prepare a campaign.

Second, President-Elect Vladimir Putin's administration is probably putting pressure on him. The regional political elite is convinced that the Kremlin wants to remove Titov completely from the political stage. In that case, Titov would want to win reelection as soon as possible before the pressure becomes unbearable. That there is pressure is confirmed by the fact that Radio Liberty and several other broadcasters have already announced that Titov has been offered an ambassadorship in a European country such as Germany.

If indeed Titov resigned to improve his chances at reelection, then his move can be considered a success: his main opponents are not ready for the shortened campaign. Titov's most dangerous competitor is former Samara Mayor Oleg Sysuev, now a vice president at Alfa Bank. Some observers in the oblast believe that the presidential administration will support Sysuev in the campaign. He could likely win without any external support because he remains very popular in the oblast. Most believe that if Titov really does retire from politics, then Sysuev would be the most likely to replace him.

Current Samara Mayor Georgii Limanskii is particularly unprepared. He just lost the battle for control of the local Yedinstvo party and Moscow is very unhappy with his performance during the presidential campaign. In Samara Putin won fewer votes than he did in Russia as a whole and believes that it was because of a poor campaign effort there.

Another potential candidate who has not had time to launch his campaign is Viktor Tarkhov, the former chairman of the Oblast Soviet of People's Deputies, who left politics in 1990. Until recently, Tarkhov was one of the leaders of the Alyans oil company, but has now returned to Samara. No one doubts that he will run for governor, but it will take him time to rebuild his contacts in the region.

The Communists, who have a solid hold on 20 percent of the oblast vote, are likely to nominate General Albert Makashov in the race. His campaign is probably in the best shape since he is constantly in the local news pursuing his case against the oblast electoral committee. He was recently eliminated from the campaign for the State Duma on grounds that he believes were not valid. The Communist candidate has no chance of winning, but his participation in the race will make life difficult for the other contenders. - Andrei Perla in Samara

**MATVIENKO PULLS OUT OF ST. PETERSBURG RACE.** The gubernatorial campaign in St. Petersburg has taken another interesting turn. On 4 April Deputy Prime Minister Valentina Matvienko urgently flew to Moscow. After meeting with President-elect Vladimir Putin, Matvienko announced that Putin had asked her not to compete in the campaign and instead continue her work in the cabinet. Putin clearly did not want to tarnish his image by continuing to back a candidate who seemed likely to lose in his hometown.

It seems that Putin will now likely throw his support behind Governor Vladimir Yakovlev. Over the course of the last week, several public signals indicated this development. On 30 March Matvienko was unable to get a meeting with Putin (*Kommersant Daily*, 31 March), and on 4 April Yakovlev flew to Moscow to meet with Presidential Chief of Staff Aleksandr Voloshin, securing the support of the Voloshin-Berezovskii clan against Matvienko and Anatolii Chubais. (The official reason for the visit was to discuss preparations for the World Hockey Championships being held in the city 29 April-14 May.) That night Putin's plane, on the way to Murmansk, landed in St. Petersburg ostensibly because of bad weather. Putin and Yakovlev then had an hours-long meeting that rearranged the political firmament in the city. On the morning of 5 April, Yakovlev supporters turned in the first 70,000 signatures necessary for registration to the City Electoral Commission. Matvienko has officially declined from participating in the election even though 140,000 signatures have already been gathered in her support.

Matvienko's withdrawal roiled Yakovlev's opponents. Of course, recent public opinion polls have given a strong preference to Yakovlev. The VTsIOM poll taken at the end of March gave 55 percent to Yakovlev and 13 percent to Matvienko. The St. Petersburg Gallup poll gave Yakovlev an even higher standing, 63 percent to Matveinko's 12. However, Matvienko's PR campaign only recently took on a more aggressive tone. In the middle of March Matvienko's slogans "Our city is tired" and "The city deserves better" began appearing across St. Petersburg, and criticisms of Yakvlev appeared on the pages of the city's top newspapers. Matvienko's staff, with the help of specialists from the Moscow staff of Soyuz pravvykh sil, had already begun collecting complaints against the St. Petersburg administration and on 4 April the head of Matvienko's legal group, Taras Rabko, presented information on violations of federal law in St. Petersburg to journalists. If Matvienko's staff had continued to uncover

compromising material against Yakovlev's administration, she may have posed serious competition for the governor in the second round.

The situation is now critical for members of the anti-Yakovlev coalition. If they do not agree on a new candidate immediately, Yakovlev may win outright in the first round. The St. Petersburg branch of Yabloko stated that Matvienko's decision not to run demands a "serious change in Yabloko's campaign tactics and strategies," (<http://www.rusline.ru>). The St. Petersburg branch of Soyuz pravyykh sil has nominated St. Petersburg State Duma Deputy Yuliya Rybakova, leader of Democratic Russia, in place of State Duma Deputy Irina Khakamada, who refused to run. The rightists are also likely to support Yabloko candidate Igor Artemev. The local Yedinstvo branch is considering nominating its own candidate since Artemev and Rybakova are "completely unacceptable" (<http://www.rusline.ru>). Yuri Boldyrev's position is unclear since his financial base collapsed with the murder of Dmitri Varvarin (*EWI Russian Regional Report*, 15 March). State Duma Speaker Gennadii Seleznev declared Boldyrev as Yakovlev's strongest competition. - Daniil Tsygankov in St. Petersburg

**CHEREPKOV'S VICTORY DECLARED INVALID AGAIN.** On 29 March the Primorskii Krai regional court ruled in favor of Orysya Bondarenko in her case against the district electoral commission, which removed her from the ballot in the repeat elections for the District 50 State Duma seat on the day before the election. Bondarenko was disqualified for allegedly trying to buy votes (see *EWI Russian Regional Report*, 28 March). On 30 March the district electoral commission subsequently declared the results of the election invalid. Therefore, former Vladivostok Mayor Viktor Cherepkov, who gathered 29 percent of the vote, beating out 11 other candidates, will not be able to take his seat in the parliament's lower house.

As he has done many times in the past, Cherepkov flew to Moscow to argue his case to the procurator general, Supreme Court, and president. He told local journalists that his fate is the battlefield on which the war between the people of Vladivostok and Primorskii Krai Governor Yevgenii Nazdratenko's team is taking place.

Cherepkov's claims have apparently fallen on sympathetic ears in Moscow. On 2 April the head of the Central Electoral Commission announced on Russian Television's Zerkalo that the results of the District 50 elections will probably be confirmed. Veshnyakov believes that the district electoral commission exceeded its authority by canceling the results. However, a decision by the Central Electoral Commission will not conclude the ongoing trouble in Primorskii Krai. First, Bondarenko can appeal the commission's decision to the court. Second, pro-governor candidate Valentina Kurdryavtseva, who came in second place with 17 percent of the vote, also intends to protest the election results in court. Her staff confirms that the commission violated certain protocol procedures.

There are no precedents in Russia for this sort of situation. The ultimate decision depends on the distribution of political power in Moscow. The decision will have a clear political subtext, on which it will be possible to judge the relations between the federal center and the authorities of Primorskii Krai.

Aside from Vladivostok, only Chechnya does not have representation in the State Duma. If Cherepkov's victory is annulled, a third attempt to elect a deputy should take place in

three months. It will cost 13 million rubles. Prior to this election, results in various Vladivostok elections have been reversed or declared invalid 26 times. - Dmitrii Motovilov in Vladivostok

**YAROSLAVL ELECTS MORE UNIFIED LEGISLATURE.** Yaroslavl elected its regional parliament on 26 March, filling 48 of the 50 seats. The membership of the new Duma is much more homogeneous than the first two sessions were. In particular, directors of major enterprises in the region doubled their membership to 24. The new membership includes the directors of all the major regional enterprises, including Slavneft-Yaroslavl Oil Processing Plant, Slavneft-YaNOS, the Yaroslavl Tire Factory, Avtodizel, and Rybinskie Motors. Besides the directors, there are seven mayors, who are themselves representatives of large business, which has recently increased its representation in local government. Another five members come from the oblast's healthcare industry. The number of scientists and educators fell to one.

The support of the Putin-backed Yedinstvo party played a major role in electing so many industrialists to the legislature. Of the 25 candidates supported by this bloc, 15 won seats. The Communists and Yabloko did not elect enough deputies to make factions in the new body. Even the relatively popular Yaroslavl-2000 movement will likely not have enough members to set up its own faction. Even though it supported 41 candidates and successfully elected 25 of them, the majority of these deputies also had the support of the more attractive Yedinstvo and likely will not form an alliance against it.

Most likely the new speaker will be elected from the Yedinstvo members. The new legislature looks like it will be effective in lobbying the interests of local industrialists and helping them to develop the oblast. - Alina Arkhangelskaya in Yaroslavl

## **HORIZONTAL TIES**

**SIBERIAN DEPUTIES SET UP STATE DUMA INTER-PARTY GROUP.** "Duma members often go to Moscow and forget about the people who elected them. This outcome does not mean that we choose the wrong people. Rather it reflects a lack of systematic ties. In the best cases, the deputies only work for the interests of their particular districts, while lacking a common approach," complained Khanty Mansii Autonomous Okrug Duma Chairman Sergei Sobyenin at a State Duma press conference on 30 March. Many Russian parliamentarians share his views.

To address this issue, on 28 March State Duma members held a round table with the Siberian Accord Interregional Association to discuss methods for improving cooperation. Representatives from 12 of the 19 Siberian regions were present. The main impetus for the meeting, as Sobyenin explained, was that Siberian initiatives "disappeared into thin air" when they reached the Duma. The Duma members at the meeting adopted a decision to create a new inter-factional group of Siberian deputies. State Duma member Aleksandr Fomin will head the organizational committee to form the new alliance.

In the future the deputies hope to create an Assembly of Siberian Representatives in the Federal Assembly (both houses of the Russian parliament). There are 65 Duma members from east of the Urals and 38 in the Federation Council. So the Assembly could include more than 100 individuals. The Assembly's status is hard to define, but its purpose will be to implement

decisions adopted by the Siberian Accord Interregional Association. Deputy Chairman of the Siberian Accord Council Vladimir Ivankov thinks that the creation of this legislative mechanism will give the Siberian Accord greater meaning. The body hopes to avoid political conflicts by focusing on economic issues.

Siberian regions are characterized by the enormous distances between regions, vast natural resource wealth, and the problems of the Far North. Ivankov claimed that under the czars, Stalin, and Brezhnev, Siberia only developed with state support. "That is how it should be now," he said. Among the key issues for the group will be maintaining and modernizing the Trans-Siberian Railroad, particularly taking into account that China has built an alternative route for transporting freight. Another key issue will be developing the region's air transport industry. More than 5,000 planes are idle now and they could be put to better use with improvements in the law on aviation leasing. Many of these problems are common throughout the country and solving them in Siberia would help solve them elsewhere as well.

This group will be the first purely regional inter-factional group to be formed in the State Duma, and the second inter-factional group in general, following the formation of the "oil and gas" group Energiya Rossiya set up by former Prime Minister Viktor Chernomyrdin two months ago. Sobyanin believes that the other regions would also benefit from setting up such groups.

This development strengthens the new character of relations between regional leaders and the Duma. If in December 1995, regional leaders sought to send away their main opponents by having them elected to the Duma in Moscow, then in 1999 the governors saw their main task as electing allies to the Duma to help solve the region's problems in Moscow. It is possible that the Siberian initiative will be the first in a chain of similar actions. - Petr Kozma in Moscow

## **REGIONAL MEDIA**

**KIRIENKO SUPPORTERS TAKE OVER NIZHNI BROADCASTER.** Nizhnii Novgorod Oblast has a reputation as a region with a well developed media and reasonably good conditions for its operation. The oblast has five local television stations that broadcast 16-18 hours a day. "Nizhnii Novgorod" is the regional broadcaster for the All-Russian State Television-Radio Company (VGTRK), NNTV was founded by the oblast authorities, while Volga, Seti-NN, and Dialog are private, providing competition as well as stylistic and political diversity. Since the end of the 1980s, television has played a big, and often independent, role in regional political life.

Thus the events surrounding Dialog in recent weeks have attracted wide attention among the general public and specialists. Dialog is the youngest Nizhnii Novgorod broadcaster, launching its activities in 1995. From the beginning it was the property of the local company EkOil, which belongs to the Khafizov family and is a part of the EkOil-Press Media holding company. Even though Dialog was headed by one of Nizhnii Novgorod's most experienced and respected producers, Georgii Molokin, it had trouble competing with the already established stations. Although its programs are relatively high quality, the broadcast range limits it to a relatively small number of households. Dialog has lost money since it was founded so it is not a surprise that the owners eventually began to seek a buyer. After the oblast administration and its



competitor, the city administration, showed no interest, the so-called Kirienko group suggested that it would like to buy the company.

The Kirienko group is an informal association of supporters grouped around former Prime Minister Sergei Kirienko who have considerable weight and popularity in the region and who have been active in the Nizhnii media in the last 2-3 years. The group already controls the newspapers *Monitor*, *Delo*, *MK v Nizhnem*, *Sem Pyatnits*, *Leninskaya smena+*, and the NTA information agency. It also has influence over several other media outlets, including broadcast outlets. With the creation of this media empire, many began to ask if Kirienko had ambitions to win election as the region's next governor.

In February it was announced that a group of individuals had purchased Dialog and its broadcast license. The new owners replaced Molokhin with the young TV journalist Mikhail Polunin, a recent disciple of Molokhin. Polunin's first steps aroused concern among local journalists. He shut down the station's broadcasts until 1 April and fired the staff, saying that he wanted an entirely new team. Polunin was highly critical of the station's former style of work, criticism that many of the journalists felt was insulting. At this point it is not clear if these moves are aimed at increasing the visibility of the station or a simple display of incompetence. In an interview with the local newspaper *Vasha antenna*, Molokin said that the new owners did not have a strategic plan for the station and made the purchase thinking that it might be useful in the future.

The resumption of broadcasts on 1 April has not answered any questions. However, clearly Kirienko's presence in the oblast continues to grow. Whether he will participate in the 2001 gubernatorial election remains unclear despite Kirienko's assertions that he does not plan to run. - Sergei Borisov in Nizhnii Novgorod

## **ECONOMIC ISSUES**

**GORNO-ALTAI FREE ECONOMIC ZONE CLOSED.** On 16 March the Gorno-Altai Free Economic Zone was ignominiously closed. From that date, the so-called Altai Ecological Economic Zone no longer registers new participants and the zone will shut down all of its activities by the end of the year. The only activity likely to continue is the attempts to attract tourists.

The zone lasted for five years in the republic, one of the poorest regions of Russia. However, the regional authorities believe that the zone brought them more problems than benefits. About 3,300 enterprises registered in this tax haven, paying 780 million rubles in taxes at all levels. The republican budget received no more than 20 percent of this sum, while the rest went to the federal government. Moreover, according to federal law, the republican government had to compensate companies registered in the zone for part of the value-added tax that they had paid in other regions.

Nevertheless, closing the zone will have a dramatic effect on the republic's economy, whose budget obtains 90 percent of its revenue from federal subsidies. The republic's 2000 budget will likely have a 65 percent deficit rather than the planned 42 percent shortfall (*Kommersant-Sibir*, 10 March). Expected tax income from increased tourism in the region is not expected to total more than 0.3 percent of the budget.

The federal government closed the zone after coming under pressure from the leadership of neighboring regions. They were upset that their enterprises were registered in the zone, depriving them of tax income. - Irina Maslennikova in Novosibirsk

## **INTERVIEW ON FEDERALISM**

### **UDMURTIYA'S VOLKOV: NEED TO START WITH THE CONSTITUTION**

*This week the RRR publishes an interview with Udmurtiya's leader Aleksandr Volkov conducted by Vasilii Filippov and Dmitrii Grushkinin Moscow.*

**RRR:** Will the trend started in the 1990s to sign agreements between the federal government and the regions continue or will there be a transition to a unified system of constitutional relations?

**Aleksandr Volkov:** I hope that we will switch to a constitutional system of relations. The regions of the Russian Federation should be equal. I am convinced of this even though I represent a republic. The rights and responsibilities of the regions should be written in the constitution.

The current situation should not continue in which someone has good relations with the center and therefore by treaty he receives more... And someone else receives less. That is not right! Just as people are equal before God, so also should all regions be equal before the law. Every region is a part of a united Russia and should be subordinate to the basic law of the country, the constitution. I believe that we need to amend the constitution.

**RRR:** Does the current different status levels of the regions somehow influence the relations between regional leaders?

**Volkov:** Of course not. Generally, the regional leaders establish their relations on the basis of partnerships.

It is not the fault of one or another leader if his relations with the center are set in treaties. I believe that the practice of signing treaties is evidence of the federal government's weakness. If we start building a constitutional system of state management, as we should, I believe that the majority of regional leaders will support it.

**RRR:** What did the relationship between the center and regions depend on during the last decade? Was it the political loyalty of the regional leaders to the center? The wealth of the region? Its status?

**Volkov:** You know, no matter what kind of constitution you have, you cannot avoid the fact that personal connections will be personal connections... just as my relations with thirty regional leaders are different. But there should be a single basis!

Let's take the case of Udmurtiya, which is a republic. Its relationship with the center should only be different from that of an oblast in the sense that as a national republic we should have resources for preserving the language and culture of the titular nation. This should be the only difference! There should not be any economic advantages or privileges. We must all work,

earn money, and build our relations with the center on the same basis that other regions of the federation use.

What is the main problem with our constitution and state structure today? The federal government (president, presidential administration, government) works alone, the regional leaders work alone, local government works alone. There is no vertical hierarchy of power. No one takes responsibility. Therefore conflicts begin when people with bad intentions come to power at one of the levels. What kind of system is it when the governor does not answer to the president of the country and the mayor does not answer to the governor? Such responsibility should be clearly defined in legislation and there should be no "gap" between the authorities.

**RRR:** In this context, which is preferable: electing governors or appointing them? On one hand, the majority of governors undoubtedly would oppose an attempt to reinstate the procedure of appointing the governors; while, on the other, the center is unhappy with its inability to control the regional elite.

**Volkov:** It would make sense to include the election of governors in the constitution. In terms of the center's inability to control the governors, you are absolutely right. Not having any responsibility is very convenient. One can simply say, "If I want something, I can steal it." I don't agree with this, even though I could do very well for myself. Here's why. A similar situation characterizes my relationship with the cities and raions of Udmurtiya, which in their turn do not answer to me. Therefore, I am prepared to be subordinated to the center, up to the point of losing my job even if I am elected, but my responsibility should be supported by my subordinates in the republic. We should finally build this system of responsibility and management. It will only bring us economic benefits, and in principle, political benefits as well.

**RRR:** How do you view the budgetary relationship between the center and the regions? Are you happy with the existing two-channel system, in which money is collected in the regions, sent to the center, and then sent back again to the regions?

**Volkov:** A lot has changed in this regard in the last several years. A treasury system has been set up in the regions and we do not send money back and forth to Moscow. This relationship is now much better regulated.

I would not say that they [the center] "pressure" us, for example, for our political views or for some position that differs from the center. Every year we received what we were due and even more. Therefore I do not have any great complaints about the center, we have always succeeded in finding compromises and effective solutions.

**RRR:** Do you think the center's demands to bring regional legislation in line with federal legislation and the constitution is correct? Should we expect the resistance of regional leaders in implementing these demands in practice?

**Volkov:** I think that resistance is unavoidable. The Federation Council, in any case, will not adopt such laws. It is practically impossible to implement these plans in legislation because you are touching on serious interests, including personal interests - there is no way to avoid it! It is well known that some regions have more benefits than others. They do not like such reforms. Therefore, I think that it is necessary to start with the constitution. If this idea is written into the

constitution, then each region will be required to subordinate itself and bring its legislation into line with the Russian constitution.

What are we doing in Udmurtiya? Last year the federal government adopted a law on regional political institutions (see *EWI Russian Regional Report*, 10 November 1999) and because of this law we are turning Udmurtiya's parliamentary system into a presidential one. And even though it was a federal law, I faced resistance in the republic. Why? Because the mayors do not benefit from the new system. The old system was convenient for them. On one hand, they demanded financial support from the state, on the other, they did not consider themselves responsible to anyone to explain how they spent this money. It is not because the mayors are bad. No. Their life situation determines their consciousness - since they could legally escape responsibility, that's what they do.

**RRR:** The presidential administration is talking more and more about reforming Russian federalism. In particular, combining regions from the existing 89 to as small a number as 8 is very popular. What do you think about that?

**Volkov:** I think that this is a very harmful idea. What will it do? The country already has an administrative structure. Why throw it back into chaos? We have already lived through this experience: remember the Sovnarkhozy? They were also an attempt to combine regions. What is the benefit? I cannot agree with Moscow Mayor Yurii Luzhkov who supported this idea in his meeting with the governors of the Golden Ring. It is only his point of view.

## **E-BOOKS WORTH READING**

**PUTIN'S OT PERVOGO LITSA: PUFF PASTRY WITH USEFUL FILLING.** Even the Russian Central Electoral Commission recognized this book for what it is: a piece of campaign literature designed to put a human face on Vladimir Putin, the former KGB-agent who was elected Russia's second president on 26 March. The Commission banned the book from being published during the campaign, so it was only available on the publisher's web site ([www.vagrius.com](http://www.vagrius.com)).

*Ot pervogo litsa*, soon to be published in English translation, is comprised of interviews with Russia's acting president, his wife, two daughters, a former secretary, friends, and an elementary school teacher, among others. Overall it is filled with too much stuff we don't need to know. At one point Lyudmila Putina gushes about her husband, "I love it when his hair is cut very short." There are also long passages detailing the time Lyudmila was in an automobile accident and what happened when the family dacha burned down. These events are described to generate the sympathy of voters and try to create human bonds between the leader and his people.

The depictions also demonstrate that the Putin family has a good sense of the tragicomic nature of Russian reality. Of the hospital that the ambulance first brought Putina to, she said "if I had stayed there I would have died" because the doctors were incompetent. When the firemen showed up to put out the dacha blaze, they quickly ran out of water even though the house was right next to a lake. When Putin screamed, "how can you run out of water?!" the firemen

responded, "There's the lake, but we don't have a hose." These are the kind of stories one might hear from Russian friends and make the Putins appear like an average family.

Readers of the Russian Regional Report may be interested to know that Putin's wife comes from Kaliningrad, then a closed city, where she started her career as a stewardess on domestic flights. She was introduced to Volodya in St. Petersburg by a friend of a friend and first saw the young KGB officer as "a person who could get tickets to any theater." At the time, Putin told her that he was a policeman. Lyudmila had to call Volodya to arrange meetings because she did not have a telephone in her apartment. However, she flew from Kaliningrad to Leningrad whenever possible for dates with him. Whether Putin will pay special attention to Kaliningrad and its unique problems because of his wife's family is unclear, but he does have a connection to the exclave and source of inside knowledge about the region.

### On relations with the governors

Besides the material about Putin the human being, the book includes several interesting sections about Putin's relationship with the governors. Putin first began working with the governors in 1998, when he took over these duties within the presidential administration. In fact, Putin claims that he was thinking of leaving the administration because the work was boring, but just as he was beginning to consider this idea, he was put in charge of relations with the regions, which essentially meant maintaining contacts with the governors. "Until now I believe that this work was the most interesting. At that time, by the way, I developed relationships with many governors. It became clear to me that working with the regional leaders was one of the most important activities in the country. Everyone says that the vertical hierarchy has been destroyed, and now it must be restored."

When the interviewer asks if the governors are ready to work in this hierarchy, Putin responded, "They are ready. The governors are part of the country and they also suffer from our insufficient management. It is necessary to solve this question together with them. Somebody won't like something, you can't please everyone, but it is possible to find a common approach." Putin only left this work when Yeltsin unexpectedly appointed him as the director of the Federal Security Service.

In the chapter "Politik," Putin lays out his opinions about the governors in more detail.

Putin: "I believe that it is necessary to maintain local government and gubernatorial elections. But all these connections [between levels of government] should be more balanced. While continuing to elect governors, I, for example, believe that would should think about how to sanction them. For example, removing them from office."

Interviewer: "Meaning some will be elected, some will be removed."

Putin: "It is possible to develop other systems for their dependence on the center. There cannot be complete independence."

Interviewer: "You mean developing a system of monitoring?"

Putin: "Monitoring and influencing. All Russian regions must have the same economic relationship with the federal center. I mean that we have signed a large number of power sharing agreements, but some regions have unwarranted benefits, which others do not enjoy."

Interviewer: "For example, Tatarstan?"

Putin: "For example, Tatarstan."

Interviewer: "[Tatarstan President Mintimer] Shaimiev may not understand you."

Putin: "You are mistaken, he understands. I recently discussed this problem with him in general terms. Shaimiev generally agreed with me. Everyone understands that our country's economic and political unity is slowly being eaten away. This is one of the first order problems."

On Moscow Mayor Yurii Luzhkov

Putin's discussion of Moscow Mayor Yurii Luzhkov shows that he views his relationship with the governors as "us against them." If Putin does not maintain a strong federal government, he believes, the governors will quickly take advantage.

Interviewer: "Everyone wants to know, will you continue fighting so viciously against Luzhkov as you did earlier?"

Putin: "Why vicious? I never fought with him."

Interviewer: "Then let me put it this way. Will you work with him like any other member of the Federation Council?"

Putin: "Yes, of course. Moreover, I am ready to work with him as a person who has influence on the largest region in the country - the capital, as long as his actions are directed at strengthening the state."

Interviewer: "What have they been directed at so far?"

Putin: "Until now he has mainly been seeking to fulfill his political ambitions. When a regional leader pursues such a goal, I think, it destroys the country. By the way, I think that this was the result not of someone's aggressive efforts, but the weakness of the central authorities. As soon as the regional leaders feel that the authorities are strong and effective, they will return to the tasks assigned to them in the constitution, and begin to carry out their duties. ..."

Interviewer: "How do you think that Luzhkov will behave toward you?"

Putin: "I am sure that he will be constructive. I don't think that he will have an opportunity to behave any other way."

Interviewer: "What are you hinting at?"

Putin: "Nothing. You know, not at any kind of use of force. I think that at some point many decided that the president no longer functioned as the center of power. Until then they had been"

completely loyal. I will simply do everything, if of course I am forced to, so that no one will have such illusions in the future."

### On Chechnya

On Chechnya, Putin argues that it was necessary to take decisive action to prevent Russia itself from disintegrating. After the Chechen warlords invaded Dagestan, he said, "I understood that we had to hit them in their bases in Chechnya. Frankly, everything that was done in recent years, especially in terms of preserving the state, is, how can I say this without offending anyone, amateurish... Believe me, even in 1990-1991 I was convinced, no matter how self-assured this sounds, that with the kind of relations to the military and special services that existed in society, especially after the dissolution of the USSR, the country would soon be on the edge of collapse. Now about the Caucasus. What is the essence of today's situation in the Caucasus and Chechnya? It is a continuation of the collapse of the USSR. It was clear that we had to put an end to it at some point. Yes, for a while I hoped that with the growth of the economy and the development of democratic institutions this process would slow. But life and practice showed that this did not happen.

My evaluation of the situation in August [1999] when the bandits attacked Dagestan was that if we don't stop it immediately, Russia as a state in its current form would no longer exist. Then we were talking about stopping the dissolution of the country. I acted assuming that it would cost me my political career. This was the minimum price that I was prepared to pay. Therefore, when Yeltsin named me his successor and everyone thought that this was the beginning of the end for me, I was completely calm. The heck with it. I believed that I had a few months to consolidate the armed forces, Ministry of Internal Affairs, Federal Security Service in order to find support in society. I only wondered if there would be enough time. ... I was convinced that if we did not stop the extremists, then we would soon face a second Yugoslavia on the entire territory of the Russian Federation, the yugoslavization of Russia."

Interviewer: "Does the fact that Lenin gave Finland many decades ago give you an allergic reaction? Is Chechnya's secession possible in principle?"

Putin: "It is possible, but the issue is not secession. ... Chechnya will not stop with its own independence. It will be used as a staging ground for a further attack on Russia. ... Why? In order to protect Chechen independence? Of course not. The purpose will be to grab more territory. They would overwhelm Dagestan. Then the whole Caucasus. Dagestan, Ingushetiya, and then up along the Volga - Bashkortostan, Tatarstan, following this direction into the depths of the country. ... When I started to compare the scale of the possible tragedy with what we have there now, I had no doubt that we should act as we are acting, maybe even more firmly. The problem is that we do not have enough armed forces if the situation went further. We would have to call up the reservists and start fighting. It would be the start of a large-scale war. The alternative was to agree to the dissolution of the country. Immediately, there would appear unsatisfied leaders of separate regions, who would say 'we don't want to live in such a country, we will be independent.' And that's how it would go."

These are only a few of the interesting things readers will find in this book, which is extremely useful for anyone who wants to get a better sense of Putin, or at least a sense of how he wants to present himself. - Robert Ortung

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## **BREAKING NEWS**

### **POLITICS**

**CONSTITUTIONAL COURT EXTENDS POWER OF LOWER COURTS OVER REGIONS.** On 11 April the Constitutional Court ruled that lower courts could stop the implementation of regional laws if they violated federal legislation (polit.ru, 11 April). The ruling should help strengthen President Vladimir Putin's hand in bringing regional laws into conformity with federal norms. Previously, the Constitutional Court had ruled that it had sole responsibility for examining regional laws. Since the Constitutional Court lacked the resources to review the

numerous laws passed by the regions that violated federal norms, the federal government could not react to them.

The federal government will now try to take de facto control over regional procurators and courts away from the governors, according to Sergei Markov, director of the Institute for Political Research. Then in theory, the procurators will protest local laws in the court and the court will decide in favor of the federal government. Presumably the government will try to use a few exemplary cases to show the regions what they need to do. Markov believes that subsequently the federal government will try to tighten its grip over the regional law enforcement and fiscal agencies. The consequence of these struggles is not likely to be the establishment of a fully legal set of relations between Moscow and the regions. But the federal government will likely gain more levers to use in informal negotiations with the regions.

**PIVNENKO BACKS FORMATION OF SIBERIAN DEPUTIES' GROUP.** State Duma Committee on the Problems of the North and the Far East Valentina Pivnenko (Kareliya) described the formation of Siberian Accord deputies' group as "expedient and useful." The Siberian group is the first to set up a formal organization in the State Duma to generate legislation to address regional concerns (see *EWI Russian Regional Report*, 5 April). She said that the North-West Interregional Association would in time set up its own faction to pass legislation aimed at addressing the problems of local concern. - Press release from the office of Valentina Pivnenko, 5 April

**PRESIDENTIAL RULE IN CHECHNYA WILL NOT BE DIRECT.** After meeting with President-elect Vladimir Putin on 7 April, Deputy Prime Minister and head of the Russian provisional government in Chechnya Nikolai Koshman announced that direct presidential rule would not be introduced in Chechnya. This announcement was met with surprise as discussion of presidential rule in Chechnya had intensified following Putin's election on 26 March. However, as *Vedomosti* noted on 10 April, Koshman's statement does not change anything: the republic will be formally under Moscow's control. As Koshman further stated following his meeting with Putin, the republic will not be ready to hold elections before 2001. Therefore, the federal government is preparing draft legislation to establish transitional state authorities in Chechnya. Presidential Spokesman on Chechnya Sergei Yastrzhembskii expects that the draft will be sent to the State Duma at the end of April or beginning of May. Yastrzhembskii stated that the draft law proposes establishing a single territorial government agency for Chechnya that will be ruled by a provisional government appointed by the Russian president.

**PUTIN, LUZHKOVA RELATIONS EVOLVE WITH TV, POLICE DISPUTES.** President-elect Vladimir Putin met with Moscow Mayor Yurii Luzhkov on 7 April, signaling that the mayor, formerly a staunch Kremlin opponent, is interested in cooperating with the federal government. Following the meeting, Luzhkov told journalists that the two had discussed the situation regarding Luzhkov-controlled TV Center, which is now seeking an extension of its broadcast license after the Press Ministry announced last month that it wanted to do so. Luzhkov reportedly convinced Putin that the claims against TV Center were ungrounded and the president-elect ordered Press Minister Mikhail Lesin to meet with Luzhkov on 10 April to

discuss the problem. The two met at the Pushkin cafe on 11 April, yet chose not to comment to the press on the results of their two-hour meeting (Polit.ru, 11 April). Prior to meeting with Lesin, Luzhkov stated that he and Putin hoped to resolve the issue through negotiations rather than court proceedings.

Another topic addressed was the firing of Moscow Police Chief Nikolai Kulikov (see *EWI Russian Regional Report*, 8 December 1999). Former President Boris Yeltsin removed Kulikov from his post just weeks before the State Duma elections last December. Luzhkov assessed Kulikov's dismissal as a personal attack and described it as an attempt to weaken him on the eve of the vote. On 11 April the Supreme Court presidium declared Yeltsin's decree dismissing Kulikov illegal. The court ruled that the president did not have the right to remove the Moscow police chief without the approval of the mayor. The decision is a clear victory for Luzhkov. Although Kulikov has returned to his post, the Ministry of Internal Affairs still reserves the right to appeal the Supreme Court's decision to the Court's presidium. The Ministry's course of action on this issue, and the ultimate resolution of the TV Center conflict, will indicate just how strong the Luzhkov-Kremlin truce is. (*Vedomosti*, 8, 10 April, Polit.ru, 11 April)

### **BASHKORTOSTAN SEEKS TO BRING REPUBLICAN LAWS INTO CONFORMITY WITH FEDERAL LEGISLATION...**

Bashkortostan has set up a working commission to draft changes and additions to the republican constitution, which has been in effect since December 1993. The commission's formation suggests that the republic is taking the lead in complying with President-elect Vladimir Putin's demands to bring local laws into accordance with federal legislation. However, the republic is not necessarily going to concede all points. The areas of specific concern involve the court system, the procurator, property rights, public organizations, local government, and foreign investment activities.

According to Bashkortostan State Secretary Ildus Adigamov, who is chairing the commission, the republic does not intend to change the principles on which its relations with Moscow are established or automatically replace republican laws with federal legislation. The commission, in accordance with both republican and federal legislation, will prepare alternative proposals to the federal government, including possible changes to federal laws and the Russian Constitution. One example suggested by Bashkortostan President Murtaza Rakhimov is that Russia should adopt a judicial system similar to that in Germany or the United States in which each province has its own court system. (*Kommersant Daily*, 7 April).

**...WHILE OTHERS CONSIDER THEIR ACTIONS.** One of the issues President-elect Vladimir Putin has repeatedly emphasized in regard to center-periphery relations is his interest in bringing all regional laws into accordance with federal legislation and the Russian Constitution. It is well known that many regional laws, particularly in the ethnic republics, contradict federal mandates. While many regional leaders are in favor of a more symmetric federation, several view Putin's stance on this issue as an attempt to reduce their powers. The process through which the new Russian president tries to bring about these legislative reforms will prove to be an important weight on the balance of power between the federal and regional executives. On 7 April *Kommersant Daily* published a series of answers from regional leaders to the question of

whether they would bring their laws into accordance with federal legislation. Here are some of the responses:

Vladimir Agalov, First Deputy Prime Minister of Buryatiya:

"We are already working. We received a reprimand regarding our divergence from federal law and are going to correct it, we agree with it. The Legislative Assembly should examine several situations in the articles on finance, the delimitation of power--there are many variant readings regarding them. But these and other articles will be checked for contradictions."

Vladimir Yakovlev, St. Petersburg Governor

"The city charter is, of course, not ideal. But we can only discuss correcting it once we have received concrete comments."

Magomedali Magomedov, Chairman of the State Council of Dagestan:

"Our laws do not contradict federal [laws]. At least, we have not received any signals about this. But if contradictions are discovered, then we will correct them."

Magomed-Sali Aushev, First Deputy Chairman of the Parliament of Ingushetiya:

"We are already working on the law on electoral safeguards and on the election of the republican executive. But several of our laws should be different from federal [laws]--we want to appoint the heads of local government rather than elect them. In my village 70 percent of the residents are from the Aushev family. People from another family would not have any chance of being elected. Republican authorities, not federal, should appoint chairmen of city and district courts. There are discrepancies with the criminal code. Many of its articles contradict the traditions and ancient customs of our people. Having a second wife is a national tradition. It should not be criminally punishable."

Aslan Dzhariimov, President of Adygeya:

"To demand full accordance of our laws with federal [laws] is a violation of the founding principle of federalism and the national particularities of republics. We do not have an authoritarian state. But we have a commission for improving laws and bringing them into accordance with federal legislative standards."

Mintimer Shaimiev, President of Tatarstan:

"With time this will happen, but we must keep in mind that the Constitution of the Russian Federation (RF) assumes the asymmetry of the federation: republics in the RF are marked as states, other regions are not. We need to create a conciliatory commission and work out the principles and procedures for bringing our laws in accordance with the Constitution of the RF. But this cannot be a one-sided process."

Dmitrii Ayatskov, Saratov Governor

"I am a member of the presidential council on local government, which deals with observance of the articles of the Constitution by all federation subjects. And in the council we have demanded



many times that Krasnoyarsk Krai, Bashkortostan, and other subjects bring their legislative acts into accordance with federal laws. Otherwise this is separatism. [Federation Council Chairman] Yegor Stroeve also suffers from this-- the Russian flag and flags of several republics fly in front of the Federation Council building. If we have equal rights, then why are the flags of Moscow and St. Petersburg not there?"

## **ECONOMICS**

**KVARTON DIRECTOR MURDERED IN ST. PETERSBURG.** St. Petersburg witnessed yet another contract killing on 5 April. Director of the Kvarion industrial concern Gennadii Ivanov was shot while driving to work along Stachek Prospect. Ivanov was killed instantly, while his driver was unharmed. In spite of the fact that the neighborhood police headquarters was only a few hundred meters from the scene of the crime, the killer managed to escape. According to one of Ivanov's colleagues, the victim had not been threatened, and there are no apparent motives for the murder. However, it is generally assumed that the killing was related to Kvarion's business activities.

Kvarion brings together several light industries in St. Petersburg, Moscow, and Pskov and is the largest producer of hosiery in the country. Over the past five years Kvarion bought stock in the Pskov Hosiery Factory, Moscow's Mosnitki, and St. Petersburg's Krasnoe Znamya, all of which were on the verge of bankruptcy. These enterprises are now thriving with a work force of over 4,000. (*Kommersant Daily*, 6 April)

**KMK CREDITORS BACK TULEEV TEAM.** On 7 April the Kuznets Metallurgical Combine's (KMK) creditors met to decide the fate of the company, which is currently under external management. The creditors plan to recommend to the arbitration court that the company remain under external management until the end of 2008, *Vedomosti* reported on 7 April. The creditors plan to keep in place the current management team, which is closely allied with Kemerovo Governor Aman Tuleev (see *EWI Russian Regional Report*, 16 February). Having Tuleev on its side has helped KMK. For example, in January the Railroads Ministry, the primary customer for the rails produced at the plant, agreed to raise its purchasing price by 60 percent to 5,800 rubles for a ton of product. The Ministry has also increased its purchases since then, from 14,000 tons to 60,000 tons in a three-month period. As a result, production has greatly increased at KMK. Tuleev has long tried to gain control over KMK. The governor is interested in consolidating control over the region's metallurgical industry and has expressed hope of forming a Siberian metallurgical corporation (*Vedomosti*, 23 March) (see related story in this issue).

**EBRD AND KAMAZ REACH DEBT SETTLEMENT.** The European Bank for Reconstruction and Development (EBRD) and Tatarstan's KamAZ truck factory have finally reached an agreement regarding the plant's \$141 million debt. Half of the debt will be transformed into company equities and the other half will be restructured over a period of 12 years. The restructured debt will be backed by a guarantee from Russia. An EBRD banker

told *The Moscow Times* on 8 April that the bank was satisfied with the arrangement since "the Russian government has always been scrupulous in honoring all its obligations to the bank." The EBRD will receive a stake of 5.5 percent in KamAZ as a result of the deal (*Vedomosti*, 7 April). The EBRD and KamAZ expect to sign the official credit agreement outlining these terms by 15 July.

KamAZ borrowed \$100 million in 1995 and defaulted on the debt in 1998. In February 1999 the EBRD filed a suit against KamAZ with the goal of seizing plant assets in repayment. Meanwhile, KamAZ was restructured, with 75 percent of the company split between the federal government, the republican government, and three state banks-- Vneshtorgbank, Sberbank, and Vneshekonombank. This restructuring scheme helped KamAZ pay off some of its debt, but not the obligations to the EBRD.

**STRUGGLING SARATOV FURNITURE FACTORY BENEFITS FROM IKEA.** The European Furniture Company, which opened in the Saratov Oblast city of Balakovo two years ago (see *EWI Russian Regional Report*, 2 April 1998) has finally secured its first serious contract. Europe's largest furniture manufacturer is teaming up with IKEA, whose newly opened store in Moscow Oblast is causing traffic jams on the main road between the airport and its capital. The European Furniture Company's goods are already being sold in IKEA's month-old store (see *EWI Russian Regional Report*, 28 March 2000), and will be heading for export soon as well. The IKEA contract will allow the essentially idle factory to operate at half capacity.

The European Furniture Company was created as a Russian-French joint venture. The company's shareholders include the French furniture concern Seribo, several French banks, the European Bank for Reconstruction and Development (EBRD), and several Russian companies, including Roslesprom, Eksportles, and Saratovmebel. However, absent from this group of stockholders is a strategic foreign investor in possession of a controlling stake, and thus the European Furniture Company has been left without substantial support.

Negotiations began between the European Furniture Company and IKEA in August 1998, but an initial contract was signed only this past autumn and the export contract just days ago. The contracts are for two years, but will likely be renewed. The European Furniture Company plans to produce 60,000 units of furniture a month for IKEA. This is a significant volume, especially considering that the factory has a capacity of 862,000 units per year. The factory's projected turnover from the IKEA contracts is estimated at \$120,000-130,000 per year.

Aleksandr Zhuravskii, general director of the European Furniture Company's Moscow office, said that the IKEA contract would save his company. "The European Furniture Company has not had other export offers yet, and orders for furniture on the domestic market come only from time to time and are not large," he said (*Vedomosti*, 5 April).

**KRAFT FOODS MOVES FORWARD WITH LENINGRAD FACTORY.** On 11 April Kraft Foods signed an agreement with Leningrad Oblast to lease 10 hectares of land in the village Gorelovo to build a new factory (see *EWI Russian Regional Investor*, 9 February).

Investment in the project is more than \$10 million. The factory is expected to open in autumn 2000 and begin production at the start of 2001. Kraft Foods plans to package Jacobs and Maxwell House coffee in the new facility. Maxwell House coffee controls 20.8 percent of the St. Petersburg coffee market, and Jacobs controls 6.2 percent (*Vedomosti*, 11 April).

Mikhail Sokhnov, director of the Kraft Foods factory project, expects that the two brands will have a considerable impact on the region's coffee market. The use of local packaging materials will lower production costs. Sokhnov explained that Kraft Foods does not intend to lower the retail price of its coffee as a result, but rather will use this opportunity to increase profits. The factory's capacity is 8,000 tons per year with a work force of 75. In the course of the first year, the factory expects to produce 5,000 tons of coffee. Two-thirds of the Kraft coffee on the Russian market in 2001 will be packaged at the Gorelovo factory while the remaining coffee will be imported already packaged.

### **SIBERIAN ALUMINUM APPOINTS DIRECTOR OF KRASNOYARSK**

**ALUMINUM.** The new unified aluminum holding Russian Aluminum, which has brought together warring enterprises Sibneft and Siberian Aluminum, is moving forward in its collaborative plans (see *EWI Russian Regional Report*, 5 April). Deputy General Director of Siberian Aluminum Viktor Geintse has been appointed acting general director of the Krasnoyarsk Aluminum Factory (KrAZ). Geintse is considered one of Siberian Aluminum's top specialists in economic management. He worked at the Sayansk Aluminum Factory for more than 10 years. When the conflict between the Novokuznetsk Aluminum Factory and Kuzbassenergo broke out, Oleg Deripaska appointed Geintse president of Siberian Aluminum to stabilize the situation. The move is a step forward for Siberian Aluminum, which has long sought control of KrAZ.

Former KrAZ General Director Aleksei Barantsev, who has taken leave until the end of April, signed Geintse's appointment. On 1 April about two dozen representatives from Siberian Aluminum arrived at KrAZ to study the financial and production activity of the enterprise. They confirmed that Barantsev would be returning to KrAZ at the end of the month, although the nature of his position remains unclear. Barantsev was appointed general director in September 1998, a protege of the Trans World Group and the controversial Anatolii Bykov, who was then the chairman of the KrAZ board of directors. (*Profil*, 10 April)

### **CENTER-PERIPHERY RELATIONS**

**DID YAKOVLEV HUMILIATE PUTIN IN ST. PETERSBURG?** While Valentina Matvienko's decision to drop out of the St. Petersburg gubernatorial campaign reflects President-elect Vladimir Putin's calculation that she had little chance of winning, the events do not necessarily symbolize Vladimir Putin's defeat at the hands of Governor Vladimir Yakovlev and regional leaders in general (see *EWI Russian Regional Report*, 5 April). Putin's poor handling of the events surrounding Matvienko's withdrawal shows that he has stumbled in his first steps as the country's new leader and the defeat may send signals to other governors that he is not as tough as he first seemed, but the Kremlin still has strong power over the governors.

While the president-elect now understands that he cannot guarantee election for the candidate of his choice, he still has many ways to constrain the governors.

Putin has lost the first battle, but the war is on-going. Only a few days after Matvienko dropped out, State Duma Deputy Sergei Stepashin described a new plan drafted by the presidential administration that would help it regain control over the city and the governor. According to Stepashin, Putin wants to restructure the city's executive branch so that the governor will be only a nominal political figure, while all financial powers will lie with a prime minister who would be appointed directly by the center. It is almost certain that if Putin tries to implement this idea, regional leaders, including Yakovlev, will strongly oppose it. In any case, this may be the first of many moves by the new president aimed at restructuring the federation and curbing the powers of regional executives.

Yeltsin also faced an uncomfortable situation in his hometown when Eduard Rossel won election as Sverdlovsk Oblast governor in 1995 even after Yeltsin had fired him from that position in 1993. Despite their disagreements, Rossel ultimately had to support Yeltsin because he realized that it would be extremely difficult to govern effectively in the region while waging war on Moscow. Yakovlev also seems intent on building a good relationship with Putin despite everything. Yes, Yakovlev defeated Putin in this campaign, but the victory is only one small event in the extremely complicated overall relationship between the center and regions. While Putin has not started off well, it is still too early to say what kind of leader he will be. - Anna Paretskaya

**PUTIN NAMES PRIMORSKII FSB CHIEF TO TAX MINISTRY.** The head of the Primorskiy Krai Federal Security Service (FSB), Sergei Verevkin-Rakhalskiy, has been appointed deputy tax minister. In discussing the new appointment, the Primorskiy media have stressed Verevkin-Rakhalskiy's close relationship to President-elect Vladimir Putin. Twenty-five years ago, they both worked in the Leningrad KGB. Putin has already discussed the topic of taxes in his speeches, calling for reforms to simplify the system, reduce tax rates, eliminate benefits and loop holes, and generally ensure that everyone plays by the same rules. Verevkin-Rakhalskiy has enormous experience working in the regions (including Astrakhan and Sakhalin) and it is likely that he will be called upon to use this experience to impose strict order in collecting Russian taxes.

Verevkin-Rakhalskiy began working in Primorskiy Krai in March 1999 after Viktor Kondratov was removed from this position. For many years, Kondratov was one of Governor Yevgeniy Nazdratenko's chief opponents in the region. The relationship between Verevkin-Rakhalskiy and Nazdratenko was absolutely neutral. The FSB chief said that his job was counterintelligence, and fighting terrorism and organized crime, but not getting involved in politics. Nazdratenko expressed sadness that Verevkin-Rakhalskiy was leaving.

Judging by the appointment of Verevkin-Rakhalskiy, the influence of the FSB on the economy is increasing. The newspaper *Tikhookeanskii komsomolets* noted that among counterintelligence circles there are rumors that Putin's rise to power means that the time for gathering compromising materials has come to an end and now is the time to put them to use. If that is so, the appointment of a new FSB leader in Primorskiy Krai will be extremely important,

especially since local scandals often have an international impact. Most observers believe the new chief spy will be from Russia's central regions. - Dmitrii Motovilov in Vladivostok

**VOLGOGRAD GOVERNOR AMONG THOSE WITH SPECIAL ACCESS TO PUTIN.** Volgograd Governor Nikolai Maksyuta was among the exclusive group of 18 governors who met with President-elect Vladimir Putin on 29 March (for a description of the meeting and a list of some attendees, see *EWI Russian Regional Report*, 5 April). Maksyuta said that he was invited to the meeting because Volgograd is one of the "largest Russian regions with the highest industrial potential, on which the government will base its policies." Of the meeting, he said, "I will not hide the fact that I was flattered to be in the company of [Moscow Mayor Yurii] Luzhkov, [Tatarstan President Mintimer] Shaimiev, and [Krasnodar Krai Governor Nikolai] Kondratenko, whose regions are traditionally more prominent. ... We deserve such a high position because we were able to evolve from a recipient region to a donor region. I don't know if it makes sense to speak of a "most favored" status, which the president might give us, but no one will be able to take away our share of attention." - Ivan Kurilla in Volgograd

**SIBERIAN REGIONS SEEK CONTROL OVER FEDERAL PROPERTY.** Under pressure from regional leaders, President-elect Vladimir Putin has scrapped a plan by which he planned to sell all federal shares in Russian enterprises by 30 September 2000. The regional leaders were extremely concerned about the potential consequences of these privatization plans and the members of the Novosibirsk Oblast Council called for them to be cancelled. At the February meeting of the Siberian Accord Interregional Association in Irkutsk, the regional leaders warned Putin that selling off the property without taking into account regional interests could hurt the social-economic situation in the regions, particularly since many of the enterprises in question are of great economic and social importance (see *EWI Russian Regional Report*, 24 February). In agreeing to cancel the sales, Putin noted that the legislative basis for such actions by the government and Central Bank were insufficiently developed. Additionally, Putin promised to work with the regions in developing a list of enterprises that are strategically important and therefore would not be sold.

Without completely rejecting the idea of privatization, the regional leaders believe an optimal solution would be to transfer the federally owned property into the ownership or management of the regions. Additionally, the Novosibirsk legislature called for the restoration of state property to the state in case the law is violated during the course of privatization. In this context, the legislature is talking about a voluntary transfer or even renationalization, assuming the State Duma adopts the necessary law.

The situation in Novosibirsk is particularly difficult. Twenty-six of the oblast's largest enterprises are up for sale. The oblast owns only 2 percent of the shares for these factories. Newly elected Governor Viktor Tolokonskii hopes to accumulate state shares by setting up sectoral holding companies. He has already taken steps to gain control of the oblast's Tolmachevo airport, asking the Russian Property Ministry to transfer shares to the oblast in February.

Other Siberian leaders are making similar moves. Omsk Governor Leonid Polezhaev has long requested that the federal government transfer controlling stakes of local defense enterprises to the oblast. Kemerovo Governor Aman Tuleev is seeking ownership of federal shares of coal enterprises. He has, for example, presented the president with a plan to create a Siberian mining-metallurgical corporation based on 22 oblast enterprises. The project would include the transfer of the federal government's controlling stakes in these companies to the oblast government. - Irina Maslennikova in Novosibirsk

## **PATTERNS OF REGIONAL DEVELOPMENT**

**SARATOV'S AYATSKOV LAUNCHES SECOND TERM.** The inauguration of Saratov Governor Dmitrii Ayatskov, who won a second term in early elections held 26 March, was a decidedly staid affair. The modesty was largely due to the fact that Moscow did not send any high-level officials. The only ones to show up were Sergei Samoilov, the head of the presidential administration's Territorial Department and First Deputy State Duma Speaker Lyubov Sliska, the governor's former representative to the oblast duma. It was a different story in 1996 for Ayatskov's first inauguration. Then Presidential Chief-of-Staff Anatolii Chubais, Moscow Mayor Yurii Luzhkov, and several others came to celebrate Ayatskov's victory in the first of about 45 gubernatorial elections to be held that year, when most regions had the chance to elect their executives for the first time.

Despite the absence of Moscow officials, several governors attended, including the leaders of Mordoviya, Penza, Tambov, Volgograd, and Samara. The appearance of former Samara Governor Konstantin Titov, who recently resigned after a poor showing in the presidential race, was a sensation because Samara and Saratov often compete for the title of capital of the Volga. The governors were in a joking mood. Mordoviya's president gave Ayatskov a bicycle. Tambov and Volgograd's governors claimed that their oblasts wanted to join Saratov, making light of territorial disputes among the neighbors. Titov even wished Ayatskov the same success in the economic sphere that he has achieved in the political sphere. Ayatskov had trouble hiding his unhappiness at this comment, since everyone knows that most of his political ambitions have not been realized.

Among Ayatskov's first moves in his second term was to have the oblast legislature return to him the right to be both governor and head of the regional government. He put Sergei Shuvalov in charge of the oblast economy. Shuvalov is an experienced economist who has already done a lot to shape Saratov. He will coordinate the oblast's ministries of finance, revenue, international ties, and the center for strategic studies, a regional think tank apparently modeled on the research institution set up by President-elect Putin under German Gref.

The previous head of the oblast government, Petr Kamshilov, is currently in Moscow, and is likely to be appointed as the presidential representative, probably to Saratov and several other regions as well. Many vacancies remain in the oblast government and work is paralyzed because Ayatskov intends to slash the bureaucracy by 25-30 percent. According to documents he has already signed, Ayatskov means business this time in cutting the scope of the region's governing structures. He has already cut four ministries. Additionally, and most scandalous, the

oblast lost a court case to Alfa Bank and had to give up its comfortable Moscow representative offices to cover a multi-million ruble debt.

Ayatskov also plans to subordinate local government more directly to himself. Mayoral elections are scheduled for December this year, but Ayatskov said that it does not make sense to hold them. He expressed the hope that once Putin is inaugurated, he will either support a new law on local government removing the need for such elections or, at the very least, suspend the current law. Ayatskov's hopes may not be realized, however, because Putin has been clear about his support for local government as a counter to the governors' power.

In terms of establishing democratic rule, the current attack on local government is another step backward for Ayatskov. He has already set up a system whereby mayors are elected from the ranks of city or rural district councils. However, Ayatskov is clearly now less popular than he was, particularly in the oblast cities of Engels, Balakovo, Balashov and Petrovsk, and he fears that elective local governments will oppose his authority. Additionally, he is coming into increasing conflict with Saratov Mayor Yurii Aksenenko. To ensure that he will not have problems in the future, Ayatskov clearly hopes to appoint the mayors. - Yuliya Yeliseeva in Saratov

#### **VORONEZH VOTERS FAVOR PRO-PUTIN GUBERNATORIAL CANDIDATES.**

Over the past two weeks a new leader has emerged in the Voronezh gubernatorial campaign. Elections are now set for December 2000. The majority of experts attribute the change in voter sympathies to how the candidates relate to President-elect Vladimir Putin.

Those politicians who have in one way or another managed to link their names to the new president have greatly improved their positions. According to the most recent public opinion poll, the new three leaders at the beginning of April were: Chairman of the Voronezh branch of Sberbank Aleksandr Solovov, who was an authorized agent of Putin in the presidential election; Viktor Shevtsov (head of one of the oblast raions), who also excelled as an active member of Putin's campaign; and State Duma Deputy Dmitrii Rogozin, who never misses a chance to reaffirm his devotion to Putin and frequently organizes press conferences to explain how he and Putin will bring order to the oblast (*Voronezhskii kurer*, 8 April).

Likewise, experts have noted the drop in the ratings of potential gubernatorial candidates who over the past few weeks have not announced their loyalty to the new idol of the Voronezh electorate. For example, former Voronezh Governor Aleksandr Kovalev, who topped the polls not long ago, has fallen to ninth place. Aware of his mistake, last week Kovalev issued an announcement in local newspapers that repeated practically word for word Putin's critical remarks of the current administration from an address given at the time of the acting president's campaign visit to Voronezh (*Novaya gazeta v Voronezhe*, 4-10 April).

Governor Ivan Shabanov's chances for reelection remain minimal. First, Shabanov has broken with the Communists, who do not plan to support him in the elections as they did before. The Communists' now refuse to work with Shabanov because he supported Putin in the presidential elections. However, the governor cannot really expect support from the president because Putin has essentially blamed his administration for ruining the oblast. Rumors are now circulating that Shabanov will resign early. Moreover, recently Shabanov was invited to join the leadership of one of the oblast's largest chemical enterprises. If Shabanov accepts this offer, he

would need to resign from his post as governor. If this happens, Solovev and Shevtsov will emerge as the strongest candidates to succeed him (*Novaya gazeta v Voronezhe*, 28 March-3 April). - Yulia Fedorinova in Voronezh

### **ARKHANGELSK'S YEFREMOV AN EARLY FAVORITE FOR REELECTION.**

Among the regions with the strongest showing for Vladimir Putin in the 26 March presidential race was Arkhangelsk Oblast, where he pulled in 59.8 percent of the vote to Communist candidate Gennadii Zyuganov's 20.3 percent. Putin's favorable showing is good news for Arkhangelsk Governor Anatolii Yefremov, who should reap the benefits of Putin's popularity in Arkhangelsk through endorsement by the center for his reelection bid in December. This situation could put to rest the negative effect of the governor's failed attempt to move up the gubernatorial elections to coincide with the presidential elections (see *EWI Russian Regional Report*, 20 January). The election results are symbolic in demonstrating that Yefremov remains the master over his territory and it is likely that he will win another term.

Thus far, no realistic challengers to Yefremov's reelection have appeared. Local oligarch Vladimir Krupchak, who announced his gubernatorial ambitions in February, is presently being investigated by law enforcement agencies. The other possible challenger, Nikolai Kalistratov, director of a Severodvinsk defense enterprise, also faced problems in March because of a standard tax audit of his enterprise. However, Putin's endorsement of Yefremov is not yet official, and the president's support for another candidate, along with financial backing from federal sources, could unseat the governor. One potential candidate to win the president's support might be Pavel Pozdeev, the former presidential representative and gubernatorial candidate in 1996 who is trying to reclaim his position on the region's political scene. Another possibility for Putin's endorsement is current presidential representative Nikolai Malakov, although he has not yet stated an interest in running.

Despite these possibilities, Yefremov's chances of securing Putin's support remain high. On 4 April after signing a cooperation agreement with the Finnish province of Troms, Yefremov was summoned to meet with Putin and St. Petersburg Governor Vladimir Yakovlev. Yefremov placed considerable weight on this meeting, emphasizing that as a result of Putin's two visits to the oblast in 1999 the Russian government had completed 80 percent of the tasks Arkhangelsk Oblast set before it. On 5 April Putin met with the governors of Arkhangelsk, Murmansk, and Leningrad oblasts, the heads of several federal ministries, LUKoil, and Norilsk Nickel aboard the nuclear ice-breaker *Rossiya* to discuss the problems of shipbuilding and the exploitation of Northern sea routes. - Tatyana Barandova in Arkhangelsk

**OPPOSITION SET TO BATTLE RUTSKOI IN KURSK.** The events of the first few days of April in Kursk Oblast can be viewed as nothing less than a rehearsal for the upcoming elections in the region-gubernatorial in October and oblast дума in November. On 3 April a special 16-page color special edition of *Kurskaya pravda*, detailing the governor's activities from 1997-1999 was published with a print run of 70,000 copies, more than double the standard 30,000 print run of the typically black-and-white, four-page publication. Prior to publication, on 30 March the issue appeared on the Rutskoi website



(<http://www.kursknet.ru/ruzkoi>). According to the newspaper, everything in the oblast is going along splendidly and there are no problems.

Rutskoi's opponents in the duma responded to this special edition three days later by holding a press conference in the new oblast duma building. The organizers' method for ensuring that journalists participated in the event is noteworthy--the police offered escort services to newspaper editors coming from raion centers. Reports on ORT's *Vremya* (6 April) stating that Kursk cops are more dangerous than bandits enraged the police and thus the Kursk Oblast Department of Internal Affairs (UVD) Chief General Aleksei Volkov decided to help the duma in its fight against Rutskoi (for more information on the relationship between Rutskoi and the Kursk police, see *EWI Russian Regional Report*, 9 February). The editors naturally informed the oblast Press Ministry of the press conference, and as a result, three deputy governors, Anatolii Popov, Viktor Kryukov, and Vladimir Yerokhin, put in an unexpected appearance.

Chairman of the Kursk Oblast Duma Viktor Chernykh read from the letter he had sent to President-elect Vladimir Putin, State Duma Speaker Gennadii Seleznev, and Federation Council Chairman Yegor Stroevev. The letter outlined three reasons for requesting that an independent committee be sent to Kursk immediately to investigate the governor's activities. The arguments are that Rutskoi has abused his power to benefit himself, his family, and close friends; pursued policies leaving the oblast on the verge of economic bankruptcy, and defended the criminal activities of his inner circle and other high-placed oblast officials. The letter was signed by the majority of the oblast duma deputies as well as a large number of parties and social organizations.

Immediately after Chernykh finished reading from the letter the three deputy governors jumped up and created a two-hour long scene. They paced up and down the hall uttering statements such as, "This is where the political defamation of the governor is taking place, put this down in the minutes," and "We need to be guided by the Constitution and the Kursk Oblast Charter." It was an amusing spectacle. After two hours the deputy governors were tired and as soon as they were seated Oblast Duma Deputy Nikolai Yefremov rose and shaking sheets of paper, announced, "These are the secret official notes of the FSB on Rutskoi's criminal activities. They have already been sent to Moscow." This statement incited a new wave of emotion that continued until the end of the day.

Judging by this event, Rutskoi's opposition plans to conduct its electoral campaign by digging up dirt on the governor and appealing to federal executive and legislative agencies to take action against him. More importantly, the opposition has secured the support of the procurator and the police. Rutskoi's strongest opponents are local businessman Nikolai Greshilov and former Kursk Oblast Prime Minister Boris Suraev. However, Rutskoi also plans to appeal to Putin for Moscow's support. Clearly the federal authorities will have a significant influence on the results of the elections, particularly because there is an even balance of power in the region. Which side Kursk Mayor Sergei Maltsev supports will be of great importance because he recently won 220,000 voters in his election. - Sergei Sarychev in Kursk

## **INTERNET IN THE REGIONS**

**ULYANOVSK SETS UP INTERNET MONITORING BODY.** The Ulyanovsk Oblast Legislative Assembly has expanded the purview of the Council on Ethics and Morality in the Sphere of Television and Radio Broadcasting to include material distributed on the Internet. The council, which has 12 members, was created last year at the initiative of the Ulyanovsk Union of Patriots, a regional association of left-wing parties headed by Governor Yuri Goryachev. The council's mandate is to examine the moral content of programs broadcast by local radio and television stations and express the "social opinion" about these programs. Although the Council can only make recommendations, if its suggestions are not acted upon, the council can petition the founders of the television or radio company to fire the managers who violate the moral code and press for the withdrawal of the station's broadcast license.

The Council exercised its power last year when it recommended that the local television broadcaster "2x2 na Volge" remove late night erotic programs. The station's managers quickly removed the shows, although they later returned to the evening lineup.

The Legislative Assembly's decision on the Internet is apparently the first such action in Russia. Despite moves by the federal government to monitor the information on the Internet, until now the Internet has been the only unregulated mass media outlet and therefore the most free. However the Internet includes pornographic material and political statements that play on national and social differences, according to Legislative Assembly Deputy Chair Tatyana Sergeeva, the main force behind setting up the Council. Sergeeva believes that it is time to ask the State Duma to adopt a law regulating these aspects of the Internet. She proposes using technical means to block certain morally questionable sites from minors. - Sergei Gogin in Ulyanovsk

## **FOREIGN TIES**

**SVERDLOVSK MAINTAINED EXTENSIVE TIES IN 1999.** Sverdlovsk Oblast set a record for the intensity of its international contacts in 1999, surpassing all previous years, according to the Oblast Ministry on Foreign and International Ties. Governor Eduard Rossel and members of the oblast government conducted more than 70 official negotiations with diplomats, government officials, and businessmen from other countries during the year. The ministry organized visits for 132 foreign firms, which set up business contacts with approximately 350 local enterprises. There were 23 exhibitions with international participation, widening the geography of the region's trade with new partners from Turkey, Indonesia, Vietnam, and Cuba. The Netherlands, Finnish-Russian Chamber of Industry and Commerce, and the Italian Foreign Trade Institute opened new offices in the region.

The oblast also was successful selling its products to CIS countries. 51 percent of its machines were sold in these countries. In 1998, this figure was 38 percent.

Because imports were down 27 percent in 1999, the trade surplus reached \$1.6 billion. This influx of "real money" had a major impact on the social conditions in the oblast. During the year 22 enterprises had exports worth more than \$10 million. - Sergei Pushkarev in Yekaterinburg

**BELARUS DEVELOPS TIES WITH MORDOVIYA...** Mordoviya is one of the few Russian regions that is developing successful economic relations with Belarus, according to Nikolai Kalinichenko, the republic's minister of foreign economic ties (*Izvestiya Mordoviya*, 7 April). Several regions, including Mordoviya, signed cooperation agreements with Belarus in August 1998. In many regions the ties are not developing successfully, usually because of payment problems. Mordoviya has been successful because it has arranged complicated barter schemes. For example, in one recent exchange, the Mordovian firm Rezinotekhnika sent its products to the Belarusian firm Gomselmash. In turn, Gomselmash sent its products to Ulyanovsk Oblast, which, in turn, provides local products to BelRosIntegratsiya, which then pays Rezinotekhnika.

While the system is complicated, it seems to be working, Kalinichenko said. In 1999 Mordoviya sent 94.3 million rubles worth of products to Belarus, an increase of 143.5 percent over 1998. The minister claims that now relations between Belarus and Mordoviya have evolved from individual contacts to systematic work. - Igor Telin in Saransk

**... BUT RELATIONS WITH PRIMORSKII KRAI LAG.** A delegation from Belarus arrived in Primorskii Krai at the beginning of the week to develop better ties between the country and the region. Two years ago Governor Yevgenii Nazdratenko and President Aleksandr Lukashenko warmly discussed the need for integration when Lukashenko visited the Far East (see *EWI Russian Regional Report*, 26 February 1998). Subsequently a Primorskii delegation flew to Minsk, where it signed an agreement on economic ties. However, despite the great hopes of that period, the ties have not been realized. The first contacts were drowned out in the scandal raised by local environmentalists over the tiger skin Nazdratenko gave Lukashenko as a present during his visit. Poachers had apparently killed the beast.

The current visit was more focused on demands and possibilities. The Belarusians offered tractors, tramvays, trolleybuses, and BELAZ and MAZ bulldozers. This equipment sells for prices that are only 10-20 percent of what one could pay for equivalent products from Japan or Korea. From Primorskii Krai, the Belarusians want to buy fish, sea products, soy, and various mineral resources. Deputy Governor Vladimir Stegnii also hopes that the Belarusians will use Primorskii Krai as a gateway to the Asian market. Belarus is even considering the possibility of opening a diplomatic representation in the region. - Dmitrii Motovilov in Vladivostok

## **INTERVIEW**

### **KOMI-PERMYAK'S POLUYANOV: WE WOULD BE BETTER OFF IN PERM.**

*On 29 March, RRR correspondents Vasilii Filippov and Dmitrii Grushkin interviewed Komi-Permyak Autonomous Okrug Governor Nikolai Poluyanov in Moscow.*

**N. Poluyanov:** ... Probably it would be better if we were part of Perm Oblast. I will not hide this.

**RRR:** If it is no secret, how would you be better off?

**Poluyanov:** Of course, it is no secret. Mainly because today Perm Oblast is a donor region, and we are heavily dependent on federal subsidies because we receive 70 percent of our regional budget from the federal government and earn only 30 percent ourselves. ... But no one is likely to change the Russian Constitution today because we have found the optimal form of "horizontal ties." [In 1996, the president, Perm governor, and Komi-Permyak governor signed a trilateral power-sharing treaty. Additionally, the okrug signed an agreement with Perm on their bilateral relations. There were 17 subagreements signed between the departments of the oblast and okrug administrations.]

We also set up a permanent working group between the oblast and okrug administrations. They meet once a quarter for consultative sessions and once a year the two governors examine the results. The two legislatures have also signed agreements. Additionally, the okrug participates in the election of the oblast governor and we have two representatives in the oblast legislature.

Therefore, it seems to me that in spite of the well-known defects in the country's state structure, it does not make sense to make extensive changes at this point or to break the existing relations.

**RRR:** Judging by the results of Putin's trip to Bashkortostan and Tatarstan, he will soon pose the question of unifying the legislation of all regions. Do you think that the regional elite will oppose this policy?

**Poluyanov:** I think that this will absolutely provoke the opposition of the regional and national elite. The national question is a delicate issue.

In our okrug, 62 percent of the population is from the titular group according to the last census, but we do not have a problem with the notorious national question. And thank God! We are all citizens of Russia (*rossiyane*).

**RRR:** Does the current system of budgetary relations between the center and regions make sense?

**Poluyanov:** There should be a law requiring minimal social safeguards for citizens of the Russian Federation. A teacher or, for example, a doctor should get the same pay regardless of where he works. It should not be lower in some places, and higher in others. A teacher's work is the same everywhere.

In other words, the state budget should support a certain social level of the population in all regions of the Russian Federation. This should be regulated by law. And, today, speaking openly, I am not even able to pay the salaries of public sector workers.

Social standards should be the same in all regions. It is another matter if the territory "works," if the region is a donor. Then, of course, part of the money should remain under regional control and be used for its development.

## **E-BOOKS WORTH READING**

### **COUNCIL ON FOREIGN AND DEFENSE POLICY'S "STRATEGY FOR RUSSIA."**

The Moscow-based Council on Foreign and Defense Policy has just published a

200 page book called "Strategy for Russia: Agenda for the President-2000," the entire text of which is available at its web site: [www.svop.ru](http://www.svop.ru). Since this book was closely connected to former Prime Minister Yevgennii Primakov and work started on it last fall, the recommendations contained in it might be considered a "what might have been," if Primakov rather than Vladimir Putin had been elected president. Of course, now both Primakov and Moscow Mayor Yurii Luzhkov have made their peace with Putin, so the book clearly seeks to influence the policy choices of the new administration. Nevertheless, the text still has some criticisms of Putin, at one point even accusing him of helping to build conditions that encourage corruption. While Russia and the world wait for Putin to announce his own platform, which he now promises to do in May after being inaugurated, this document serves as an interesting contribution to the evolving discussion of how Russia should proceed at the start of a new decade. It also could serve as a benchmark for comparison with the anticipated studies expected from German Gref's Center for Strategic Studies, which Putin hopes will provide a coherent blueprint for his policies.

The nine chapters in the book address the major issues on the Russian president's agenda, including foreign policy, the Russian economy, military reform, corruption, constitutional reform, federalism, and energy policy. Surprisingly, one entire chapter is devoted to the authors' fear that Siberia and the Far East are becoming increasingly separate from the European part of the country. In fact, the authors have much more to say on this topic than on the North Caucasus. This analysis will focus only on the sections of the book dealing with center-periphery relations.

Overall, the book provides a rather sober analysis of Russia's current situation. The text reflects the fact that it was written by a committee and in some cases, such as whether governors should be elected or appointed, offers contradictory advice. At some points, the authors seem willing to abandon some elements of democracy in order to achieve a more efficient state management structure. In fact, in chapter one, the authors say that it is not realistic to expect a truly democratic regime in Russia in the near future.

In general terms, the authors seek a federalism that is guided by a "united, optimally decentralized, and therefore strong, manageable state and not a crumbling structure in which temporary concentrations of strength are achieved through unprincipled trading and behind-the-scenes blackmail." As has become popular in Russia these days, the text calls for creating an effective mechanism of direct interaction between the center and the regions, the famous "vertical." This mechanism would counter the enormous power of the governors, which is turning into a "feudal tyranny," with a guarantee of responsibility to the federal center within the framework of the law and the strength of federal institutions in the regions themselves. Among the proposed tools are reformed presidential representatives who would coordinate federal activities in the regions, and a mechanism for federal intervention into the regions, including the introduction of presidential rule for specific periods and the ability of the president to remove the governor. Other recommendations include improving the workings of fiscal federalism and strengthening local government.

The report devotes an entire chapter to corruption, which it argues affects almost every aspect of life in the country. The state, the report claims, often works in the narrow interest of those who pay bribes rather than the public good. In the sphere of center-periphery relations, the document argues that the governors' loyalty is either bought through corrupt measures or

measures that encourage corruption. In the 2000 budgeting process these measures are clear in the arbitrary size and timing of the distribution of federal transfers to the regions. For various reasons, federal loans to the regions can be turned into gifts or simply withheld. The report criticizes Putin for missing a chance to reduce the scope of corruption in the country by allowing the regions to pay debts to the center through non-monetary offsets. Both the Primakov and Stepashin governments had promised the IMF not to use this form of non-cash exchange which makes opaque the real value of center-regional dealings, but on 9 September 1999, Putin refused to do so. The report charges that the value of these exchanges was about 78 billion rubles in 1999 and continued at least through the presidential elections on 26 March. Other features of Russian federalism that promote corruption include: weak monitoring of how federal funds are spent in the regions, the federal government's willingness to ignore the governors' efforts to redistribute control of regional property in favor of themselves, governors' enormous influence over local government, which makes it easier to gain control of land and property, and the continuing use of informal agreements between the center and regions, which, according to the authors, exaggerates the basic defect of the constitution: a lack of a vertical hierarchy of control.

The report advocates amending the constitution to better deal with some federal issues. In particular, the authors want to go back to the system of 1993 in which the regions directly elected members of the Federation Council instead of automatically including the governor and regional legislative chairman in the upper house of the federal parliament. They would also increase the role of the Federation Council in the legislative process, even to the point of allowing the "senators" to consider legislation before it goes to the State Duma. The authors think that the Federation Council should take over from the Kremlin and White House as the main guarantors of the integrity of the Russian state. The report also notes that some regions feel disadvantaged because one region has longed monopolized the chairmanship of the Federation Council (Orel Oblast's Yegor Stroev). One alternative would be to rotate the chair among different regional leaders.

The authors would also like to amend the constitution to strengthen Russia's vertical hierarchy of power. One possibility is to put the prime minister at the top of the hierarchy. The president would then be able to remove governors who violate the Russian constitution or federal law at the recommendation of the prime minister. Here the report considers the possibility of the president appointing governors at the recommendation of the prime minister, and with the agreement of the regional legislature, even though earlier it had declared that such presidential appointments could be dangerous for democracy and the unity of the country. The federal authorities could also be given the right to remove other regional officials if the courts found that they had violated the law. In terms of setting agenda priorities and determining which tasks should be tackled first, the authors would first give the federal government the right to intervene in regional affairs and then seek the election of Federation Council members.

In the chapter on federalism, the authors question some of the fundamental features of Russia's current system. The report notes that all federal states based on ethnicity have fallen apart (USSR, Yugoslavia, Czechoslovakia), while federations based on territory have stayed together. Currently 32 of the 89 Russian regions are determined on the basis of ethnicity, while 57 are determined purely by territory. While noting this problem, the report does not really

examine ways to switch to a purely territorial federation, although that is obviously the authors' preference.

The report also notes that the main issues of federalism remain unresolved today: Should Russian federalism be based on the constitution or agreements between the center and regions? Should relations be asymmetrical or equal? Should the units be based on national-territorial or purely territorial distinctions? Should the "matroshka" units (autonomous okrugs) that are subordinate to other units be made equal members of the federation? The report says that legally the regions have equal rights and responsibilities and now it is time to implement this principle in practice, however the authors are not specific about the processes and consequences for achieving this goal.

The report addresses rule of law issues by repeating the common assertion that regional laws must be brought into conformity with the Russian Constitution and federal legislation. It also calls for evaluating the activities of federal agencies to be sure that they do not encroach on regional powers, as defined in the Constitution.

In terms of budget federalism, the report points out that more than 80 percent of income for the consolidated budget (federal, regional, and local) comes from four taxes controlled by the federal government. As a result, regions depend for most of their income on money that is collected and distributed by the federal government, creating huge swings in year-to-year income and making planning at the regional level difficult. The benefits of the system are a centralized system of tax collection and the federal government's ability to use its resources to balance out the standard of living among the regions. The main problem is the overcentralization of budgetary functions.

The chapter on Siberia and the Far East warns that European Russia is increasingly turning toward the European Union, while Siberia and the Far East are becoming more involved in the Asia Pacific region. European Russia concentrates on trade and finance, while the main industries in the eastern part of the country are oil, gas, metals and electricity. Siberia's products are internationally competitive and exportable, while European Russia's are less so. The authors fear that Russia's political leaders are passively watching this disintegration take place and that if the status quo does not change, the country will split in two along the Ural mountain axis. The report sounds the alarm to wake the Russian policy community to this problem.

The authors also point to the enormous disparities in Siberia, seeking to dispel the myth that the region is a relatively homogeneous place. Some regions, with deposits of oil, gas, diamonds or metals, are relatively wealthy, while others are extremely poor. This disparity is particularly acute in Siberia and the Far East, but it also a problem for the country as a whole. In the European Union, the richest regions produce 4.5 times more per capita GDP than the poorest regions, the authors note. In Russia the difference is at least 50 times.

Preventing a calamitous division of the country requires recognizing that further inaction is unacceptable and taking appropriate measures. The report calls for improving the level of integration in Siberia and the Far East, particularly in the key sectors of oil and gas, electricity, and transportation. It also calls for reducing the differential in living standards between regions, adopting a new budget system to encourage greater regional self-sufficiency, a demographic policy that regulates migration from neighboring states (particularly in light of booming Asian populations), and a policy that takes advantage of the international division of labor while

protecting some key domestic industries. One key proposal to help Siberia and the Far East is an international investment project under the aegis of the Russian government. This suggestion seems to be a tacit admission that Russia alone does not have the resources to preserve domestic stability. The authors also call for open dialogue rather than more meetings between the president and governors behind closed doors. They even suggest appointing a first deputy prime minister for Siberia and the Far East.

This fear of a split in the country seems somewhat exaggerated, at least for the foreseeable future. It is not clear why Siberia and the Far East would want to leave Russia because then they would be even more at the mercy of their Asian neighbors. - Robert Orttung

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**BREAKING NEWS**

**POLITICS**

**FEDERATION COUNCIL DISMISSES SKURATOV.** After a year of refusing to accept President Boris Yeltsin's request to remove Yurii Skuratov from his post as procurator general, the Federation Council accepted the same request by President-elect Vladimir Putin on 19 April, dismissing Skuratov from power. The secret vote was 133 in favor of dismissal, 10 against, and 6 abstentions. Appearing before the Council, Skuratov acknowledged that the political situation in the country had changed but stressed that he did not want to step down from power. Skuratov noted that he did not intend to shy away from further struggles with corrupt officials. Yeltsin sought to fire him after he began investigating corruption in the Kremlin. Putin has 30 days to present a new candidate for procurator general before the Federation

Council and said that he would do so after his inauguration on 7 May. The most probable candidate is Acting Procurator General Vladimir Ustinov. (Lenta.ru, 19 April)

**FEDERAL PROPOSALS TO BALANCE YAKOVLEV FLOURISH.** Since Vladimir Yakovlev will almost certainly win reelection as St. Petersburg governor on 14 May, the Kremlin is working hard on strategies to neutralize his powers. According to media reports, the president's team is ready to go ahead with Sergei Stepashin's plan to establish the post of a federally-appointed prime minister in the city (see *EWI Russian Regional Report*, 12 April 2000). According to *Obshchaya gazeta* (no. 15), Anatolii Chubais originally proposed the idea and President-elect Vladimir Putin has already informed Yakovlev about it. Furthermore, the weekly claims that it has already been decided that Dmitrii Kozak, a St. Petersburg native and an old friend of the president who is now head of the government staff, will be appointed to the position.

The Kremlin has also been considering a plan to change the city's status within the federation, opening the possibility of completely transforming its power structure. Putin's team wants to gain direct control of the city by giving it the rank of capital along with Moscow. Under this plan, St. Petersburg would host the Federation Council and several federal ministries, including the Finance Ministry. If the proposal is adopted, the executives of both capitals would be appointed by the Kremlin rather than popularly elected, the paper reports. However, implementing such a proposal is extremely unlikely since both Yakovlev and Moscow Mayor Yurii Luzhkov would be strongly opposed.

**KARACHAI REASSESS BEREZOVSKII.** Karachaevo-Cherkesiya's Council of Elders has appealed to State Duma Chairman Gennadii Seleznev to remove State Duma Deputy Boris Berezovskii from office, and is now collecting signatures throughout the republic for the appeal. The Council charged that Berezovskii was contributing to the difficult situation in the republic, has not held a single meeting with voters, and was not doing enough to help the republic solve its economic problems and attract investment. Cherkessk Mayor Stanislav Derev, the top rival of Karachaevo-Cherkesiya President Vladimir Semenov, called the appeal a "political provocation." According to Derev, "We know nothing of such an organization as the Council of Elders of Karachaevo-Cherkesiya that unites all of the people living in the republic," (*Vremya MN*, 14 April). The Council apparently was founded last fall and consists primarily of Semenov's Karachai supporters.

Semenov stated that he had received telegrams from all over the republic complaining about Berezovskii. Relations between the regional executive and the Duma deputy have soured as Berezovskii has become involved in the region's internal political problems. Both Semenov and Derev supported Berezovskii's parliamentary bid last fall after Berezovskii helped the two sides and their respective Karachai and Cherkes ethnic factions restore peace in the region, which had been severely disrupted by Cherkes protests following Semenov's controversial election last spring (see *EWI Russian Regional Report*, 28 October 1999). However, tensions increased again last month when the Cherkes resumed their protests and demanded secession from the republic (*EWI Russian Regional Report*, 15 March). Berezovskii traveled to the

region, trying to stabilize the situation. He met with Derev, but Semenov refused to speak with him and criticized Berezovskii's involvement in the problem (see *EWI Russian Regional Report*, 22 March).

The timing of the Council of Elders' appeal, which lacks any compelling legal basis for Berezovskii's removal, could work to hurt Berezovskii. It coincides with an investigation by the procurator general's office into Aeroflot regarding money laundering through Swiss companies tied to Berezovskii, and the oligarch's attempt to renew the broadcast license for television channel ORT, which he controls (*The Moscow Times*, 15 April). Media reports from unidentified sources claim that plans are underway to take away the immunity from legal prosecution Berezovskii holds as a State Duma member. Currently, there is no legislation determining how a Duma deputy could be removed from office, although the body can vote to lift the immunity of one its members.

**GORNO-ALTAI PUTS CONSTITUTION TO LEGAL TEST.** While most republican leaders are waiting for the federal government to inform them where regional legislation deviates from federal norms (see *EWI Russian Regional Report*, 12 April), Gorno-Altai President Semen Zubakin took the reverse approach and asked the Constitutional Court to verify that several points in the republic's constitution are in accordance with the Russian Constitution. Most of the points in question are particular to Gorno-Altai. For example, according to the Gorno-Altai Republican Constitution the republican head may appoint and dismiss ministers only with the approval of the State Assembly, but he/she cannot dissolve the parliament. Another contentious issue is that the republican president can be recalled by the voters if he has "lost the confidence" of the electorate. (*Kommersant Daily*, 12 April)

However, two of the points Zubakin has asked the court to address could turn out to be precedent-setting for the entire federation. One is the issue of Gorno-Altai's declaration of itself as a "democratic state that possesses sovereignty," and the other concerns republican ownership of minerals and natural resources. As *Vedomosti* stated on 12 April, President-elect Vladimir Putin might obtain a court decision that he could in turn use to declare that republican sovereignty in the context of the Russian Federation is outside of the law. Such a precedent could be used to challenge the constitutions of other, more powerful ethnic republics, such as Tatarstan and Bashkortostan, which include sovereignty statements. Likewise, the court may declare that natural resources are not the property of the republics, but rather only in their "possession." Putin could use this reasoning to limit republican leaders' control over their resource wealth, reducing one of their strongest bargaining chips.

Gorno-Altai was the last of Russia's 20 ethnic republics to adopt its constitution in June 1997, and is the first to challenge its own law. Zubakin's reasoning is clear. Gorno-Altai is among the poorest of Russia's regions and the president seemingly hopes to curry favor with Putin by putting forth his region as an example of cooperation with the federal center. *Vedomosti* stated that the Constitutional Court should decide on Zubakin's points in a month.

**TITOV LOOKS LIKELY TO RUN.** Although he has not officially announced his candidacy, it appears almost certain that Konstantin Titov, who recently resigned from his post



as governor of Samara Oblast (see *EWI Russian Regional Report*, 5 April), will participate in the region's new elections set for 2 July. According to *Vremya MN* on 11 April, a source close to the governor claims that Titov's staff is closely following the ratings of potential candidates, and Titov is at about 77 percent. The former governor had announced that if the voters wanted him to run, he would consider it. Meanwhile, 500 workers at AvtoVAZ have signed an appeal to Titov asking him to run in elections (*Nezavisimaya Gazeta*, 12 April). Additionally, the Tolyatti City Duma unanimously agreed to move the city's mayoral and parliamentary elections up to coincide with the early gubernatorial race (*Nezavisimaya Gazeta*, 14 April).

#### **LUZHKOV'S BATTLE WITH MINISTRY OF INTERNAL AFFAIRS CONTINUES.**

Although Moscow Mayor Yurii Luzhkov won a moral victory over the Kremlin when the Supreme Court overturned the December 1999 decree dismissing Moscow Police Chief Nikolai Kulikov (see *EWI Russian Regional Report*, 12 April), the situation has not been fully resolved. After the court decision was announced, guards at police headquarters received orders from Acting Police Chief Viktor Shvidkin not to let Kulikov into the building. The Ministry of Internal Affairs said that it would appeal the Supreme Court's decision to the Court's presidium. If the Ministry of Internal Affairs refuses to comply with the Court's decision and does not allow Kulikov to take office, Luzhkov will go directly to President-elect Vladimir Putin to resolve the situation. (*The Moscow Times*, 12 April, Polit.ru, 17 April)

**REGIONAL MEDIA REMAINS UNDER PRESSURE.** The Glasnost Defense Foundation, an advocacy group for free press, has found an increased number of conflicts between media and local authorities in the regions. The Foundation registered 63 conflicts in January, 123 in February, and 139 in March. Dmitrii Filimonov, an editor of *Versia* noted that regional authorities are responding to the federal government's crackdown on free press and exerting greater control over regional media (*The Moscow Times*, 15 April).

One region where free press has traditionally struggled is Kalmykiya, where editor of the opposition newspaper *Sovetskaya Kalmykiya Segodnya* Larisa Yudina was murdered nearly two years ago (see *EWI Russian Regional Report*, 18 June 1998). *Sovetskaya Kalmykiya Segodnya* is still in existence, run by Yudina's husband Gennadii Yudin, the Union of Journalists, and many national and regional newspapers that cooperate to put the newspaper out. Three thousand copies of the newspaper come out twice a month, and are brought in from Stavropol since local printing houses still refuse to print the newspaper. The newspaper's staff has dwindled to three, as everyone else has found it too difficult to work in opposition to Kalmykiya President Kirsan Ilyumzhinov. The newspaper is currently seeking new sources of funding since its grant from the Ford Foundation expires in September. Yudin asserts that *Sovetskaya Kalmykiya Segodnya* has not been subject to any outright pressure since Yudina's death, yet continues to receive threatening phone calls.

#### **ECONOMICS**

**LUKOIL HITS SNAG IN NORSI OIL PURCHASE.** Nizhnii Novgorod's Norski Oil, which finally appeared to be on its way out of near bankruptcy through purchase by LUKoil, is now caught in a struggle for control of its refinery. LUKoil, which supplies the majority of the oil Norski processes in its refinery, has been contemplating purchasing Norski Oil for a long time. Last week, however, when LUKoil began to formalize its plans, Norski Oil's right to transfer ownership of the plant came into question. In December 1999 Norski Oil used the refinery to establish a joint enterprise with Sibur, Sibur-Neftekhim. LUKoil's purchase of a controlling stake in Norski Oil and the increased supplies of crude Norski would receive would be sufficient to save the refinery and make it profitable. Likewise, LUKoil plans to invest \$500 million in the refinery and contends that it could serve the enterprise in this capacity equally as well as Sibur can. Sibur, however, has no intention of relinquishing its stake in the joint venture. LUKoil has not commented on the situation. Additional meetings on the issue are taking place this week. (*Vedomosti*, 17 April)

**DONINVEST DEAL WITH CITROEN IN DANGER.** The agreement between Rostov Oblast's Doninvest and France's Citroen to assemble Berlingo automobiles at the Taganrog Automobile Factory might fall through if Doninvest is unable to secure customs privileges for the assembly kits (for background information on this project, see *EWI Russian Regional Report*, 29 September 1999). Without the customs privileges, the price of the car will go up 30 percent, placing it beyond the reach of the targeted market. One sticking point for the federal government apparently is Doninvest subsidiary Krasnyi Aksai, a producer of agricultural technology, which owes the federal budget 247 million rubles. Doninvest Management Council Chairman Mikhail Paramonov told *Vedomosti* on 12 April that if the customs privileges are not secured within the next two months, Taganrog would lose the Citroen contract.

**RUSSIAN METALS ONLINE.** Two of Russia's largest ferrous metals enterprises, Severstal and the Magnitogorsk Metallurgical Combinat (MMK) have decided to create an Internet site for the metals trade. Severstal and MMK expect the site to become the largest trading space for metallurgical companies in all developing markets. The founders have already attracted several small Russian metallurgical companies to the project and continue to seek out other partners. The project is unnamed as of yet and it is unknown who will provide the technical support for the site. Nevertheless, Severstal and MMK hope to launch the site by mid-summer. (*Vedomosti*, 17 March)

**SBS-AGRO TO CLOSE REGIONAL BRANCHES.** Deputy Chairman of SBS-Agro Yurii Konstantinov signed a decree to close 69 of the bank's 71 regional branches before 30 July. The closures are part of the Agency for Restructuring Credit Organizations' (ARKO) plans for preparing SBS-Agro for bankruptcy. According to the agency, maintaining SBS-Agro's loss-making regional branches is a sizeable financial drain for the bank, costing over 4 billion rubles in 1999. However, the agency feels that 30 July is an unrealistically early date to close the 69 branches. Ultimately, the closed branches of SBS-Agro will be used to establish

the regional structure of the new agricultural bank, Rosselkhosbank (see *EWI Russian Regional Report*, 24 February). (*Kommersant Daily*, 14 April)

**ONAKO REMAINS LEADERLESS.** The ONAKO oil company, 85 percent of which is owned by the state, has been left without a president since Rem Khramov took his seat in the State Duma, having won the mandate from Orenburg's District 131. The Ministry of Fuel and Energy, Ministry of State Property, and Orenburg Oblast have been unable to agree on a replacement, and thus have postponed the election until 11 May. This situation is advantageous for YUKOS, making it easier for the company to strengthen its control over Orenburgneft. Who ultimately takes up the position will be determined to a certain extent by the attitude of the Ministry of Fuel and Energy. The ministry's present leadership does not want ONAKO to fall to YUKOS and feels that the best way to prevent this from happening is to appoint a representative of LUKoil to the post. Additionally, it appears that the Ministry of Fuel and Energy and the Ministry of State Property differ over the issue of ONAKO's leadership. (*Vedomosti*, 12 April)

#### **BRIEFLY NOTED**

--The Central Electoral Commission has announced that elections for the State Duma seat in Chechnya District 31 will take place on 20 August (*Vremya MN*, 14 April).

#### **EARLY WARNING**

#### **FLASHPOINTS: REGIONS LIKELY TO CAUSE CRISES IN THE NEAR FUTURE**

*This week the RRR launches a new monthly feature identifying potential upcoming trouble spots in the Russian Federation.*

Chechnya - The Parliamentary Assembly of the Council of Europe (PACE) has voted to suspend Russia if it does not stop the human rights violations in Chechnya. PACE is likely to take further action in May, putting additional pressure on Russia to stop the fighting in the separatist region.

Primorskii Krai - With an energy crisis spreading across the country in the wake of the Gazprom-Unified Energy System dispute, this region will be the one to watch. It has long suffered from power outages because consumers do not pay for the energy they use.

St. Petersburg - The country's second city will elect its governor on 14 May. How Putin builds his relationship with Yakovlev will demonstrate how he plans to deal with governors he does not like.

Samara - The region will hold gubernatorial elections on 2 July following the resignation of Konstantin Titov. A Titov victory would further demonstrate Putin's inability to name governors of his choice, following failures in St. Petersburg and Moscow Oblast.

Karachaevo-Cherkesiya - The republic faces a referendum on 22 October on whether or not to split into two separate units. It will also vote confidence in its president who was elected last year after numerous protests.

Kaliningrad - Russia's exclave is growing increasingly isolated as NATO and the EU expand. Local leaders want to increase their autonomy to deal with their "special circumstances." The Kremlin is now thinking that a better response would be to exert more central control.

Tatarstan - Putin may try to limit some of the economic privileges and political autonomy extended to the republic over the past several years. The republican leadership will likely use separatist threats to block any concessions.

## **ENERGY CRISIS**

### **PUTIN ORDERS GAZPROM AND UNIFIED ENERGY SYSTEM TO BEHAVE.**

The conflict between Russia's two energy monopolies, Gazprom and Unified Energy System (EES), came to a head over the past two weeks as Gazprom's decision to halve gas supplies to EES as of 1 April resulted in power outages throughout the country. The conflict originated in the two companies' inability to reach a supply agreement for the second quarter. Gazprom wanted to sell more gas in the lucrative export market where customers pay higher prices and in real money. Therefore the company cut gas supplies from 45 billion cubic meters in the first quarter to 22 billion in the second quarter. Sixty percent of Russia's power stations are fueled by natural gas, leaving EES hard pressed to generate enough electricity to meet the country's needs. EES was forced to rely more heavily on expensive coal and oil-fueled power plants, yet even these efforts were insufficient to meet standard electricity demands, causing shortages all over the country. EES subsidiaries limited power supplies to enterprises in Tatarstan, Volgograd, Nizhnii Novgorod, Vologda, and many other regions, leaving some factories with as little as 15 percent of the electricity necessary to operate fully (*Kommersant Daily*, 12 April).

Gazprom's actions were motivated by its need to invest in gas production. The company has invested primarily in downstream operations such as building pipelines and developing distribution, while neglecting investments in actual production activities. The only way the company can come up with the funds for upstream investment is through increasing its exports and thus reducing supplies to the domestic market. Both EES and Gazprom suffer from non-payments by their consumers. Factories and households do not pay EES for the electricity they use and the monopoly, in turn, does not pay Gazprom for the gas it uses. The federal government, which owns a 37.5 percent stake in Gazprom and a 51 percent stake in EES, remains one of the most significant debtors to EES.

President-elect Vladimir Putin scolded Gazprom and EES for allowing their dispute to reach such extreme national proportions. On 10 April Putin told the companies that they had

two days to reach an agreement and on 13 April called Gazprom head Rem Vyakhirev and EES Director Anatolii Chubais to the Kremlin to settle the dispute. Following the meeting, Chubais and Vyakhirev announced that they had reached a mutual understanding on the primary issues and Gazprom agreed to supply EES with 24.207 billion cubic meters of gas. This volume is halfway between Gazprom's desired supply level and EES's necessary minimum to ensure electricity supplies. Chubais reportedly stated that from now on EES would cut off those consumers who were not paying for the electricity they consume. However, this agreement is only in place for the second quarter and it remains to be seen how the two monopolies, as well as the federal government, plan to address their long-term energy problems. (*The Moscow Times*, 11, 12, 14 April)

**CHELYABINSK: ENERGY SITUATION LOOKS BLEAK.** The battle between Gazprom and the Unified Energy System (RAO EES) is having a negative impact on the lives of millions of Russians. The electricity providers are once again talking about turning off power to customers who do not pay their bills, and the need to increase rates. In a 14 April press conference Chelyabenergo General Director Vyacheslav Voronin described the radical measures needed to minimize the consequences Chelyabinsk faces since it will be receiving less natural gas in the future.

Because of the drop in gas deliveries, EES cut electricity supplies to the Urals by 1,000 mega Watts. The cuts particularly hit energy-deficient regions such as Chelyabinsk, Perm, Kurgan, and Udmurtiya. Chelyabinsk, which uses about 4,000 mega Watts, faced a cut of 480 mega Watts. Such a reduction would hurt the oblast's key factories such as the steel mill at Magnitogorsk, Mechel, and others. Voronin managed to convince EES to reduce the oblast's cut from 480 to 225 mega Watts. Additionally, the utility decided to produce another 100 mega Watts by burning coal. Another 80-90 mega Watts were saved by cutting off non-paying customers. None of the oblast's export-oriented factories were affected.

The prospects for the future are not good. In the fourth quarter of last year Mezhhregiongaz cut natural gas supplies to Chelyabenergo by 30 percent, pointing out that the utility had not paid in full for the fuel it had received. Chelyabenergo then negotiated gas supplies from the Yamal-Nenets company Energogazinvest. In the first quarter of 2000, Chelyabenergo paid Mezhhregiongaz for only 46 percent of the gas it received. This figure is less than the 60 percent average that EES receives across the country.

Thus on 6 April, gas supplies to Chelyabenergo were cut to half of the utility's needs. This reduction meant that the oblast could provide less heat for regional apartments. In the second quarter, the amount of gas from Energogazinvest was also cut significantly. Voronin therefore said that there would be no more heat in Chelyabinsk after 1 May. Residents and the city government owe 964 million rubles to the utility. During the first quarter, Chelyabinsk only paid for 64.2 percent of the energy it consumed.

Additionally Chelyabenergo told the Chelyabinsk mayor that it would no longer spend 150 million rubles a year to pay for preventive repair work on the city's heating pipes during the summer. The city simply has no money to pay the utility, but it just cannot ignore the bills. As usual in such situations, the population and social infrastructure are likely to be the main victims.

From the provinces, the future of Russia's energy system looks bleak. Gazprom and EES seem unlikely to come to an agreement in the future. Moreover, even if they did, the production of gas is dropping, so there will not be enough fuel even if the regions could pay for it. Gazprom would much rather export gas for higher prices than sell it on the domestic market. Other sources of energy, such as nuclear power, won't be able to make up for the shortfall in gas supplies. - Igor Stepanov in Chelyabinsk

### **SAMARA: BLACKOUTS WILL HAVE CONSEQUENCES FOR TITOV'S**

**CAMPAIGN.** Despite the apparent agreement between Gazprom and EES at the federal level, Samara Oblast is still facing the loss of electricity in factories and homes. The cause is the tough position taken by the leadership of the local energo against the firms that resell electricity. On 13 April, Samaraenergo gave the Togliatti electric network an ultimatum to pay its debts by 10 May. If the Togliatti unit does not pay, Samaraenergo is threatening to cut off electricity supplies, which would deprive a third of the city of power, hitting enterprises, hospitals, and homes. Most likely, Samaraenergo will soon adopt such an approach toward all middleman distributors in the oblast. The Samaraenergo leadership claims that most enterprises and residential customers pay for their electricity but that the middlemen do not pay the energo.

Strictly speaking the middlemen are not guilty. The main culprit is the cities. They should compensate the middlemen for extremely low rates that the city дума adopted for residents' electricity consumption, but they do not have the funds to cover these subsidies. The state debt at all levels of government to Samaraenergo today is 1.1 billion rubles. With reduced supplies of gas, the utility is itself in a bind, because it must pay for its gas with extremely scarce real money.

In general, Samara Oblast is facing the first stage of an energy crisis. The middlemen in the city of Samara owe 362 million rubles to EES. In Togliatti they owe 213 million rubles. As usual the energy crisis will have political consequences. Shutting off power to entire towns would certainly affect the pre-term gubernatorial elections set for 2 July. If even one hospital is left without electricity, the victim could be former Governor Konstantin Titov. - Andrei Perla in Samara

### **BUDGET ISSUES**

#### **KALININGRAD GOVERNOR SEEKS CONTROL OVER LOCAL**

**GOVERNMENT, FEDERAL PROPERTY.** Two important events marked the end of March and the beginning of April in Kaliningrad. First, Governor Leonid Gorbenko refused to sign the oblast budget for 2000. The main point of contention was financing newly-created territorial administrations for carrying out the functions of the oblast administration. Gorbenko created the territorial units in the summer of 1999 and they represent a level of government between the oblast and local governments, though they are completely controlled by the oblast administration. In violation of regional legislation, the new link of government was created without the agreement of the Oblast Duma. Attempts to win the дума's support after the fact were not successful. Currently half of the oblast administration's employees are concentrated in the new territorial units. They are now responsible for carrying out various social functions, such as paying pensions, and working with the handicapped, poor, and veterans.

The governors' critics claim that he has created a new level of government that is not accountable to the population or regional legislature under the guise of providing social services to the population. They see the new territorial staffs as potential campaign teams for the gubernatorial elections which will be held this fall. Moreover, since the local government will have fewer duties, the governor's draft of the budget includes a sharp reduction in funds for them. The Oblast Duma developed an alternative budget to the governor's which it adopted at the end of March. Of course, the governor has refused to sign it.

Such disputes over the budget are nothing new for the region. The 1999 budget was adopted only in the summer of that year. It is also not unusual for the governor to cut off funds designated for the functioning of the Oblast Duma. The governor has not provided any funds for the regional legislature since December 1999. In 1998, the governor cut off funds for 10 months and they were restored only after the intervention of the federal authorities. Gorbenko has already announced that he will only restore funding to the Oblast Duma after new members have been elected in October 2000. Even a decision of the oblast arbitration court demanding that funds be restored has not changed the governor's behavior.

The second key even in the region was that the governor provoked extensive discussions with his proposal to create a state company, to be controlled by the oblast administration, on the basis of federal shares in various regional enterprises. Gorbenko made this proposal to acting President Vladimir Putin during their meeting on 10 March. Among the enterprises to be included were the sea port, railroads, Kaliningrad airline, printing press, amber concern, and large fish-processing and ship-building plants. The governors' critics accused him of trying to finish the process of monopolizing the regional economy and placing it under the control of his allies. - Vladimir Abramov in Kaliningrad

## **PATTERNS OF REGIONAL DEVELOPMENT**

**MARI EL'S KISLITSYN CUTS DEALS WITH DEPUTIES TO WIN STRICTER VERTICAL HIERARCHY.** The recent request by several local administration heads in Marii El for direct presidential rule in the republic (see *EWI Russian Regional Report*, 28 March) is of little surprise given recent political developments on the ground. With the demise of the old opposition following the December 1999 State Duma elections, the republican government ruled three months largely unopposed. This period ended when four local leaders-- Ioshkar-Ola Mayor Veniamin Kozlov, Volzhsk Mayor Nikolai Svistunov, and Volzhsk and Zvenigovsk raion heads Sergei Panfilov and Mikhail Zherebtsov, entered into direct opposition against Marii El President Vyacheslav Kislitsyn through their open letter to President-elect Vladimir Putin (for a complete text of the letter, please see *Rossiiskii regionalnyi byulleten*, 10 April, <http://www.iew.org/rrrabout.nsf/pages/RRB+2.7>).

Kislitsyn has already begun to counter this new opposition by attempting to assert greater control over local government. On 6 April the State Assembly of Marii El discussed amendments to the republican constitution proposed by Kislitsyn. The president sought to strengthen the region's vertical power structure by changing the constitution in order to appoint, rather than elect, the heads of raion governments. Several legislators thought that Kislitsyn was merely acting to ensure his grasp on power. If the amendment were adopted and local heads

were appointed, a considerable amount of time would pass while the courts reviewed the law and declared it illegal. This lag would likely provide the president with enough time to push out his opposition by appointing loyal mayors and thus ensure his reelection.

Adopting the amendment required a two-thirds majority in the republic legislature (45 votes). In spite of strong criticism from the public, including a picket outside of the government building while the amendments were being discussed, the amendments passed with a vote of 45-11 in the first reading. It immediately became clear that Kislitsyn had cut deals with several deputies in order to ensure their votes in favor of his amendments. One of the raion heads who had vocally opposed Kislitsyn in the past voted in favor of the amendments because he had been promised a tractor, according to Svistunov. Another deputy who directs a music school agreed to vote for the amendments after some musical instruments had been purchased for his school. A school director legislator had received some library resources. Another group of deputies made up primarily of industrialists and builders are particularly close to the president and would benefit from a stricter vertical power structure. - Svetlana Zaslonskaya in Ioshkar-Ola

**TATARSTAN ELECTS NEW PARLIAMENT.** Tatarstan has elected a new parliament in elections held during the past three months. On 19 December 1999, voters elected 122 of the 130 members. The rest were elected on 26 March, with six districts holding runoff elections on 8 April. Republican President Mintimer Shaimiev clearly used his vast resources to assure favorable results. Before the elections to the regional legislature, the newspaper *Vechernii Kazan* (1 December) published a list of 130 candidates whom the authorities wanted to elect to the parliament. With the final results in, 109 of these individuals were actually elected.

Who are the new deputies? Of the 130 total, 52 are urban and rural mayors appointed by the Tatarstan president, 5 are deputy mayors, 45 are directors of various enterprises, 3 are bank managers, 12 are full-time members of the previous parliament, including Speaker F. Mukhametshin, the prime minister, presidential chief of staff, and the chairman of the Kazan city soviet, 3 chief doctors, and one each hospital administrator, editor, trade union boss, university lecturer, researcher, representative of the Ministry of Internal Affairs, and the chairman of the Tatarstan Writers' Union. At least three of the members are Shaimiev nephews.

The elections take place according to two types of districts: 63 administrative-territorial and 67 territorial. The borders of the first coincide with the borders of the republic's raions and cities. Those who are elected from the administrative-territorial districts (and they are mainly mayors) can combine their executive branch jobs with their legislative work, showing up to vote in one or two-day legislative sessions. According to the republican constitution, deputies elected from the territorial districts "as a rule" must work full-time in the legislature. However of the 67 territorial deputies, only 29 actually are full-time legislators. Since 29 of 67 does not really seem to meet the definition of "as a rule," this situation violates the republican constitution.

Additionally, the local media reported that there was blatant ballot stuffing in at least two of the districts. I myself visited the editorial offices of *Zvezda povolzhia* and saw voting protocols that had clearly been tampered with to ensure the election of the authorities' chosen candidate. - Midkhat Faroukshina in Kazan



**BEREZOVSKII-BACKED CANDIDATE TO TAKE ON DERIPASKA'S LEBED IN KHAKASIYA.** In this fall's Khakasiya gubernatorial elections, Boris Berezovskii will support the candidacy of former Khakasiya Minister of Internal Affairs Vyacheslav Trubnikov against incumbent Aleksei Lebed, who is backed by Oleg Deripaska's Siberian Aluminum group. When Trubnikov was first appointed to his post, then Minister of Internal Affairs Anatolii Kulikov came to the republic to present him. However, Trubnikov eventually fell out with Lebed and he was promoted to a job in Moscow. Now Trubnikov has close relation with Minister of Internal Affairs Vladimir Rushailo, who in turn is close to Berezovskii. Clearly while Berezovskii and Deripaska seemed to have allied to create a near aluminum monopoly in Russia, they are still fighting for advantage against each other. - Pavel Avramov in Krasnoyarsk

## **LAND REFORM**

**MORDOVIYA ADOPTS RESTRICTED LAND REFORM LAW.** On 11 April the Mordoviya State Assembly adopted a new law on the efficient use of agricultural land in the republic. Last year 60,000 hectares of arable land were left fallow, a territory comparable to one raion in the republic. As a result the republican budget lost 50 million rubles. While the state was able to use administrative measures to return 23,000 hectares to use, such measures are generally not effective. An increasingly large amount of land continues to be left empty and untilled.

The new law adopted by the Mordoviya parliament establishes a mechanism to speed up and simplify the turnover of land with the goal of using it effectively through leasing and the right to buy. The authorities will closely monitor the entire process. Land will only be sold to an effective user, such as a peasant, farmer, cooperator, or stock company, in short those who have demonstrated an ability to work the land. The law lays out a series of limitations, including the confiscation of land through the courts if it is not used appropriately, or not used at all over the course of three years.

In adopting the law, the deputies answered the question: who will sell the land? They developed a scheme for setting up foundations with unused land. There is a foundation in each raion of the republic. The raion has the right to rent the land to farmers or other individuals. Additionally, the law allows the individual to pass the land on to another renter. Initially, the farmer can only sign a long-term lease, but if certain conditions are met, he can purchase the land. In such cases, the land committee will issue a decision and then a special commission will test the potential owner's knowledge of agriculture.

According to its authors, this law is a step toward the liberalization of land in Mordoviya. The law also substantially raises the land tax (by 20-100 times). In order to pay this tax, the owner must work with the highest efficiency in order to produce enough products that will be competitive on the market. In this way, the law seeks to prevent negligent use of the land. - Igor Telin in Saransk

## **INTERVIEW**

## **ASTRAKHAN'S GUZHVIN: DIALOGUE CAN OVERCOME ANY CONTRADICTIONS.**

*On 18 April, RRR Correspondents V. Filippov and D. Grushkin interviewed Astrakhan Governor Anatolii Guzhvin in Moscow.*

**RRR:** What do you think of the practice of signing separate power-sharing agreements between the federal government and regions? Is an agreement-based, asymmetrical federation a tool to preserve the unity of the state or a mechanism for disintegration?

**Guzhvin:** First of all I would like to note that from 1994 (when the first agreement between the center and a region was signed) to the present time, the situation has changed. During the first stage, [the regions used] the agreements to take responsibility from the federal center, thereby asserting their independence. During the second phase, starting around the end of 1995, another tendency became apparent. The treaties began to accent the center's help to the regions in resolving their problems. It is no accident that the first to sign treaties were the so-called "donor regions." In 1996, this process was given a legal framework, and the conditions for signing a treaty were strengthened. Additionally, it became clear that not everyone signing a treaty received preferential treatment from the federal center. [The regions'] interest in the treaties began to fall because no one wanted to sign a treaty that was a mere formality. And the center generally rejected the region's requests to sign treaties on concrete issues such as property, finances, or ecology.

I think that for several reasons, the so-called "treaty-based asymmetric federalism" cannot be an end in itself. It is neither a way to "preserve the unity of the state," nor a "mechanism for disintegration." The problem is wider and deeper. I think that the agreement process is a supplement, an additional mechanism of coordinating interests between the regions and the federal center, which can be used when necessary within the framework of basic, constitutionally-established relations. In a legal state, it is possible to agree on some issues only within a strict constitutional framework.

**RRR:** How do you evaluate the current state of federal relations in the Russian Federation? Is there a real threat that the Russian Federation will fall apart? Does the potential threat of separatism come mainly from the ethno-political elites of the republics or from the oblast regional political elite?

**Guzhvin:** I would call the current state of federal relations transitional. The model of "new federalism" has been discussed more than once at the highest levels. Since 1994 there have been two international and two Russian conferences on this topic. The scholars and practitioners who spoke at them have yet to agree whether it is possible in Russian conditions to find a model that is acceptable to all. A federation for Russia is not a point of departure, but a desired state. Now we have practical experience realizing federal relations on the base of constitutional principles. I am sure that generalizing this experience will lead us to the conclusion that the formation of a real federation is a difficult and contradictory process.

As for the "threat of disintegration for the Russian Federation," I am not an expert or scholar, but a practicing political administrator, and therefore I can state my opinion only from

this point of view. One should not underestimate or overestimate any threat. Are there contradictions between different regions and between the regions and the federal center? It would be strange if there were not. Can these contradictions lead to conflict? Of course, they can. Does that mean conflict is inevitable? No. Normal political dialogue, without demonstrations of ambitions on either side, makes it possible to resolve any complicated contradictions and prevent them from turning into conflict.

There is a somewhat unscientific conception of the "political wisdom of the leader." It boils down to the ability of the leader in every concrete situation to define and defend the interest of "his" population, the people for whom he is working. However, he should not encroach on the interests of the residents of other regions or the wider state interests. However, wisdom is not a professional quality, but an internal construct of the soul. Wisdom is like a woman: if you forget about it even temporarily, it will betray you.

As for the potential threat of separatism, it could come from anywhere or anyone. Why should we exclude a situation in which the threat of separatism could arise in the center - for example, as the consequence of a poorly-thought out action of the leadership of one or another level? Any federation faces the threat of separatism, like any other negative phenomenon. But a federation is created to encourage joint efforts to block the evolution of destructive tendencies which threaten social stability.

## **REGIONAL RESOURCES**

**NAVIGATING THE CHECHEN WAR ON THE INTERNET.** A new feature of the second Chechen war is that many of the key participants have set up their own web sites to publicize their opinions and versions of events. The use of the new technology has not been limited to presentations of official Russian views and official Chechen announcements. Instead, a plurality of voices has appeared on the subject. Perhaps most interesting is that the use of the Internet by various Chechen groups provides insights into the differences between the numerous Chechen factions. While the Russians have not set up a site to deal specifically with Chechnya, the war is a key topic on many general sites that discuss Russian life.

One of the earliest Internet sites on Chechnya was [anima.com](http://anima.com), which was started in December 1994 even before the outbreak of the first Chechen war. The site is in English, and while it is supportive of Chechen independence, it has refrained from posting anti-Russian/pro-jihad tirades. The news and articles it has posted on the site are well-informed and thoughtful pieces. Being the first Chechen web site, it was largely seen as the voice of the Chechen government, but as of February 2000 the site has declared that it is no longer monitored by the Chechen government of President Aslan Maskhadov and cannot be considered an official site.

Two other unofficial Chechen web pages are: [kavkaz.org](http://kavkaz.org) and [qoqaz.net](http://qoqaz.net). The [kavkaz.org](http://kavkaz.org) site was set up by former Chechen Foreign Minister Movladi Udugov and is run out of Istanbul. The site was set up in 1999 and reflects Udugov's political inclinations. The former foreign minister is a strong supporter of a Chechen-Dagestani Islamic state, and had fallen out with Maskhadov over their differing visions for the region. Maskhadov had been against the creation of such a state, and had condemned Shamil Basaev for the incursions into Dagestan last summer. The site appears in English, Russian, Ukrainian, Swedish and Finnish. It has special

sections on Islam, frequently cites passages from the Koran, invokes Islam as a rallying call for all Muslims to take up arms against Russians, and refers to Russians at all times as "aggressors" without the quotation marks.

Kavkaz.org should not be confused with the official Dagestani web-site, kavkaz.com. That site (kavkaz.com) was also set up in 1999 soon after the Basaev-Khattab incursions into Dagestan with the stated purpose of discrediting the raiders. The kavkaz.com site is not only critical of the Chechens and any foreign Muslims fighting on their side, it has also printed critical articles about Georgian President Eduard Shevardnadze for not being sufficiently accommodating towards Russia, and the Parliamentary Assembly of the Council of Europe for its criticism of Russia over the Chechen war, and of most Chechen leaders. The most favorable articles on leading Chechens have been about those who support Moscow such as Mufti Akhmed-Khadzhi Kadyrov, Malik Saidulaev and the former mayor of Grozny who had been imprisoned for embezzling funds earmarked for Chechnya's reconstruction after the first war, Beslan Gantamirov.

The qoqaz.net site is notable in that it surpasses even kavkaz.org in its calls for jihad and the zest with which its producers post pictures of dead Russian soldiers. The site is multi-lingual, including English, Russian, Arabic, Bosnian, Albanian, Ukrainian, Urdu, Swedish, and Turkish among others. That site (along with kavkaz.org) posted a notice from Basaev and Khattab on 3 April that nine captured OMON troops would be executed if the Russians did not exchange them for Colonel Yuri Budanov who was accused of raping and killing a young Chechen woman whose brother fought alongside Basayev and Khattab. When the Russians did not make the exchange, qoqaz.net announced the troops' execution on 5 April and soon after posted pictures of the nine dead men who appeared to have had their throats slit.

The announced proposal for the prisoner exchanges and executions by kavkaz.org and qoqaz.net, in conjunction with official Russian statements that Moscow had made various overtures to the Chechens for negotiations, prompted Maskhadov to open an official Chechen government web site. Chechen Foreign Minister Ilyas Akhmadov officially distanced the Maskhadov government from the unofficial web sites saying that Maskhadov had no knowledge of the OMON prisoners and that the official Chechen government policy on POWs was to follow the Geneva Convention on their treatment. He also denied that Moscow had tried to open negotiations. The Chechen Information Center in London then announced that it would be opening three web sites that would post official information from Maskhadov's government. The official government site, which is still under construction, can be found at [chechengovernment.com](http://chechengovernment.com). The other sites are [ichkeria.com](http://ichkeria.com) and [noakhchi.com](http://noakhchi.com). There is also an on-line Chechen newspaper in English, *The Chechen Times*, at [chechentimes.com](http://chechentimes.com).

The best e-mail discussion group on Chechnya is the "Chechnya short list" that can be subscribed to by going to <http://www.egroups.com/subscribe?list=chechnya-sl&vcode=5d135>. The discussions are in English with a variety of opposing viewpoints, some vehemently supportive of Chechen aspirations for independence, while others are outright hostile to the notion, making for lively reading. Most of the participants are very well informed about the area and deliver worthwhile material.

On the Russian side, there do not appear to be any discussion groups or web sites exclusively devoted to debates about Chechnya. However, the issue has figured prominently on

general Russian sites and can also be followed through the on-line Russian newspapers. Both *Moskovski novsti* and *Nezavisimaya gazeta* can be accessed for free on the Internet at mn.ru and ng.ru, respectively. Both are making it possible to scan past issues for any shifts in attitude toward the war. *Nezavisimaya gazeta* has a handy "Severniy kavkaz: khronika konflikta" section covering the most recent articles on the war. Other links and sources are included in the "Links," "Chat," and "News" sections in the above mentioned web sites. - Ustina Markus

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**BREAKING NEWS**

**POLITICS**

**FEDERALISM AND NATIONALITIES POLICY.** The Center for Strategic Studies (TsSR) is discussing new approaches in Russia's nationalities policy for the next decade. According to General Director of the Center for Ethno-Political Studies Emil Pain, there are five fundamental problems that demand immediate solutions in the framework of a single state nationalities program. First is the issue of ethnic separatism, which is most clearly displayed in Chechnya. Second is the interethnic tension in the North Caucasus and other regions that escalates into inter-republic clashes, like the conflict between Ingushetiya and North Osetiya. The third issue is the so-called "Russian problem" in which "administrators feel an unwarranted diffidence and apprehension that any appearance of an interest in Russian could become grounds for accusations of chauvinism." The fourth issue concerns the problems of Russia's indigenous peoples and the fifth is unregulated ethnic migration.

Three main scenarios have been laid out. The "Unification" scenario proposes building the state exclusively on the basis of ethnic federalism. According to experts at the Center, this approach is completely unacceptable and even dangerous. The "Adaptation" scenario does away with ethnic federalism through restructuring the state into larger administrative units--

*guberniya*. Attempts to restructure the federation in this manner would be met with hostility by republican presidents, who have the capacity to mobilize the population into open conflict with the federal center.

The optimal possibility may be to establish ethno-political integration as a necessary basis for the development of civil society. The idea behind this approach is that no one ethnic group will have preferential rights for controlling territory, power organs, and natural resources. (*Nezavisimaya Gazeta*, 8 April)

**DEMOCRATS JOIN FORCES IN ST. PETERSBURG.** With the St. Petersburg gubernatorial elections less than three weeks away, the race is on to find a challenger to incumbent St. Petersburg Governor Vladimir Yakovlev. Much of Yakovlev's opposition had rallied their hopes around Deputy Prime Minister Valentina Matvienko, who withdrew from the race three weeks ago at the request of President-elect Vladimir Putin (*EWI Russian Regional Report*, 5 April). Matvienko's withdrawal seemed to assure Yakovlev's reelection, which was only further confirmed last week when the Leningrad Oblast Communist Party announced its support of Yakovlev's candidacy (*Vremya MN*, 19 April). Nevertheless, St. Petersburg's democratic groups have not resigned themselves to Yakovlev's victory and are determined to put up a respectable fight.

The city's two strongest democratic parties, Yabloko and Soyuz pravykh sil, have agreed to combine forces and support a single candidate for the post. At present, State Duma Deputy Yulii Rybakov is Soyuz pravykh sil's candidate, while State Duma Deputy Igor Artemev is running for Yabloko. The two groups must decide which candidate to support, and both are quite popular in St. Petersburg. According to *Izvestiya* on 22 April, although the Kremlin does not officially back Artemev, many sympathize with him. A former vice-governor under Yakovlev and chairman of the political council of the St. Petersburg branch of Yabloko, Artemev is an experienced politician. According to Soyuz pravykh sil leader Sergei Kirienko, the two parties will rely on the results of public opinion polls in making their decision (*Nezavisimaya Gazeta*, 20 April).

**KHABAROVSK'S ISHAEV IN FAVOR OF APPOINTING GOVERNORS.** As President-elect Vladimir Putin begins to put his program in order, the governors are striving to find ways to get on the new president's good side. One method that is becoming more popular among governors wishing to display their loyalty is to suggest that governors should be appointed rather than elected. While Novgorod Governor Mikhail Prusak and Kemerovo Governor Aman Tuleev have proposed appointing governors several times, Khabarovsk Krai Governor Viktor Ishaev has only recently jumped on the bandwagon. Ishaev explained in a 20 April press conference that the absence of vertical power in the country was impeding reforms and that many governors were prepared to support the appointment of regional executives (*Kommersant Daily*, 21 April). Other governors who have expressed their support over the past several months include Kaluga Governor Oleg Bogomolov, Belgorod Governor Yurii Savchenko, Saratov Governor Dmitrii Ayatskov, Sverdlovsk Governor Eduard Rossel,

Voronezh Governor Ivan Shabanov, Chairman of the Udmurtiya State Council Aleksandr Volkov, and Jewish Autonomous Oblast Governor Nikolai Volkov.

**UDMURTIYA CONSTITUTION AMENDED FOR PRESIDENT.** The State Council of Udmurtiya adopted amendments to the republican constitution to introduce the post of a popularly elected presidency in the republic. In a referendum vote taken on 26 March, 68.8 percent of the republic supported the initiative (see *EWI Russian Regional Report*, 28 March). At present, Udmurtiya is the only Russian region with a parliamentary system of government. The constitutional amendments approved provide for 27 presidential powers including setting republican referendums, determining Udmurtiya's internal policies, and appointing and dismissing the republican prime minister with the approval of the State Council. The republic's president will be elected for a term of four years with a limit of two consecutive terms. Republican presidential elections must be held no later than March 2001. (*Vremya MN*, 19 April)

**SOROS FUNDS PROJECTS IN NORTH CAUCASUS.** On 17 April George Soros' Open Society Institute announced that it was prepared to spend \$5 million on projects dealing with the problems resulting from violence in the North Caucasus. The new project is called Hot Spots. So far four projects have been defined, on peacekeeping efforts, culture and mutual understanding, media, and assistance to refugees. (*Kommersant Daily*, *The Moscow Times*, 18 April)

### **ECONOMICS**

**DERIPASKA TO HEAD RUSSIAN ALUMINUM.** The monopoly marriage between Russia's two warring aluminum giants to form Russian Aluminum is now official (for background information on Russian Aluminum, please see *EWI Russian Regional Report*, 5 April). The founders were waiting for the approval of the Ministry of Anti-Monopoly Policy before officially launching Russian Aluminum. On 14 April Minister of Anti-Monopoly Policy Ilya Yuzhanov gave his unofficial consent when he told the State Duma that concentrating capital in aluminum sectors supported the country's national interests (*Vedomosti*, 18 April).

Oleg Deripaska, president of Siberian Aluminum, will also head Russian Aluminum, which will control 75 percent of Russia's aluminum industry. The company is slated to become the second largest aluminum producer in the world behind the US's Alcoa. According to Russian Aluminum's press secretary, the overall organizational structure of the company will be determined by the middle of May. Russian Aluminum will coordinate the purchase of raw materials for all of the factories under its jurisdiction and decide how to consolidate the activities of the two aluminum groups. Shares in Russian Aluminum will be distributed accordingly among the current shareholders of the respective partnering companies. The new holding controls Russia's largest aluminum smelters, the Bratsk Aluminum Factory, the Krasnoyarsk Aluminum Factory, the Novokuznetsk Aluminum Factory, and the Sayansk Aluminum Factory, as well as alumina producers, the Achinsk Alumina Factory and the Nikolaev Alumina Plant in Ukraine (*Kommersant Daily*, 18 April).

**GAZPROM TO RAISE TARIFFS.** Following the settlement between Gazprom and Unified Energy System aimed at curtailing the energy crisis (see *EWI Russian Regional Report*, 19 April), the Federal Energy Committee has agreed to allow Gazprom to raise wholesale rates for natural gas on the domestic market up to about 20 percent starting on 1 May. The goal is clear--to make Gazprom's domestic sales more profitable so that the company will not be tempted to export its gas at the expense of Russia's energy supply. Gazprom will be allowed to raise tariffs for industrial consumers by 21 percent and 15 percent for households. According to Federal Energy Committee First Deputy Chairman Vyacheslav Ovchenkov, the committee will address the question of further price increases after three months (*Vremya MN*, 20 April).

Given the already relatively low rates for natural gas, the price increases should not be too problematic for customers. The higher tariffs should raise approximately 9 billion rubles in additional revenue, claims Dmitrii Avdeev, an oil and gas analyst at the United Financial Group (*The Moscow Times*, 19 April). Avdeev noted, though, that even this supplementary income would still not be enough to make domestic sales profitable. The current rate for industrial consumers is about 308 rubles (\$10.73) per 1,000 cubic meters and 212 rubles per 1,000 cubic meters for households. Gazprom stated that Western countries pay \$80 per cubic meter for its gas.

**GUTA BANK WINS CASE AGAINST MOSCOW OBLAST.** At two consecutive sessions on 17 and 18 April, the Moscow Oblast Arbitration Court ordered the oblast to pay nearly \$5.5 million back to Guta Bank, *Kommersant-Daily* and *Vremya MN* reported. The bank filed a suit against the oblast when the latter refused to return a \$3.5 million loan, initially due back in 2006, that the bank demanded after the oblast government was late making its first payment. Moscow Oblast government representatives claim that Guta Bank decided to revoke this and other loans, now totaling around \$13 million, once it realized that the new oblast administration was not going to fulfil the promises made by former governor Anatolii Tyazhlov (*Vedomosti*, 24 April). In general, the bank has been unable to establish good relations with the new team of Governor Boris Gromov (see *EWI Russian Regional Report*, 5 April 2000).

Despite the court's ruling in its favor, Guta Bank is not pleased and wants to continue negotiations with the regional administration. Apparently, instead of forcing the Moscow Oblast government to comply with the loan agreement, the court canceled it as illegal since it had not been approved by the regional legislature, which is required by federal law. In this case, the oblast will have to return the loan and pay penalties for the unlawful use of funds. According to Moscow Oblast Deputy Finance Minister Aleksei Kuznetsov, this scenario is less harmful for oblast finances than to pay finance charges based on the interest rates determined by the Central Bank, as Guta Bank wants.

Additionally, the Guta Bank officials are not convinced that the oblast government has sufficient funds to repay the loans, and most of the enterprises whose shares the oblast used as collateral are nearly broke. Furthermore, as *Vedomosti* suggests, if the bank continues confrontation, Gromov and his administration may prevent the bank's activity in the region

altogether, harming the bank's long-term investment in local enterprises, which is currently valued at about \$20 million.

**KALUGA SET TO LAUNCH GERMAN BEER.** South African Breweries (SAB) has announced that it would start making German Holsten beer at its brewery in Kaluga this month. In the early 1990s, Holsten was the first major foreign brewery to consider producing its beer in Russia but was unable to secure a domestic production base and focused instead on imports, eventually securing 15 percent of the country's beer market (see *EWI Russian Regional Report*, 17 November, 1999). It revived the idea of producing the beer locally in the aftermath of the 1998 financial crisis when the import sales plummeted. Initially, Holsten negotiated with St. Petersburg Baltika, but the two sides could not agree on terms and the German firm turned to SAB, which is producing Zolotaya Bochka, named the best domestic beer of 1999, in Kaluga. SAB is the fourth largest brewer in the world and was the latest Western brewer to enter the Russian market, where per capita consumption is 30 liters a year, much less than in other countries. (*Moscow Times*, *Vremya MN*, 20 April)

**GOVERNORS PROPOSE NEW BUDGET POLICY.** The Federation Council has been busy developing a new budget policy concept for 2001. The new policy proposal is a mixture of liberal and state ideas. It suggests relying on domestic investment, rather than foreign credits, and forcing economic growth through stimulating public demand. For the governors, the real interest is ensuring that budget policies and taxation are conducted systematically and fairly. As Krasnodar Krai Governor Nikolai Kondratenko explained, "The budget was always a divisible pie. The regions should be certain that it will not be divided by a subjective methodology," (*Vedomosti*, 19 April).

Many regions feel that they have been losing power to the federal government in terms of the way the funds are distributed. The governors are particularly battling the Finance Ministry over the distribution of the value added tax. Currently the federal government takes 85 percent of the VAT receipts and the regions take 15. The ministry would like to have 100 percent of the tax, while the regions have suggested increasing the regional share to 25 percent (*Vremya MN*, 20 April). The governors also proposed adopting the federal budget in two stages: first adopting each separate law on the budget's parameters and then the entire budget together with expenditures. This will allow the regions to learn the parameters of transfers 2-3 months earlier and subsequently start working on their own budgets earlier. (*Kommersant Daily*, 21 April)

**ST. PETERSBURG COUNTING ON BIG BUCKS FROM HOCKEY.** The World Ice Hockey Championships set to open in St. Petersburg on 29 April is likely to prove an important event economically and politically for the city. The last day of the event is 14 May, the same day as St. Petersburg's gubernatorial election, offering the city's residents a very direct way to voice their appraisal of the championships. Originally Yaroslavl and St. Petersburg were going to co-host the event, but when it became clear that Yaroslavl would be unable to complete the necessary preparations on time, the entire event was moved over to St. Petersburg (*EWI Russian Regional Report*, 2 September 1999). To prepare for the event the city constructed a

new \$84 million hockey arena, reconstructed an existing arena, and built new housing to accommodate guests.

Prices for the 510,000 tickets range from \$5-\$180. An additional 50,000 tickets are being given away for free to students, veterans, and other groups. The championships are expected to generate \$13 million in revenue (*Nezavisimaya Gazeta*, 22 April). While sporting events of this caliber in the west tend to turn into sponsorship bidding wars, Russian companies have found the cost too steep. Foreign companies Skoda and Nike have become official sponsors of the championships, being the only two firms to pay the required \$1 million to qualify for the title. In addition, Skoda will contribute 60 Oktavias for transporting the championship organizers, and Nike is providing all players with sportswear (*The Moscow Times*, 18 April). Other international sponsors include Tissot, Zepter, Konica, Agfa and ISO Start. Their banners will decorate the walls of the arenas, while general sponsors' names will appear under the ice in the face-off circles.

Domestic companies have been less generous, donating just enough to become national partners. This circle of sponsors include the regional cellular provider Northwest GSM, St. Petersburg telecommunications company Peterstar, the Balt-Trade gas station chain, along with Finnish Nokia. Several beverage producers, including local Baltika Brewery and Pepsi Cola-St. Petersburg, have also become national partners. Since there were no specific requirements for national partners' contributions to the Championship's fund, some made direct financial donations, while others contributed their goods or services in exchange for having their logos appear in the contest publications.

**AVTOVAZ WAITS FOR ANSWER FROM GENERAL MOTORS.** On 21 April Tax Minister Aleksandr Pochinok accused Samara Oblast's AvtoVAZ of tax evasion, stating that a recent audit exposed that the company had considerable tax arrears and its tax obligations would now be recalculated (*The Moscow Times*, 22 April). This announcement came at a critical time for AvtoVAZ as the company waits to hear from General Motors regarding the long-discussed joint venture to assemble automobiles at AvtoVAZ's Togliatti plant. The project could start as early as next month (see *EWI Russian Regional Investor*, 4 November 1999). However, the new conflict with the tax authorities could further impede this project.

## **CENTER-PERIPHERY RELATIONS**

### **REFORMING RUSSIAN FEDERALISM: TWO STEPS FORWARD, OR ONE STEP BACK?**

by Oksana Oracheva, EastWest Institute

**MOSCOW** - In recent weeks among political and academic circles, there has been a lively discussion about the necessity and types of federal reforms to be introduced in Russia. As the leader of the Russian Regions State Duma group Oleg Morozov has pointed out, "the problem of federalism includes practically everything, the political future of Russia, the economic future of Russia, and the spiritual future of Russia. The discussions focus on the following problems:



- electing or appointing regional leaders and what their appropriate term of office should be
- combining the current 89 units into a smaller number to increase their governability
- changing the way members are chosen for the Federation Council, and
- improving relations between regional and local governments.

For the members of the Federation Council, the most important question is amending the October 1999 law which limits their term in office to two five-year terms (for a discussion of the law, see *EWI Russian Regional Report*, 10 November 1999). The governors want to remove this clause from the federal law and allow each region to determine how many terms its leader can serve. Some governors are interested in this clause for the simple reason that they are currently serving their second term and don't want to be forced out of office at the end of it.

However, neither the government nor the State Duma supported the idea. At a conference on federalism held in the State Duma on 18 April, representatives of the government argued that a rotation of regional elites is an important principle of democratic government, while representatives of the Duma asserted that term limits is one of the basic guarantees of a law-based government, which must be enacted through completely free elections. Neither the government nor the Duma is ready to change the current law.

If the governors had their way, they would be allowed to hang on to their positions as long as they want. Since 1994 regional legislatures usually go along with governors' proposals to move up elections, ostensibly for the purpose of saving money. The practical effect of moving the elections though is to weaken the opposition the incumbent faces. In only a few cases have governors failed to move up their elections (St. Petersburg failed to move the gubernatorial election from May 2000 to December 1999, and Tyumen Oblast failed to move the election from December 2000 to December 1999).

Another question linked with the strong desire for rotating the elites is what happens to regional leaders after their term is over. Here there are various possibilities, from lifetime membership in the regional legislature, to the possibility of moving to a different region until their personal security is guaranteed. The situation for the governors is similar to one Yeltsin faced when he resigned from the presidency. Recently there have been intensive discussions of giving Yeltsin a life-long term in the Federation Council.

There is almost unanimous support for maintaining the elections of governors. Conference participants deemed the principle of elections one of the most valuable achievements of Russian statehood. Noting the positive role of electing governors in the formation of new regional political institutions, State Duma Committee on Federal Affairs and Regional Policy Chairman Vladimir Lysenko stressed that "it might be the most important achievement of federalism and democracy in the ten-year existence of the Russian Federation."

On the other hand, the support of the majority of the governors for elections should not be overestimated. It is always easier for an appointed governor to maintain favor with a few bureaucrats in Moscow than with thousands of voters. Over the last few years the regional leaders have learned how to win elections, especially where there are authoritarian regimes, and can practically assure any result. The most recent gubernatorial elections (December 1999-March 2000) show that governors have a variety of ways to win elections, including calling them

earlier than expected, refusing to register the most serious opposition candidates, putting up pseudo-opposition candidates to make the elections seem competitive, and simply violating the electoral law.

Appointing rather than electing governors would not resolve many of the problems facing the country, State Duma member Vladimir Ryzhkov pointed out. From the time that governors were appointed (until 1996) and after when they were elected, Russia has faced the same problems - the unequal economic development of the regions, weak local government, the rise of authoritarian political regimes in some regions, regional legislation that violates federal norms, etc. Clearly, the cause of these problems is deeper than how the regional leadership is selected.

Some suggested that Russia could use a variety of means for choosing regional leaders. State Duma Deputy Yelena Mizulina suggested using both methods, and applying one or the other based on the concrete situation in the region. She believes that where regional leaders are elected, it is necessary to have strong presidential representatives. Where governors are appointed by the Kremlin, a presidential representative is not necessary. This proposal is extremely controversial because most federations seek to employ a single method for choosing regional leaders (except potentially during a transition period).

The majority of participants in the conference agreed that the federal government needs levers over the regions and their leaders. Speakers like State Duma Boris Nadezhdin suggested that the federal government should be able to intervene by issuing warning to regional leaders and even removing them from office. However, the adoption of such a law is not considered expedient because it is unlikely to solve the current problems. Given the absence of federal legislation on many matters and the numerous legal violations in the regions, all of the governors could potentially be removed if such a law were passed.

The roundtable participants also negatively reacted to the idea of reducing the number of regions. Such a measure would not solve the economic and political problems facing the country. Vladimir Olbast Governor Aleksandr Voronin said that making larger regions would encourage separatist tendencies. Indeed if the regions become economically self-sufficient then they will have less need for the federal government, striking a blow at the very basis of federalism, in which the center and regions need each other.

There was much less unanimity on other questions under discussion. There was strong disagreement over how the Federation Council should be formed. The majority of State Duma members and some experts said including governors and regional legislative chairmen in the Federation Council ex officio made the body ineffective. In contrast, the current members of the upper house support the existing system. Those arguing in favor of changing the system said that including the regional elite prevented the upper house from working on a full-time basis. Opponents of change noted that appointing representatives of the regional executive and legislative branches to a Federation Council that operated full time meant that these representatives would gradually lose touch with the problems in their regions. Electing representatives by popular vote at the recommendation of the executive and legislative branches would simply create another State Duma. In any case replacing the regional leaders by their representatives would not substantially change the work of the upper house since the new representatives would simply carry out the orders of the regional leaders.

Equally controversial was the question of local government. While no one denies the importance of local government for Russia's democratic development, many stressed that Russia was getting ahead of itself on this issue and noted that local government does not have a sufficient financial base to carry out its functions. Given the numerous conflicts between governors and the mayors of regional capitals, it is no surprise that many governors want to limit democratically-elected local government to the level of villages and urban neighborhoods, while allowing them to appoint mayors.

Overall, all politicians accept federalism as the only workable solution for Russia and do not see the return to a unitary state as a possibility. Federalism has a future, particularly since its full potential has yet to be utilized. The most important thing is that people see progress forward, with as few retreats as possible. The resolution of the problems facing Russia, and particularly resolving the contradictions in the relations between the center, regions, and local governments, is realistic on the basis of mechanisms offered by federalism.

**SKURATOV'S DISMISSAL SIGN OF SUPPORT FOR PUTIN.** On 19 April the Federation Council dismissed Yurii Skuratov from his post as procurator general after refusing to do so three times in 1999 (*EWI Russian Regional Report*, 19 April). On 20 April, *Segodnya* published statements by several Federation Council members explaining the vote:

**Aman Tuleev, Governor of Kemerovo Oblast:** "It was an act of support for the president."

**Murtaza Rakhimov, President of Bashkortostan:** "Everyone is tired of this story. The Federation Council has done the right thing."

**Sergei Sobyenin, Chairman of the Khanty-Mansi Autonomous Okrug Duma:** "This is a display of the governors' relations to the newly elected president."

**Aleksandr Lebed, Governor of Krasnoyarsk Krai:** "All of the previous times I voted for Skuratov's dismissal. Russia simply cannot allow itself the luxury of having a ridiculous procurator general."

The Federation Council ousted Skuratov with a vote of 133-10. Having refused to support Skuratov's dismissal earlier, the governors had wanted to demonstrate their strength and challenge the Kremlin. Skuratov's fate was less of a concern to them. Now the governors have decided against engaging in their previous political games and hurried to assure the president of their support.

Nevertheless, the discussion of this issue began with a clear majority in Skuratov's favor. Head of the Ryazan Oblast Duma Yurii Fedotkin asked the head of the committee on constitutional law, Sergei Sobyenin, to clearly explain the reasons why the president wanted to dismiss the procurator general. The single explanation that Sobyenin offered was that President-elect Vladimir Putin has the right to name his own procurator. The other senators who spoke all reiterated their desire to bring the "procurator" issue to a close.

Skuratov noted that he regarded any decision by the Federation Council with respect. He stated that a new president had come to power and changes for the better were expected. The conflict surrounding the procurator general "has an extremely negative impact on the work

of the office of the Procurator General." According to Skuratov, he was not planning to offer his own resignation since he did not want to yield to those pushing for his removal.

The Federation Council's decision is a victory for the new president. Putin could have waited until September when Skuratov's term expires, allowing the situation to resolve itself. However, Putin is striving to strengthen his position and central authority overall. The lack of order in such an important state organ as the procurator, which oversees the country's entire legal system, was impeding his plans. - Olga Komarova in Moscow

## **MEDIA ISSUES**

**INTERNET HELPS ROOT OUT SARATOV CENSORSHIP.** Saratov residents have become used to the local authorities' ability to prevent the publication of various Communist newspapers, but they were shocked that the authorities were able to change copy in the national newspaper *Izvestiya*. There is considerable fear that the authorities are planning further attacks on the freedom of speech in the region.

Many national newspapers print copies for the local market at the Slovo publishers, which receives the final product electronically from Moscow. On 13 April, the plant received the next day's *Izvestiya* with an article sharply criticizing Saratov Governor Dmitrii Ayatskov. The paper openly accused him of violating the law in winning election to a second term on 26 March. In particular, the article said that he had removed his main opponent from the race and falsified the results. However, these criticisms were toned down in the edition that appeared in Saratov on 14 April. The differences were discovered when several readers were able to view the original article on the Internet and compare it with the version that appeared in Saratov.

*Izvestiya's* investigation showed that the order to tone down the criticism came from the oblast Information and Press Minister and Gubernatorial Press Secretary Igor Nikiforov. The story was widely covered in the Russian media, with three follow-up articles by *Izvestiya*. The newspaper also asked the general procurator to investigate with the possibility of filing a criminal case.

On 20 April Nikiforov held a press conference in which he completely denied any involvement in the event. However, he could not name the individual who actually implemented the censorship. Slovo Publishers Director Andrei Kostenko told the RRR that Andrei Yezhov, the editor of the Saratov insert to the newspaper *Argumenti i fakti* handled the incoming material from Moscow. He is loyal to Nikiforov since he is temporarily working as Nikiforov's replacement while the editor serves as press secretary. It remains unclear if Yezhov acted on direct order from Nikiforov and what the role of Ayatskov was. The local authorities have already made sure that none of the people involved are talking about the unprecedented incident. Nikiforov has said that he would sue *Izvestiya* for 1.5 million rubles for slandering him.

The incident with *Izvestiya* is the result of the general atmosphere of omnipotence and unaccountability with which the local authorities operate in the region. This atmosphere forces the population into silent agreement with the authorities' actions. There was little complaint, for example, when Ayatskov removed his Communist opponent from the March gubernatorial campaign. This atmosphere may mean that Ayatskov's associates act in this manner without his

direct knowledge. In any case, the governor has sought to deflect the scandal from the regional level. On NTV, he described the event as "the intrigues of the oligarchs" and "an attack on the Kremlin." - Oleg Dmitriev in Saratov

## **TAX ISSUES**

**TVER TEXTILE PLANT COMPLAINS ABOUT TAX PROBLEM.** Nearly 1,300 employees of the Tver Manufaktura textile factory have sent an open letter to President Vladimir Putin complaining that the tax collectors have effectively shut down their factory. The solidarity of the workers and management is a relatively rare event in post-Communist Russia and the facts described in the letter should make many of the people running the country's economic policy stop and think.

Tver Manufaktura is one of the leaders in Russia's cotton industry and its difficulties are typical for Russian factories. In 1999 the factory more than doubled its output in cotton processing and yarn production. During the last year it bought more than 200 new looms and created more than 400 jobs (*Veche Tveri*, 23 April). However, this investment was not enough to ensure the further development of the enterprise. Last year the plant made a profit of 21 million rubles, produced growth of 171.3 percent and paid some of the highest salaries in this sector. The enterprise pays its taxes on time and does not have any debts.

Things took a turn for the worst in 2000, however. First the factory faced a 38 percent increase in the price of cotton and to keep pace the factory had to increase its working capital by 40 percent (*Veche Tveri*, 18 April). The enterprise exports 60 percent of its production. But prices on the foreign market for textile products have only gone up 2-5 percent. Prices on the domestic market remain flat. This stability is the result of textile producers in Ivanovo, who artificially keep prices down by paying low salaries to their workers, and the population's general lack of money. In these conditions, the enterprise ran into problems with the tax authorities and decided to send a letter to the president.

Exporters do not have to pay value added tax (VAT) according to existing legislation. However, in practice an enterprise first must pay its share of VAT to the government based on the price of the exported good and the material required to create it, and then the tax service pays back the tax on the materials. This sum is 30 percent of the cost of the exported good. Naturally, losing this amount of money for a long period has a significant impact on the factory's cash flow and ability to function effectively. Now the Tax Collections Ministry has slowed the process of returning the funds because it is trying to crack down on firms that try to avoid paying VAT by claiming to export their goods when in fact they sell them on the Russian market. The campaign is forcing the enterprise to use credits to ensure that it has enough working capital. The Tver factory only received part of its VAT payments for November in February and it has yet to receive its payments for December through March. The ministry's actions have frightened both management and the workers. In addition to the letter to Putin, factory representatives have filed a complaint with the regional arbitration court and the State Duma, with the support of the city authorities and sectoral trade unions. Many at the plant fear that they are in danger of losing their jobs. - Boris Goubman in Tver

## **CORRUPTION IN THE REGIONS**

**PUTIN WARNS SMOLENSK GOVERNOR ON CORRUPTION.** On 10 April, President-elect Vladimir Putin ordered the Russian general procurator to take immediate and decisive measures in the fight against organized crime and corruption in Smolensk Oblast. Putin also ordered the procurator to look into replacing some personnel at the oblast law enforcement and tax agencies. The presidential administration's Main Monitoring Department (GKU) recently conducted an investigation which showed that the oblast administration and law enforcement agencies were not obeying federal laws and presidential decrees directed at fighting organized crime and corruption. The general procurator has filed more than 200 criminal cases concerning tax evasion, embezzlement and other economic crimes. The procurator also filed cases against highly-placed Smolensk Oblast and city procurators and their relatives. Last week NTV broadcast a show about this situation which included evidence about ties between the Smolensk Oblast procurator and the regional branch of the Ministry of Internal Affairs with organized crime groups connected to the Russian kingpin (*avtoritet*) Petrosiyan. The show also described the existence of organized crime groups within the Ministry of Internal Affairs, which are successfully competing against the Petrosiyan group for a sphere of influence over the city's outdoor market.

Smolensk Oblast has more assassinations per capita than St. Petersburg. For the last three years, not one of these cases has been solved. At the Bratsk cemetery in the center of Smolensk there is a new ally of former high-level city bureaucrats. Many of the people were killed while the GKU team was working in the city.

Some observers believe that Smolensk bureaucrats are more corrupt than their Moscow counterparts. The recent assassinations have even sparked jokes: Question: "Why don't new bureaucrats who are assassinated leave a will?" Answer: "Because the assassin is not a notary public who will wait around for the appropriate paper work."

As the GKU pointed out, one of the main reasons for the current situation is the "serious deficiencies in hiring personnel." The GKU sent Governor Aleksandr Prokhorov firm instructions to address the problem. The GKU and the presidential administration Personnel Department are now monitoring the governor's execution of presidential decrees. The Kremlin made clear to the governor that his loyalty should be unconditional.

Many local press analyses suggest that the president's order is actually useful for Governor Prokhorov. It will not allow him to get rid of some of his most notorious associates and hire new people. Recently the well-known businessman Viktor Derenkovskii has become more visible in Smolensk politics. He is known for his principled respect for the law. Derenkovskii fully financed Prokhorov's campaign, so the governor is beholden to him. Derenkovskii has strong ties within the presidential administration so serious changes can be anticipated in the Smolensk Oblast leadership. - Arsentii Ledovskoi in Smolensk

## **PATTERNS OF REGIONAL DEVELOPMENT**

**VLADIVOSTOK MAYORAL ELECTIONS UNDER WAY.** Vladivostok will elect a new mayor on 18 June. Whoever controls the most important city in Primorskii Krai and the one that contributes the most revenue to the kraï budget has powerful influence over the region's economic and political situation. Although seven candidates have already announced their intention to run, the main battle will be between acting Mayor Yurii Kopylov and Viktor Cherepkov, the former mayor of Vladivostok who was recently elected to the State Duma after a series of scandals.

Governor Yevgenii Nazdratenko, of course, supports Kopylov, whom he appointed to the post in December 1998. The governor personally presented him to announce his candidacy, they met with several workers from various local factories, and traveled together to Kizlyar, Dagestan for the dedication of a monument to the men from the Far East who died in Chechnya. Kopylov has not been a successful administrator, but he does have powerful administrative levers as the sitting mayor, including the ability to name the members of the electoral commissions.

Former Procurator Veniamin Chichaev, who once helped fabricate a criminal case against Cherepkov, is now the head of the City Electoral Commission. It is not surprising that the commission quickly fell into the midst of a scandal. The commission did not include among its members representatives of Yabloko and Soyuz pravyykh sil, parties that tend to support Nazdratenko's opponents. The two parties are planning to protest this decision to the Central Electoral Commission and the general procurator.

This scandal is likely to be the first in what is expected to be a long chain of problems. Observers are trying to figure out what means Nazdratenko will use to prevent the election of Cherepkov. The former mayor thinks that the main method this time will be falsification of the votes. At a 25 April press conference he said that the electoral commission was filled with people loyal to Kopylov and Nazdratenko and that the police would play a special role in hindering the work of the observers. He believes that the governor will be able to lower his vote total by 15 percent, but that he will still win. He continues to claim that he won 43 percent in the State Duma election, rather than the official 28 percent he was credited with.

The mayor's race will be a useful indicator of whom Moscow supports at the local level. So far the opposition seems to be in the best position. The Central Electoral Commission confirmed Cherepkov's victory, overturning a decision of the local commission and Tatyana Loktionova, the chairwoman of the Primorskii Kraï Arbitration Court, won a postponement from the Russian Arbitration Court in Nazdratenko's attempt to remove her from the bench. The Moscow court put off a decision until later.

Also on 18 June Vladivostok will try once again to elect a city council. It is the only Russian city that does not have its own legislative organ. - Dmitrii Motovilov in Vladivostok

**DUMA RULES OUT ARMING RURAL POPULATION.** On 12 April the State Duma debated an interesting draft law reflective of a situation affecting many regions. The State Assembly of the Republic of Marii El introduced amendments to articles 10 and 15 of the law on weapons for consideration by the parliament. The changes to the law would allow employees of agricultural enterprises to carry arms and use them to guard various farm facilities. Many deputies feel that this legislative initiative can be called a gesture of despair provoked by

the contemporary crime situation in the regions and the absence of stable earnings among rural residents.

The speaker on this issue, Agrarian Deputy Ivan Kazankov, stated that in the countryside the theft of cattle from stockbreeding complexes and farms is contributing a great deal to the losses experienced by agricultural enterprises. Moreover, cattle theft often involves more serious crimes, including murder. In 1998 the law enforcement authorities in Marii El registered 256 thefts, resulting in 542,000 rubles in losses. In 1999 the figures were even more depressing, 380 thefts and two robbery attacks in which fire arms were used, causing 1.7 million rubles in damages. Kazankov is certain that the situation is no better in other regions as well.

According to Kazankov, the current system of protection for agricultural enterprises does not make it possible to combat cattle theft effectively. The use of non-departmental protection and the establishment of private guard structures are difficult particularly since stockbreeding complexes and farms are generally distant from settlements.

Nevertheless, Deputy Chairman of the State Duma Security Committee Mikhail Grishankov did not agree with these arguments. He pointed out that the law already provided for setting up security services to guarantee the safety of all persons and enterprises. In accordance with the law on private detective and protection activities any agricultural enterprise can establish its own security service if it wants to simply by buying a license for 840 rubles. "The number of thefts does not depend on the presence of arms," Grishankov noted. Grishankov argued that adopting this law is not only senseless, it would be dangerous, "It is unknown how any person who receives additional uncontrolled weapons will use them." According to the Ministry of Internal Affairs, over the past five years during which the law on weapons has been in place, the number of people owning arms has risen one and a half times, constituting 4.5 million people at present.

Most of the deputies supported the position of the Security Committee, expressing concern over the spread of weapons throughout the regions. There were some deputies, however, who suggested approaching the problem from a different angle. Gennadii Kulik, for example, invited his colleagues to tour Moscow Oblast, where even "a settlement of ten oligarch dachas is protected today by a policeman with a least a captain's rank." At the same time, no one is protecting large settlements in which there are hundreds of people.

According to Kazankov, cattle theft has reached such proportions that people might simply stop trying to produce such meat. "I am not ready to say today that we need to build this system, perhaps some sort of mobile groups or something could be created, but it is certainly clear that the problem of protecting the rural settlements and rural dwellers is in no way solved. And if we simply brush aside this issue, I think, we will find ourselves facing a bigger problem," Kulik stated.

The deputies' opinions were clear enough that Kazankov even declined from making concluding remarks. Only 46 deputies voted in favor of the law, while 226 voted against it. - Petr Kozma in Moscow

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**BREAKING NEWS**

**POLITICS**

**TITOV ANNOUNCES GUBERNATORIAL CANDIDACY.** Former Samara Oblast Governor Konstantin Titov, who resigned from office a month ago (see *EWI Russian Regional Report*, 5 April), has officially announced his candidacy for the election to the post again, Lenta.ru reported on 1 May. Titov's move was entirely predictable as it was popularly believed that the governor resigned as a tactic to move up the region's elections to July and thus ensure his reelection. If Titov waited to run for reelection in December, President-elect Vladimir Putin would have ample opportunity to garner support for an opposition candidate, threatening Titov's chances of winning a second term. Titov told *Kommersant Daily* on 28 April that his program priorities were the same as before--promoting education and the social sphere. Titov wants to freeze tax rates for several years in order to generate investment income for business development.

**DUMA REJECTS EXTENDING GOVERNORS' TERMS.** On 27 April the State Duma committee on federal affairs and regional policies recommended that the parliament reject the Federation Council's proposal to remove term limitations for regional executives. The governors, many of whom face reelection this year, hope to amend the October 1999 law

limiting their office to two-five year terms in favor of allowing each region to determine its own term limitations (for a detailed debate on this question see *EWI Russian Regional Report*, 26 April). The term limits are of particular interest to the executives of ethnic republics, such as Tatarstan President Mintimer Shaimiev, Bashkortostan President Murtaza Rakhimov, Ingushetiya President Ruslan Aushev, and Sakha President Mikhail Nikolaev, whose second terms will expire over the next couple of years. The Duma, however, has little interest in protecting power hungry regional leaders and believes those term limitations, and the rotation of leaders that limitations provide, are an important component of establishing a democratic state. The governors' only hope is that President-elect Vladimir Putin will appeal to the Duma on their behalf, which is rather unlikely. (*Kommersant Daily*, 28 April)

**LDPR TO CLOSE REGIONAL BRANCHES.** On 25 April the Liberal Democratic Party of Russia (LDPR) held a meeting of its regional leaders. The party has been slowly breaking apart since the December 1999 State Duma elections that left the LDPR Duma faction at half of its previous size. Party leader Vladimir Zhirinovskiy announced that the LDPR should close the offices in the regions where the party fared poorly in the elections, and sell the buildings or give up the leases on the property. Regional party leaders explained how the party's poor showing had led to a decrease in financial sponsorship and that Zhirinovskiy's often erratic moves and positions have further discredited the party. Zhirinovskiy refused to accept this criticism and in turn blamed the party's failure on the regional branches, calling their representatives drunks and thieves. (*Kommersant Daily*, 26 April)

**PUTIN AWARDS GOVERNORS FOR FRIENDSHIP AND SERVICE.** President-elect Vladimir Putin has shown his appreciation for the support of regional leaders by awarding several with national honors. Perm Governor Gennadii Igumnov, Sverdlovsk Governor Eduard Rossel, and Sakha President Mikhail Nikolaev were granted awards "for service to the Fatherland," for strengthening the Russian state and pushing ahead with reforms. Stavropol Governor Aleksandr Chernogorov received the order of Friendship. Kareliya Prime Minister Sergei Katanandov was honored for contributions to the social and economic development of Kareliya. As *Kommersant Daily* noted on 26 April, during the presidential election Putin earned no less than 50 percent of the vote in each of these regions.

## **ECONOMICS**

**FEDERAL CRACKDOWN ON REGIONAL DEBTS.** On 28 April the budget committee of the State Duma approved amendments to the Budget Code. The most significant amendment prohibits regions from accepting foreign loans. Under the present system both federal and local governments are permitted to take on foreign credits. President Boris Yeltsin had given various regions the right to issue Eurobonds as a form of encouragement to governors. However, this system proved quite problematic. While technically the regions are responsible for their own debts, if a region defaults on its obligations, the federal government has a certain level of responsibility since the regions are located on the territory of the Russian Federation. This situation has left foreign lenders confused and has complicated Russia's



center-periphery relations since several regions, such as Tatarstan, Nizhnii Novgorod, and Leningrad Oblast, have defaulted or been on the verge of defaulting on their foreign obligations. The situation has been particularly acute since the August 1998 financial crisis and the devaluation of the ruble, which made foreign debt obligations significantly more cumbersome for the regions.

As *Kommersant Daily* pointed on 29 April, during Yeltsin's reign governors grew to consider their right to take out foreign loans as a symbol of their political independence, and President-elect Vladimir Putin is trying to do what he can to curb those feelings. It was the government that suggested revoking the regions' right to foreign loans to the State Duma, which accepted this proposal. According to the new amendment, regions can use only domestic sources to finance their deficits.

Putin intends to crack down on other aspects of the regions' fiscal activities as well via the Budget Code. *Kommersant Daily* further reported on 27 April that the Finance Ministry intends to apply pressure on the regions to restructure their debts, adopt correct local budgets, and prohibit them from borrowing hard currency. According to head of the Finance Ministry's department for managing domestic state debt Bella Zlatkis, 80 percent of the regions are not servicing their full debt obligations. Zlatkis believes that the first step to solving the regions' debt problems is to teach the regions how to properly plan their budgets and impress on them the importance of not taking on loans that they cannot pay back. Zlatkis suggests that loan agreements should be integrated with tax procedures so that if a region is unable to repay its obligations, then the revenue generated from a specific tax is automatically transferred to the creditor.

**ENERGY PROBLEMS IN REGIONS JUST BEGINNING.** Even though Gazprom and United Energy System (EES) have reached a settlement averting an immediate energy crisis, the April energy shortages was simply the first taste of the energy related problems and conflicts the country will soon experience. Both Gazprom and EES have promised to toughen up on their debtors and cut off energy supplies to non-payers, which will undoubtedly lead to greater political conflict in the region. For example, Chelyabenergo, an EES subsidiary, is owed 2.2 billion rubles from important industrial enterprises, 947 million rubles from farmers, and 964 million rubles from the Chelyabinsk oblast government. Meanwhile, Chelyabenergo owes about 2 billion rubles to its gas supplier.

In an attempt to manage the situation in Pskov, the oblast administration has demanded that Pskovenergo present it with charts on where electricity supplies are being turned off or limited. These blackout or brownouts must be agreed upon with the regional energy committee and the oblast administration of emergency situations. Pskovenergo is owed 384 million rubles, a significant portion of which is the responsibility of federal and local governments. (*Vremya MN*, 26 April)

**YUKOS BATTLES ORENBURGNEFT IN COURT.** Russia's second largest oil producer, Yukos, has filed a court case against ONAKO subsidiary Orenburgneft, which held an emergency shareholders meeting on 28 April. Yukos hopes that the court will overturn Orenburgneft's board of directors' decision to call the meeting and therefore annul the results of

the meeting, which was held to discuss electing a new board. Yukos, which owns a 16 percent stake in Orenburgneft, reserves the right to nominate a candidate for the board, but claims that the Orenburgneft management prevented the company from doing so. Yukos has been trying to strengthen its influence over Orenburgneft, which is located a desirable distance from Yukos-controlled Samaraneftgaz. (*The Moscow Times*, 29 April)

**LENINGRAD STEPS INTO ALUMINUM MARKET.** Leningrad Oblast Governor Valerii Serdyukov met with representatives from the United States Agency for International Development (USAID) last week to discuss building a large aluminum smelter facility in the region, *Vedomosti* reported on 27 April. The smelter would be one of the largest in Russia and be located in the city of Sosnovyi Bor not far from the Leningrad Nuclear Power Plant. The proposed factory has already been registered and plans for its construction should be drafted this summer. Undisclosed foreign investors will finance the project. The proposed factory's proximity to the nuclear power plant gives it a cheap electricity source and the transport access of the north west ports is lucrative for the factory's export potential. An estimated 80 percent of Russia's aluminum is exported. Leningrad Oblast is also well placed because of its proximity to the Srednaya Timana bauxite field in the Komi Republic, Russia's last undeveloped bauxite deposit. Bauxite is a necessary raw material in making aluminum, and Russia possesses only one third of the bauxite it needs for the country's aluminum sector (*The Moscow Times*, 28 April). (See related article on the history of the Russian aluminum sector in this issue.)

**INCUBATING PROFITS ONLINE.** Internet Inkubator, a \$1 million western-funded project designed by the Internet investment company A Partners, is gearing up to launch 10 Internet companies this year, *The Moscow Times* reported on 27 April. A Partners' incubator is offering six-month financing of \$20,000-\$100,000 to help start up new Internet projects. The financing is used primarily to pay salaries and marketing costs, and the only stipulation for grantees is that accounting be done by A Partners according to Generally Accepted Accounting Practices (GAAP) and Russian standards. The incubator also offers management and financial advice to the Internet start-ups. Ultimately, the e-businesses will be released from the incubator to an investor who will buy out the incubator's stake. Internet Inkubator expects to take three months to prepare its first business stavka.ru, an online auction site, to be handed over to its first major investor, Internet Inkubator Andrei Vakulenko stated. Vakulenko further stated that stavka.ru has already attracted attention from serious investors, and expects the new company to sell for about four to five times the amount of their investment in it.

**CHELYABINSK CONTEMPLATES KEMEROVO COAL.** Chelyabinsk Governor Petr Sumin announced that the oblast might become one of the primary investors in developing the Ulyanovsk coal deposit in Kemerovo Oblast. Chelyabinsk is prepared to invest \$10 million in the project, the overall cost of which is estimated at \$15-17 million. Once the deposit is exploited, it could supply Chelyabinsk with 2-2.2 million tons of coal per year. The low cost of the coal could hold down prices for electricity and remove the region's dependence on gas supplies from the southern Urals. (*Vremya MN*, 28 April)

**FORD'S DEMAND DOWN IN FIRST QUARTER.** For the first quarter in 2000, Ford sold only 256 cars in Russia, nearly 30 percent less than during the analogous period in 1999. These depressing results come to light just as Ford has intensified its operations in Russia and is moving ahead with plans to assemble automobiles in Leningrad Oblast. Ford hopes to sell up to 3,000 cars in Russia this year (see *EWI Russian Regional Investor*, 9 February). Ford suggests that the drop in demand for its automobiles is related to newer, higher taxes on large purchases. Managers at Kuznetso-Avto noted that many clients did not want to buy cars during the elections and that demand for Ford automobiles will begin to climb again. (*Vedomosti*, 28 April)

### **BRIEFLY NOTED**

--Representatives from nearly 150 auditing and consulting organizations in Russia have decided to form a National Federation of Consultants and Auditors (NFKA) with the goal of supporting the activities of a professional union of auditors and participating in the development of legal standards regulating auditing activities. (*Kommersant Daily*, 25 April)

### **REGIONAL BUSINESS ASSOCIATIONS**

**TVER AUTHORITIES, BUSINESSMEN SEEK A WAY TO COOPERATE.** Last week the Tver Union of Industrialists and Entrepreneurs and the Oblast administration set up a working group to prepare a plan for the two sides to cooperate in reviving the oblast economy (*Veche Tveri*, 26 April). This movement toward agreement is an unusual change because just a few months ago there were confrontational relations between the two groups. Sometimes the tensions even broke into open conflict.

When the Tver Union of Industrialists and Entrepreneurs was established two years ago, the oblast authorities did not see it as a partner whose voice had to be taken into account. The governor much preferred to engage in dialogue with the Chamber of Trade and Industry, which was completely under its control. At that time the oblast authorities even spoke to Union leaders Sergei Potapov, Nina Bolgovaya, and Nikolai Karpov as if they could control them from above.

However, today the situation has changed significantly. The oblast economy is continuing to sink while the burden of social problems is increasing. Moreover, the December gubernatorial elections, which Governor Vladimir Platov just barely won, demonstrated that he must deal with Potapov, who had run against him, and Potapov's Union allies with much greater respect (see *EWI Russian Regional Report*, 12 January).

After his reelection as governor, Platov surprised many of his supporters by including some of his sharpest critics in the administration. These critics included Economist Valerii Fedorov, a professor and head of the oblast Accounting Chamber, and Jurist Valerii Nekhaev. Fedorov became the governor's chief of staff and a deputy governor. Nekhaev is Fedorov's assistant. Together with Economics Committee Chairman Anatolii Kleimenov, also a former

opponent to Platov in the gubernatorial campaign, Fedorov and Nekhaev initiated the dialogue with the Union.

If the administration and Union are successful in changing the investment climate, sparking industrial growth, and improving living standards for residents of the region, all the participants in the process will win. Their authority and political influence will rise. Many hope to succeed Platov when his second term is finished. Potapov undoubtedly hopes that these efforts will feed into his plans to win the governor's seat. Kleimenov may seek the region's highest office. Fedorov would also have a shot since he has successfully combined the role of practical leader and academic economist. - Boris Goubman in Tver

**IRKUTSK BUSINESS ASSOCIATION MARKS SECOND ANNIVERSARY.** On 27 April, the Irkutsk Oblast Non-Commercial Partnership of Producers and Entrepreneurs (NPTiP) marked its second anniversary. This non-political organization includes 70 enterprises and practically all sectoral unions: forestry workers, builders, agrarians, road workers and others. Therefore, according to Governor Boris Govorin, the partnership has the ability to address the region's important economic problems. At their meetings, the industrialists discussed such issues as reducing energy prices, regulating land, paying off back wages, and other common concerns. In April 1999, three members, the local railroad, Irkustenergo electric utility, and Vostsibugol coal company prepared an initiative to hold down prices for their services.

However, Governor Govorin called on the participants to take a more active role in addressing the oblast's social programs and developing oblast legislation. He stressed that industrialists feel the effects of the incomplete legal base more than others and should take an active part in reforming it. He compared the oblast economy to a "mop-headed boy who boasts to everyone about his undeveloped muscles. This boy has no strength and it will be ten years before we have any real successes."

The partnership elected a new leader, current railroad director Kasyanov, who inherited the job from his predecessor at the railroads, Gennadii Komarov. - Teleinform in Irkutsk

**PETERSBURG BUSINESS ELITE SET UP BRANCH OF 2015 CLUB.** St. Petersburg businessmen have set up a local branch of the Moscow-based Club 2015 that will prepare plans for the development of the region up to the year 2015. Lenenergo General Director Andrei Likhachev opened the first meeting of the club. The first session was led by experts on social and economic issues from the Moscow club, which was founded in 1998. The Moscow-based club is working on strategies for the development of Russia in the new millenium. The St. Petersburg club will focus on local issues. At the meetings, members of the club will exchange ideas and engage in brainstorming activities.

According to Lenenergo officials, the main idea of the club is to develop a plan and then unite resources to implement it. Additionally, the club seeks to provide opportunities for exchanging ideas.

Other members participating in the club were Baltiiskii Zavod General Director Oleg Shulyakovskii, Europa Hotel General Director Semen Golubev, Medi Medical Association President Tomazmchelidze, head of the Petersburg branch of the Tax Collection Ministry Viktor Zubkov, Mining Univeristy Rector Vladimir Litvinenko, St. Petersburg State University Law

School Dean Nikolai Kropachev, and St. Petersburg Legislative Assembly Deputies Nikita Ananov and Mikhail Tolstoi. - Marina Makova in St. Petersburg

**BELGOROD BUSINESSMEN FIGHT TAX HIKE.** The relatively peaceful relations between the Belgorod Oblast authorities and the local business community could be shattered with the introduction of a tax rate hike. On 27 April, the members of the oblast legislature voted to increase the inflation coefficient for the imputed business income tax from 1.2 to 1.4. Thirty-one (of 35) deputies participated in the vote and only two opposed the rate increase. The main advocate for the increase was Oblast Duma Budget Committee Chairwoman Olga Kitovaya.

The legislators' desire to fill the regional government's coffers means that the region's small and medium-sized businessmen will have to raise prices on their goods. The higher taxes will bite into the buying power of local consumers. According to the Consumers' Union, the tax increase will cause prices to go up 6-8 percent in May (*Vecher*, 29 April).

At the same time, wages for hired labor are also rising and the businessmen must find money to pay these salaries. Unfortunately, many businesses are barely surviving and their closure would mean the loss of jobs, increased unemployment, and increased social tension.

The Guild of Merchants and Industrialists charged that the decision of the deputies is ill-considered and hurts the interests of storekeepers and consumers. In May Guild is planning to hold a conference of local businessmen to examine questions associated with tax collecting and small business in general. For the time being the Guild called on its members to protest against the legislature's actions during the traditional May Day demonstrations.

Will the law actually be adopted? Now it depends on whether Governor Yevgenii Savchenko signs it. - Sergei Sarychev in Kursk

## **METAL AND MONEY**

**A BRIEF HISTORY OF RUSSIAN ALUMINUM.** The recent merger of Russia's two largest aluminum companies, bringing together Oleg Deripaska's Siberian Aluminum and the assets held by Boris Berezovskii and Sibneft's Roman Abramovich created Russian Aluminum, a company that controls 7 percent of the world market and 80 percent of Russia's aluminum production. Every year Russia produces more than 3 million tons of aluminum, while total international production is 20 million tons.

The Russian aluminum industry has a major impact on the world market because it exports most of its product. Of the 3.1 million tons produced in 1999, 2.6 were exported. The level of exports are increasing about 100,000 tons annually. The increased export is a result of the gradually shrinking domestic demand and the growing demand on international markets. In January 1999, one ton of aluminum cost \$1,250 on the world market and by the end of the year rose to \$1,550. Prices are expected to rise to \$1,750 by the middle of 2000 as demand increases.

However, until recently, the Russian aluminum industry made only insignificant profits. Until 2000, it worked under the tolling system. The Russian smelters received raw materials to make aluminum from abroad and used it to produce raw aluminum. However, the smelters never owned the raw materials or the final product. Accordingly, they were paid only for their

smelting services. The profits went to the off-shore companies that supplied the raw materials and had close ties to the main owners of the factories.

Most of the raw materials for aluminum must be supplied from abroad because Russia does not have the necessary resources itself. The traditional suppliers from the CIS countries only make up 60 percent of the demand. In the early 1990s, the British trading company Trans World Group (TWG) appeared on the Russian market and began operating under the tolling scheme. By the mid-1990s TWG had bought controlling stakes in Russia's largest aluminum smelters in Bratsk (Irkutsk), Krasnoyarsk, Sayansk (Khakasiya), Novokuznetsk (Kemerovo) and Bogoslovskii (Sverdlovsk).

By the end of 1996, the TWG controlled more than 70 percent of the production of Russian aluminum. However, the situation has radically changed since then. The leaders of the factories decided that they wanted to control the cash flow rather than ceding this important power to TWG. Sayansk Aluminum Director Oleg Deripaska was the first to move out from under TWG control. In 1998, a shareholders' meeting approved an additional emission of the factory's stocks. These new stocks were then all purchased by Deripaska's allies. TWG's 28 percent share shrunk to 14 percent and Deripaska's grew from 40 to 70 percent. From that moment, he began to build Russia's first vertically integrated aluminum holding company. The company covered the entire production chain, from mining raw materials to producing final products. In 1997, this holding became Siberian Aluminum which now includes the Sayansk Aluminum Factory, the Samara Metallurgical Factory, Sayansk Foil, Rostar (which makes aluminum cans), and Abakanvagonmash. At the end of March 2000, Deripaska gained control of the Nikolaev Alumina Factory, a raw material supplier located in Ukraine. With the raw material supplier, Deripaska was the only aluminum titan who controlled the entire production process inside his own company. His next goal, which is supported by Unified Energy System head Anatolii Chubais, is to merge Siberian Aluminum with the Sayano-Shushenskoi Hydro-Electric Dam, which would significantly reduce the amount of money the aluminum producer must pay for its energy. Electricity makes up about 30 percent of the aluminum's overall cost.

Recently the Novokuznetsk Aluminum Factory was declared bankrupt. One month ago the court ruled that it would be under the control of an external manager who represents Siberian Aluminum, Sergei Chernyshev. He was subsequently replaced by Sergei Filinov, the most recent head of the Sayansk Aluminum Factory. Similar moves are planned for the Krasnoyarsk Aluminum Factory, which owes its energy suppliers \$100 million.

At the end of last year, a new aluminum group began to appear in competition against Siberian Aluminum. Logovaz (controlled by Berezovskii) bought 51 percent of Novokuznetsk and Sibneft and other firms controlled by Abramovich bought 66 percent of Bratsk, 62 percent of Krasnoyarsk, 39 percent of the Achinsk Alumina Combine (Krasnoyarsk) and 30 percent of the Krasnoyarsk Hydro-Electric Station. This new group had 5-6 times the capacity of Siberian Aluminum.

Because the new company lacked its own raw material supplies, energy resources, and metallurgical factories which could process the aluminum it manufactured, it was unable to establish a united, vertically-integrated company. The Achinsk Alumina Combine, the raw material supplier in which Abramovich owns a 39 percent stake was bankrupt and controlled by Alpha Group's Mikhail Fridman. At the beginning of March, the Sibneft leadership decided to

take complete control of the Krasnoyarsk Aluminum Factory and set an extraordinary meeting of the shareholders for early May. However, because electricity prices had gone up, the plant is in danger of going bankrupt. As a result the leadership of Siberian Aluminum and Sibneft reached a sensational agreement to create a united, super-holding company.

It is still too early to speak of the new super company as a reality. So far a coordinating body has been set up to guide its overall activities.

Beyond this company stands Vasilii Anisimov. He controls the Siberian-Ural Aluminum Company (Sverdlovsk and Irkutsk), the Bogoslovskii Aluminum Factory, and the Bogoslovskii Alumina Combine. This complex has an annual production of 500,000 tons of aluminum and 1,550,000 tons of alumina. Additionally, it is developing the largest bauxite (another raw material used in producing aluminum) deposit in Russia, the Srednaya Timana field (Komi Republic), which has reserves of 280 million tons. If it is developed, this deposit could meet the aluminum industry's raw material needs for the next 10 years, solving the industry's main problem, a lack of raw materials. However, specialists calculate that developing the deposit will cost \$2 billion. No Russian company has access to funds of that magnitude. The only way to develop the site would be a unified effort of all players in the field (see related article in this issue about the creation of a new aluminum factory in Leningrad Oblast). - *Biznes-novosti Urala*

## **BUDGET ISSUES**

**CHELYABINSK DEPUTIES SEEK TO OVERHAUL BUDGET PROCESS.** The members of the Chelyabinsk Legislative Assembly hope to put in place new procedures for developing the 2001 budget. They want to implement the new system by July so that it can be used for next year's budget, otherwise it will be necessary to wait at least a year. The new law on the budget will establish the procedures for forming the budget, regulate how it is implemented, define monitoring activities, determine sources of income, and divide responsibilities between the executive and legislative branches of government. The law will also regulate inter-budgetary relations.

According to Oblast Economic Committee Chairman Vladimir Dyatlov (a former member of the oblast legislature), for the last three years there has not been a rational and fair distribution of budgetary funds among the territories of the oblast. Chelyabinsk Oblast has also not succeeded in developing a mechanism that encourages the different areas inside the oblast to increase their income. He also pointed out that the existing system for dividing up budgetary funds is "subjective" and "stimulates dependence."

After looking at the oblast's economic figures for 1999, the Economics Committee divided the oblast's cities and rural raions into three groups according to the size of their income. In group A are the donor cities: Chelyabinsk and Magnitogorsk. There are differences within each group as well as between them. Chelyabinsk generated 4.358 billion rubles in income for the consolidated budget and Magnitogorsk produced 3.3 billion. Budget outlays in the cities were similar, 2.3 billion rubles in Chelyabinsk and 2 billion in Magnitogorsk. However, Chelyabinsk has a population 2.6 times the size of the population in Magnitogorsk. Group B includes cities like Zlatoust, Miass, Kopeisk, and Satka, the only member of the group that does not receive subsidies. Group C includes 28 of the oblast's 39 subunits, which make up the areas

that receive the largest subsidies. In some cases, local budgets rely on the subsidies for more than 50 percent of their income.

Dyatlov wants to radically change the way money is allocated within the oblast. For the last two years, the oblast administration has been guided by the principle that each region should be guaranteed a minimal level of income. The oblast legislature has consistently opposed this principle, but has not been able to get a response from the administration. The current system of distributing funds always puts the large donor-cities at a disadvantage. In 1999 Chelyabinsk bore most of the burden and in 2000 Magnitogorsk took much of the hit. Usually the oblast then makes decisions to help the donors, but these decisions make for an arbitrary, ad hoc policy.

Chairman of the Legislative Assembly's Financial, Budget, and Economic Policy Committee Vladimir Mazul believes that it is necessary to abandon this leveling approach and adopt social norms and standards which would allow for the implementation of a better budgetary policy. The crux of the matter is how to develop a mechanism that would encourage regions to increase their income. Mazul believes that subsidies should primarily be given to the areas inside Chelyabinsk Oblast that are actively working with the real sector of the economy which generates industrial products and tax income.

An additional problem in the budgeting process is poor forecasting. The deputies believe that making budget forecasts more accurate will increase the transparency of the budget. Last year the oblast administration planned for income of 3.6 billion rubles. The legislature thought that a figure of 4.2 billion rubles was more accurate. In fact income was 5.2 billion. In 2000, the oblast is planning on an income of 4.9 billion rubles, but the legislators think that it will be much higher. They do not want to let the administration proceed with plans when they know that the numbers involved are not accurate. - Igor Stepanov in Chelyabinsk

## **PATTERNS OF REGIONAL DEVELOPMENT**

**KOMI-PERMYAK GOVERNOR FACES REAL COMPETITION.** Only a few months ago it seemed that Komi-Permyak Autonomous Okrug Governor Nikolai Poluyanov would not have any trouble winning reelection this fall. The okrug's key political offices are held by people who have been in power since Soviet times and there is no room for new faces. There was no serious opposition in the okrug and any informal leader capable of creating one had been long since "squeezed out." The okrug's population, mostly rural and conservative, has traditionally supported the incumbent leadership.

However the 19 December 1999 elections to the State Duma overturned all old traditions in the region. The candidate supported by the local authorities lost by a large margin. The winner in the okrug's District 216 was Andrei Klimov, who took 60.2 percent of the vote (see *EWI Russian Regional Report*, 2 December 1999). Klimov was born in the okrug, but has long since lived in Perm and is a member of the oblast legislature. In his State Duma campaign, Klimov criticized the oblast leadership's "separatism" and called for closer cooperation with Perm Oblast, on whose territory the okrug is located. The average income and standard of living is much higher in the oblast than in the okrug. Having won such a strong mandate from the voters, Klimov said that he would compete for the governorship in the fall.



This announcement launched the gubernatorial campaign. Sensing a real threat to his power, Poluyanov suddenly began visiting various parts of the okrug, where pressing social and economic problems were under discussion.

Klimov strengthened his position after he became a designated spokesman for Vladimir Putin's presidential campaign. In this capacity, he brought a memorial speech from Moscow congratulating the okrug residents on the 75th anniversary of the formation of their okrug from Duma Speaker Gennadii Seleznev. However, at a ceremony in Kudymkar, Klimov was not allowed to speak, a situation he complained about in a conversation with journalists on 29 February (*Parma*, 3 March).

A more difficult problem for Klimov could be new amendments to the law on electing the okrug governor. The members of the okrug legislature have supported changes requiring that the governor be a Russian citizen, at least 30 years old, and a Komi-Permyak Okrug resident (*Parma*, 7 March). If allowed to stand, such a requirement would strengthen incumbent Poluyanov. However, since it contradicts federal law and the Russian Constitution, it will be contested, handing an initial victory to the governor's opponents. Poluyanov has another problem in that the okrug branch of the Justice Ministry has ruled that he cannot lead the local Yedinstvo party since okrug law prevents the governor from heading a political party (*Parma*, 9 March). Many in the okrug now criticize the governor for not resolving the okrug's serious economic problems and failing to raise the standard of living, which is one of the lowest in Russia.

Klimov actively met with voters across the okrug in March and is planning a series of additional meetings in May. The campaign is likely to intensify in the coming months. It is highly likely that the okrug, which has been stagnating for decades, will produce a surprise in the fall elections. - Yurii Shabaev in Syktyvkar

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**BREAKING NEWS**

**POLITICS**

**DEBATE OVER FEDERATION REFORM CONTINUES.** The transfer of power to Vladimir Putin has sparked a wide-ranging debate about reforming the Russian Federation. While most of the proposals revolve around the same issues -- appointing governors, reducing the number of regions, and changing the way members of the Federation Council are chosen -- some new ideas are beginning to emerge. Most analysts agree that Putin will take on the task of reforming the federation and many believe that he will use coercive means to do so.

Yurii Danilov of the Higher School for Economics endorses an earlier suggestion of Sverdlovsk Governor Eduard Rossel to revive the appointment of governors-general (*Nezavisimaya gazeta*, 4 May 2000). Their functions would not diminish the powers of the governor nor replace them. Instead, they would assume tasks currently in the purview of presidential representatives and other necessary duties that are not currently assigned to anyone. According to this proposal, governors-general will mostly oversee issues related to economic policy, such as federal investment and other budgetary allocations in the regions, operations of regional branches of the federal treasury, collection and transfer of taxes to the federal budget

and federal subsidies back to regions, and land usage. They would also monitor the judicial system. Danilov suggested that the federation be divided into 8 to 16 areas that would consist of 2 to 15 regions depending on population, territory, ethnic composition, industrial output, and share of work force in individual regions. According to this plan, these divisions will not necessarily coincide with Russia's eight current economic regions. As Danilov emphasizes, the major rationale for this kind of reform is not reasserting political control over regional executives, but promoting economic growth and stability while decreasing investment risks across the country. However, this does not exclude political means to place restraints on the governors such as allowing the federal authorities to remove them or introducing direct presidential rule.

At the same time, the Politika Foundation's Vyacheslav Nikonov (*Nezavisimaya gazeta*, 7 May 2000) expects Putin to employ federal ministries and federal agencies in the regions more effectively. He is particularly interested in the Finance Ministry, Ministry of Internal Affairs, security services, procurators offices, courts, tax and social security agencies. He thinks that Putin is unlikely to appoint governors since doing so would require constitutional amendments that have to be approved by two thirds of the regional legislatures. Moreover, appointing regional executives would make the federal government directly responsible for the situation in individual regions. However, Nikonov sees reform of the Federation Council as very likely. He believes that both the Kremlin and Duma would be more happy to have the parliament's upper house popularly elected instead of consisting of the regions' executive and legislative leaders ex officio. He suggests that such a reform would not only guarantee the separation of powers (an idea that is violated by including the governors in the federal legislature), but also decrease the Federation Council's power, now often used to frustrate both the presidential administration and the Duma.

**LUZHKOVA, PRESS MINISTRY CONTINUE TO BATTLE OVER TV CENTER.** The Moscow Arbitration Court ruled on 4 May that Moscow Mayor Yurii Luzhkov's TV Tsentr did not broadcast biased coverage of Luzhkov's Otechestvo movement during the 1999 parliamentary election campaign and thus did not violate campaign coverage rules as the Press Ministry had claimed. A second hearing regarding another complaint by the ministry will take place on 11 May and most likely will hand Luzhkov another victory. Luzhkov rarely loses court battles in the Moscow area, according to Polit.ru on 4 May.

The Moscow City administration believes that the ministry initiated court proceedings to prevent the TV station from winning an automatic extension of its broadcast license that expires on 20 May. The ministry has already announced a new tender to take place on 24 May; REN-TV, ATV, VID, as well as TV Tsentr filed tender applications. However, after the court's decision, it is not certain that the tender will take place; and if it does, TV Tsentr may challenge its results in court. On the other hand, the ministry is also prepared to appeal the ruling in a higher court.

In the meantime, Luzhkov is pursuing other means to ensure that he is able to hold on to the TV station. He demanded that the Press Ministry include three representatives from the city government -- Deputy Mayor Valerii Shantsev, First Deputy Mayor Lyudmila Shvetsova, and Deputy Mayor for information and public relations Aleksandr Muzykantskii -- in a seven-



person federal commission that would decide on the tender results "to ensure that the interests of Moscow as a federation subject and the country's capital are taken into account." Press Minister Mikhail Lesin turned down Luzhkov's request saying that the channel in question is shared by Moscow City and Moscow Oblast and this fact should be reflected in the commission's composition. The ministry also insists that the channel keeps its status of regional TV-station and does not go national, as Luzhkov desires.

TV Tsentr programming is, reportedly, of very low quality and thus the channel has the lowest ratings of the five channels widely available in the city, according to Gallup Media polling agency (*Nezavisimaya gazeta*, 4, 6 May, *Kommersant Daily*, *Vremya MN*, 5 May 2000).

**MORE GUBERNATORIAL CANDIDATES ANNOUNCED IN SAMARA.** Samara's regional conference of the Communist Party nominated former State Duma deputy Albert Makashov to compete in the gubernatorial election on 2 July. The regional party organization hopes that Makashov, who now heads the local branch of the opposition umbrella organization National Patriotic Union of Russia (NPSR), will be a strong opponent to Konstantin Titov and improve the Communists' showing of the four years ago, when their candidate Valentin Romanov received less than a third of votes. Titov resigned from office to move up the elections and improve his chances of winning another term.

However, some reports suggest that Makashov will not be Titov's most dangerous rival. Vice-President of Alyans financial-industrial group Viktor Tarkhov has also announced his intention to participate in the race and is expected to receive a lot of support from across the political spectrum. Tarkhov had headed the Samara Oblast legislature until September 1991, when then President Boris Yeltsin removed him for supporting the coup attempt. Since then, Tarkhov has made a career in oil business management. As *Kommersant Daily* reported, local businessmen will most likely secretly support both Titov and Tarkhov. Titov's administration has unsuccessfully tried to neutralize Tarkhov by offering to back his candidacy as Oblast Duma chairman.

The presidential administration has not yet announced its candidate. Its current support for St. Petersburg Governor Vladimir Yakovlev, a Putin opponent, suggests that it might well endorse Titov as the most likely winner, although he has openly opposed Putin and ran against him in the presidential election in March. On the other hand, the regional organization of the pro-Putin Yedinstvo movement said it might support its head Vladimir Kadannikov, AvtoVAZ Board of Directors Chairman, if he decides to participate in the race (*Nezavisimaya gazeta*, *Kommersant Daily*, May 4). Former Samara Governor Titov was the first to announce his intentions to participate in the race (see *EWI Russian Regional Report*, 3 May). Other potential contenders are likely to include general director of local Gazprom subsidiary Gennadii Zvyagin and left-leaning Samara Mayor Georgii Limanskii.

**GUBERNATORIAL RACE TAKES OFF IN PSKOV.** Pskov Oblast Governor Yevgenii Mikhailov and State Duma Deputy Mikhail Kuznetsov, who was elected from the region's single-member district, have met outside Pskov to discuss their participation in the gubernatorial race to take place in November. Both men belong to Vladimir Zhirinovskiy's Liberal Democratic

Party (LDPR) but at the same time are trying to boost their popularity by winning Kremlin support as well. Mikhailov, who strongly supported Putin's nomination as prime minister in the fall of 1999 has, for instance, recently revealed that he was going to change his political affiliation and join Yedinstvo, a pro-presidential bloc. At the same time, Kuznetsov, who opted not to join the LDPR faction in the Duma, is trying to convince the presidential administration to name his advisor and former deputy governor, Yevgenii Yelfimov, as presidential representative in the region. If the Kremlin approves Yelfimov's appointment as seems likely according to local political analysts, then it would also back Kuznetsov for governor. On the other hand, Moscow may endorse a strong outsider who would be competitive against both LDPR candidates (*Vremya MN*, 4 May 2000).

**ESTONIA CHANGES BORDER-CROSSING RULES.** Estonia announced that starting on 1 July it will require visas for relatives of Estonian citizens who live in Pskov's Oblast Pechora Raion seeking to enter the country. Until now 2,000 Russians living in the border region could travel to their neighboring country without obtaining visas. Similarly, some 30,000 Estonians can travel to Pskov freely. In two months, however, both Russians and Estonians will need to obtain permits prior to travelling. However, Estonian officials claim they will grant long-term visas free of charge to most applicants. Heikel Samel, representative of Estonian Foreign Ministry, explained that the change of visa rules had economic reasons and was aimed at protecting Estonian businessmen working in the areas close to the border. According to him, some Estonians take advantage of the visa-free regime to visit Russia to buy cheap goods, such as alcohol, gasoline, and medicines, and resell them with huge profits in Estonia.

However, Pechora local authorities believe that political reasons are also involved. They claim that Estonia is encouraging Russian citizens whose ancestors lived in the republic before 1940 and who want to travel there easily to accept Estonian citizenship, along with 1,000 Estonian Kronas. They fear that in 5-10 years most of the Pechora population will assume Estonian citizenship which would justify Estonia's territorial claims on the region (*Vremya MN*, 5 May 2000).

## **ECONOMICS**

**KRASNOYARSK ALUMINUM FACTORY ELECTS NEW BOARD.** On 3 May the shareholders of the Krasnoyarsk Aluminum Factory (KrAZ) elected a new board of directors. Sibneft, which purchased a 56 percent stake in KrAZ earlier this year (*EWI Russian Regional Report*, 16 February), took five of the seven seats on the new board and appointed their man, Yevgenii Farafonov, as chair. The remaining two seats were retained by board members close to former KrAZ Chairman Anatolii Bykov. Sibneft's representatives at the meeting emphasized once again that the factory's management would be under the control of the recently formed Russian Aluminum. Following the establishment of Russian Aluminum, KrAZ General Director Aleksei Barantsev was sent on leave and Siberian Aluminum Deputy General Director Viktor Geintse was named to replace him (*EWI Russian Regional Report*, 12 April). At the time it

was generally believed that Barantsev would not be returning to the plant, but on 3 May he told journalists that he would be resuming his post at KrAZ. (*Vedomosti*, 4 May)

**STATE PLANS TO SELL OIL SHARES...** The Ministry of State Property hopes to sell off shares in Rosneft (25 percent plus one), Slavneft (19.68 percent), ONAKO (85 percent), and LUKoil (4.5 percent), for which it expects to receive 27-30 billion rubles to help service the federal budget deficit. Chairman of the Russian Fund for Federal Property (RFFI) Igor Shuvalov claims Rosneft and Slavneft are in desperate need of private investors in order to build relationships with creditors. According to *Vremya MN* on 5 May, Slavneft already has one interested investor who has been actively buying up shares in the company's subsidiaries. The sale of ONAKO shares should be of particular interest to existing oil companies interested in expanding, such as LUKoil, Yukos, and Sibneft.

At present, only the LUKoil stake is ready for sale. The shares will probably be placed on the London Stock Exchange and should command a price of \$400 million. The exact conditions of the LUKoil share sale will not be finalized until late May or early June after the RFFI has held consultations with Morgan Stanley and Credit Suisse First Boston.

Shuvalov and Minister of State Property Farit Gazizullin told journalists that the privatization of the remaining three oil companies was still under debate since the Fuel and Energy Ministry was against their sale as it hoped to merge them to create a "Gosneft" state oil company. In June the government should decide whether or not to establish Gosneft. If it is formed, Rosneft, Slavneft, and ONAKO will form the basis of the new holding company instead of being sold. In sum the federal government owns 72 percent of Rosneft, 55 percent of Slavneft, and 85 percent of ONAKO.

**...ORENBURG PLANS TO CONTEST.** On 5 May the Orenburg Legislative Assembly adopted an appeal to the Federation Council and President Vladimir Putin voicing the region's discontent with the Ministry of State Property's intention to sell off the federal government's 85 percent stake in ONAKO. The local authorities do not want to see the stake go to Yukos, the most likely buyer. If the sale is made to Yukos or another large oil company, the company's registration will most certainly be transferred out of Orenburg, causing the region to lose out on the sizeable tax revenue ONAKO generates. Taxes from ONAKO make up approximately one-fourth of the region's budget. Therefore, Orenburg feels that the federal government's stake should be transferred to the oblast administration rather than sold to a private company. This issue is likely to be on the top of the agenda of ONAKO's annual shareholders' meeting on 25 May. (*Kommersant Daily*, 6 May)

**TULEEV UNHAPPY ABOUT STATE PRIVATIZATION PLANS.** The Ministry of State Property and the Russian Fund for Federal Property (RFFI) intend to sell off stakes in several of Kemerovo's coal companies, including the stake in the Mezhdureche coal company. The federal government owns 100 percent of the company's charter capital and expects the stake to sell for nearly \$4 million in a commercial tender in June. Kemerovo Governor Aman Tuleev, who has been trying to bring federal shares of Kemerovo enterprises under regional control, is opposed to the sales. Tuleev does not approve of the conditions outlined by the Ministry of

State Property and the Ministry of Fuel and Energy. In particular, Tuleev believes that Kemerovo should receive 50 percent of the income generated from the sales as opposed to the 10 percent proposed by the federal government. Essentially, Tuleev wants control of the regional assets being privatized. The governor is not against privatization as such and the oblast administration is currently preparing to sell several of its own stakes in five local companies, including Kuzbassugol, the second largest coal company in Kemerovo. (*Ekspert*, 8 May, *Vremya MN*, 6 May, *Vedomosti*, 4 May)

**AVTOVAZ SIGNS DEAL WITH IZHMASH.** After having waited nearly two years to begin working with Czech car maker Skoda, Udmurtiya's Izhmash has decided to establish a joint venture with Samara Oblast's AvtoVAZ. Izhmash's venture with Skoda has been on hold for several months while Skoda waits for the Russian Economics Ministry to grant it customs privileges for importing car kits to be assembled in Izhevsk (see *EWI Russian Regional Report*, 23 November 1999). According to *Vremya MN* on 4 May AvtoVAZ and Izhmash signed an agreement to produce up to 120,000 AvtoVAZ models per year over the next five years. AvtoVAZ needs the agreement with Izhmash to more firmly establish its leading position in the domestic automobile industry and give the company the production capacity to continue to produce its successful standard models while developing new models as well. Izhmash will produce older AvtoVAZ models, including Nivas.

The Izhmash joint venture is just one aspect in AvtoVAZ's development scheme. In April AvtoVAZ raised the price of practically all of its models in an attempt to increase revenue. According to an interview with Nikolai Lyachenkov in *Ekspert* on 8 May, AvtoVAZ has successfully reorganized its distribution network to give the factory better control over its market and the pricing of its cars. Whereas before 90 percent of AvtoVAZ's automobiles were sold to middlemen in Togliatti and then spread throughout Russia, now all dealers must be certified specifically by AvtoVAZ. AvtoVAZ has also produced a Niva model with a new engine that meets European quality standards for emissions (*Kommersant Daily*, 4 May).

At the AvtoVAZ board of directors meeting on 27 May, one of the issues to be discussed is not paying dividends for 1999. This question was probably motivated by recent accusations by Tax Minister Aleksandr Pochinok that AvtoVAZ has been evading its taxes (*EWI Russian Regional Report*, 26 April).

**TATARSTAN TRANSFERS BUDGET TO TREASURY.** Tatarstan has converted to a treasury system for the republican budget. All of the republic's planned 19.5 billion ruble expenditures for this year will be processed through the republican treasury. Local budgets for cities and raions will also be switched over to the treasury system in the near future. According to republican Deputy Finance Minister Robert Minnegaleev, this new approach will make it possible for the republic to better calculate budgetary means. Minnegaleev refused to comment on the possibility of Tatarstan participating in the federal treasury system or opening a branch of the federal treasury in Kazan. Currently the region is the only one not participating in the federal treasury. (*Kommersant Daily*, 3 May)

**LENINGRAD OBLAST REFUSES TO MAKE INTEREST PAYMENT ON FOREIGN LOAN.** Leningrad Oblast refused to make an interest payment on a \$50 million syndicated loan it received in May 1998 from a consortium of western banks including Bank of America, Berliner Bank, Adria Bank, and Bank Pecaó. The oblast has struggled with the loan ever since its creditors demanded full payback in May 1999. Negotiations were fruitless and the oblast missed another coupon payment in November 1999 (*EWI Russian Regional Report*, 2 December 1999). According to Deputy Governor Aleksandr Yakovlev, the oblast budgeted funds to make the payment, but will not release the money until the creditors agree on a restructuring plan for the loan. (*Kommersant Daily*, 6 May)

## **CENTER-PERIPHERY RELATIONS**

**STATE DUMA EXAMINES REGIONAL CONTROL OVER POLICE.** After recently examining the regions' right to have a say in appointing regional procurators, the State Duma on 21 April examined the role of governors in appointing regional police chiefs (on procurators, see *EWI Russian Regional Report*, 22 March). Narodnyi deputat faction leader and Security Committee member Gennadii Raikov proposed that the lower house amend a law that gives governors the right to approve the federal government's appointment and dismissal of regional police chiefs.

This provision went into effect in March 1999 as Article 7 of Russia's law on the police ("O militsii," <http://www.akdi.ru/gd/proekt/077905GD.SHTM>). "Then we had to decide whether to accept the norm introduced by the Federation Council or prevent the amendments to the law on the police from coming into force altogether," Raikov said. "Unfortunately, at that time we acted so that the law would come into force, agreeing with the Federation Council on allowing regional authorities to approve the removal of the regional police chief. In principle, as a committee we did not make the right decision."

According to Raikov, the State Duma deputies in 1999 did not agree to the norm as a permanent change, but as something that would only be in effect for a year. The decision was allegedly conditional and depended on how effective it would be. Raikov said that the experience so far has been sad. The norm has violated the vertical hierarchy that existed in the Ministry of Internal Affairs and today in 12 regions there are ongoing disputes about removing police chiefs. With so many disputes, the police are distracted from their primary job of protecting social order, Raikov asserted. The most famous example of this kind of dispute is the attempt by the federal authorities to remove Nikolai Kulikov as Moscow's chief of police, a decision which Mayor Yurii Luzhkov is battling in the courts.

Raikov charged that allowing governors to block the removal of police chiefs encourages corruption. No other federal agency has such a norm, including the Federal Security Service, procurator's office, tax police, or customs' control. Raikov asked rhetorically, if the governors have a say over removing the police chief, why not give them a voice in appointing the generals that run the military districts on their territory? He pointed out that Article 72 of the Constitution gives the governors the right to approve some appointments to federal agencies working in the regions, but it is silent about removing officials from these posts.

Communist Deputy Ivan Nikitchuk did not support Raikov's logic. He argued that it was not clear if it would be better for the regional police chief to be dependent on the minister of internal affairs or the governor. Likewise Otechestvo-Vsya Rossiya (OVR) Deputy Valerii Draganov suggested that it did not make sense to try to restore vertical authority in this way. He pointed out that it was no secret that many governors had become local princes with all the negative consequences that implied. He pointed to Primorskiy Krai Governor Yevgenii Nazdratenko as a prime example, but warned that it did not make sense to "throw out the baby with the bath water." He suggested that if the federal government wanted to remove a police chief and a governor objected, it was up to the federal government to convince the governor to go along.

OVR Deputy Nikolai Bulaev pointed out that the Duma members seemed to be operating under the assumption that all governors are enemies of the Russian state and work against the interests of the people. He suggested that the Duma members were constantly behaving as if the governors were not interested in improving the living standards of their populations. Communist Gennadii Kulik warned that if the amendments were adopted, there would soon be two police chiefs in each region. He also noted that even if the amendment were adopted, the governors would still retain considerable control over the police because the regional leaders often supply them with the gasoline, housing, training courses and other goods and services. He said that it would be a mistake to create further conflict between the center and regions on this issue.

Despite the opposition from the Communists and OVR, Yabloko Deputy Sergei Mitrokhin backed Raikov's proposal. He claimed that the police were now carrying out illegal orders from the governors. In 20 agricultural regions such as Krasnodar, he asserted, governors were illegally ordering police to block the import or export of certain goods. He warned the deputies that such measures were extremely dangerous for Russian agriculture because they prevented farmers from selling their goods where they could get the best price. The police are enforcing these illegal orders by checking trucks at regional borders and through other means. Mitrokhin also accused the governors of using the police for political purposes, arresting and imprisoning people particularly during elections. He pointed to Tatarstan, Bashkortostan, and Primorskiy Krai as particularly egregious examples.

In the end, 226 deputies voted to adopt the amendments in the first reading, precisely the number needed for the bill to move on for another reading. However, the bill is unlikely to ultimately pass out of the Duma. Even if it did, the Federation Council would be sure to reject it. Most governors are not prepared to give up such power yet.

OVR and the Communists have clear reasons for wanting to block this attempt to strengthen the vertical hierarchy of power. Otechestvo's Luzhkov is still trying to prevent Kulikov from being removed from office. The Communists think that President Putin will try to use his power to crack down on the "red" governors and want to deprive him of any tools to do so. Thus it is possible now that the Communists and OVR will form an alliance of convenience in the same way that the Communists and the pro-Putin Yedinstvo did at the beginning of this State Duma's term.

Finally, the regions are still trying to exert control over the center. The Vladimir Oblast legislature has sent a proposal to the State Duma that would require the Ministry of Internal

Affairs to name a new police chief within 30 days if the region blocked the ministry's first choice. According to the proposal, the new chief could not be the same person that the ministry had initially appointed. Additionally, the first candidate could not be appointed acting police chief. - Petr Kozma in Moscow

**IRKUTSK GOVERNOR SEEKS DUMA DEPUTIES' SUPPORT IN BATTLE OVER IRKUTSKENERGO.** On 4 May Irkutsk Governor Boris Govorin met with five of the region's seven State Duma members and asked them to coordinate efforts in protecting the region's interests in the dispute with the federal government over Irkutskenergo. The local electrical utility is one of four in Russia that is not part of Unified Energy System (EES). The oblast has a 40 percent stake in the company. The federal government wants to take this stake completely, but the oblast is seeking to retain 20 percent.

The meeting of the governor and deputies showed, however, that the deputies are divided. Deputy Sergei Levchenko is willing to divide the stake in half, giving the federal government 20 percent and the oblast 20 percent. Levchenko is part of a group of deputies that has introduced a bill in the Duma to increase state control over the EES monopoly. Deputy Sergei Kolesnikov wants to hand the entire 40 percent to the oblast. Deputy Konstantin Zaitsev agrees, arguing that "Cheap electricity is compensation for the ecological damage inflicted by local industrial concerns." The deputies worry that if Moscow officials have greater control over the utility it will be harder to supply local enterprises and the threat of blackouts will increase. Deputy Yurii Ten says that the region should avoid a confrontation with the federal center. He suggested that the State Duma deputies could act as intermediaries between the region and federal government.

The meeting between Govorin and the deputies was not the first for them, but it was the most representative since five of the seven regional State Duma members were present. In addition to Irkutskenergo, the governor and deputies discussed the State Duma's attempts to draft a budget code. The participants disagreed with a provision which would prevent regions from adopting budgets with deficits and deprive them of the right to borrow on foreign markets. Kolesnikov said that donor regions should have the right to borrow. Additionally, Govorin complained that too much Irkutsk money was going to the federal government. - Teleinform in Irkutsk

**PROKHOROV OUTRAGED BY FEDERAL INVESTIGATION.** The investigation into organized crime and corruption in Smolensk ordered by Russian President Vladimir Putin's 10 April decree (*EWI Russian Regional Report*, 26 April) has shocked the region. On 21 April Smolensk Governor Aleksandr Prokhorov gave an interview to the newspaper *Rabochii put* (25 April), in which he explained that the heads of seven agencies working in the region would all be changed. The institutions affected include the local branch of the Ministry for Internal Affairs, the procurator, tax police and inspection, court and court officers, and Presidential Representative Viktor Timoshenkov. Regarding Timoshenkov's removal, Prokhorov stated that the presidential administration requested that the representative be offered another position, possibly as a deputy governor. Prokhorov commented that the question is currently under discussion.

Regarding the local law enforcement agencies, Prokhorov said, "I had a meeting with Minister of Internal Affairs [Vladimir] Rushailo a while ago where I told him that the conflict between the local branch of the ministry and the procurator was unhealthy and needed to be resolved collaboratively. To this the minister answered me, 'We are not go to fire our own people. You detained my guys from the special crimes unit-- you sort this out. Release my guys and then we'll talk.'" The division in the law-enforcement organizations is so strong that it is apparent not only between branches of the structures, but within them as well.

Prokhorov stated that the document prepared by the presidential administration on the results of the oblast investigation contains many subjective elements and inaccuracies. One contentious point made in the report is that more than 50 officials, including several deputy governors, worked in or were founders of commercial structures prior to their state appointments. Prokhorov noted, "We now live in a market economy, and I am unable to understand what is criminal about this." Prokhorov agrees that it is necessary to institute order in the oblast, but he is categorically against the "criminal scare" imposed on the oblast. - Aleksandr Ledovskoi in Smolensk

## **CRIME IN THE REGIONS**

**FEDERAL AGENCIES FOCUS ON STAVROPOL OIL THIEVES, AGRARIAN CUSTOMERS.** Representatives of federal agencies in Stavropol met on 4 May to discuss the problem of oil theft in the region. Officials attending the meeting included acting Presidential Representative A. Koreibeinikov, Roads Committee Chairman A. Shiyarov, Police Chief A. Volkodav, and Krai Procurator A. Selyukov.

The Baku-Novorossiisk oil pipeline crosses the krai territory and there are numerous other pipelines in the region belonging to Rosneft-Stavropolneftegaz. During 1998-1999, the law enforcement agencies destroyed 40 illegal field oil processing plants in Levokumskii Raion and 50 in Neftekumskii Raion. Despite the efforts to put an end to the theft of the oil, the amount stolen seems to increase every year. Rosneft-Stavropolneftegaz claimed that it lost 12 million rubles to such theft in 1999.

Such business is so profitable that the thieves are always coming up with imaginative new ways to steal. In some cases, they insert a tap in the oil pipeline in Stavropol Krai and direct the oil flows to Kalmykiya or Dagestan, which are outside the jurisdiction of Stavropol officials. However most of the illegal processing actually takes place in the krai.

To attack this problem, the regional branch of the Ministry of Internal Affairs set up a temporary work group in Neftekumsk. But the thieves are not the only cause of this problem. The general economic situation in the country forces the leaders of the krai's agricultural enterprises to buy diesel fuel and gasoline on the black market. In fact, the agricultural enterprises are the thieves' main customers. As the farms prepare for harvesting, they only have 10 percent of the fuel they will need to operate their tractors. Therefore, as the season progresses the collective farm chairmen will be eager to buy cheap fuel wherever they can. According to the law enforcement officials, the farmers do not have time to worry about where their fuel comes from when the tanks of their tractors and combines are dry. - Olga Morozova in Pyatigorsk



## **PATTERNS OF REGIONAL DEVELOPMENT**

**ULYANOVSK GOVERNOR, MAYOR BATTLE BECOMES CRITICAL.** The Ulyanovsk city authorities are currently in a deep crisis and it now looks like there will have to be new elections to the City Duma. The crisis comes after three years of confrontation between the oblast and city authorities and is being played out against a background of increasing political intrigue and a thickening atmosphere of fear. The crisis reached a head on 10 May with the resignation of five City Duma deputies under pressure from the oblast administration.

The events began to unfold on 26 April when the Ulyanovsk City Duma confirmed the appointment of former State Duma member Oleg Kazarov (Communist Party) to the post of first deputy mayor in charge of economic issues with nine of the twelve possible votes. Kazarov, 63, had worked as the second secretary of the Ulyanovsk Obkom of the Communist Party of the Soviet Union, served as the chairman of the Oblast ispolkom, headed the regional branch of Sberbank, and is considered a good manager. As a result Mayor Vitalii Marusin invited him to join his administration. Unofficially, Kazarov was invited to play the role of a powerful counterweight to Governor Yuri Goryachev on the eve of December's gubernatorial election since he is one of the few well-known politicians in the region bold enough to express open opposition to the oblast authorities.

On the same day, City Duma Chairman Aleksandr Balandin called a press conference at which he stated that the oblast administration had lobbied all deputies in the Duma excluding himself to resign their mandates. Two deputies, Boris Ilyushin and Vladimir Zhuravlev, agreed to leave immediately. Balandin refused to say who exactly from the governor's office had put pressure on the deputies, but it later came out that the main organizer was Deputy Governor Yuri Rogov.

Balandin announced that he and Mayor Marusin had sent a telegram to State Duma Chairman Gennadii Seleznev, State Duma member Aleksandr Kruglikov, and Oblast Procurator Yuri Zolotov informing them of the governor's efforts to disband the City Duma and asking for help. Balandin connected the governor's attack with the Duma's support for Kazarov.

During Balandin's press conference an additional seven deputies announced their resignation to protest the "secret decision of the mayor" to push Kazarov's nomination through the city legislature, as the letter put it, "behind our back" and "on the sly." They charged that resigning was "the only way to save face and protect the interests of our voters." According to one of the deputies who resigned the text was prepared in the governor's offices. The absurdity of the situation lay in the fact that the deputies were criticizing a decision which they themselves had taken a day earlier. Therefore the decision was not made in secrecy and by resigning they gave up the right to protect the interests of their voters.

Balandin said that the governor won the signatures through threats, blackmail, and promises of good jobs. The most vulnerable deputies were Vasilii Gvozdev and Mikhail Uryasov, who had greatly expanded their businesses while they were working in the City Duma. They not only joined the absurd "declaration of seven," but signed official resignations as well. By 10 May five of the 14 deputies had resigned, meaning that the Duma will have to declare that it lacks a quorum, after which the mayor will set new elections.

Interestingly, the oblast administration might not benefit from disbanding the City Duma because the absence of a city legislature would simply give Kazarov greater freedom in exercising his power. Others suggest that Kazarov was simply an excuse to disband the Duma. According to this logic, the governor wanted to disband it so that its elections would be moved up to December, when the oblast will elect its governor, mayor, and Oblast Duma. City Duma Deputy Lyudmila Moroz said it might have been better to put off a vote on Kazarov and let him serve as acting first deputy mayor. - Sergei Gogin in Ulyanovsk

### **KREMLIN RUMORED TO BACK KOPYLOV FOR VLADIVOSTOK MAYOR.**

Vladivostok media reported that the Kremlin was backing acting Vladivostok Mayor Yurii Kopylov in the city's mayoral elections set for 18 June, after Kopylov and Governor Yevgenii Nazdratenko, who supports him, returned from a trip to Moscow. The Primorye politician allegedly won this support in a meeting with Presidential Chief of Staff Aleksandr Voloshin.

But before journalists could confirm this rumor, even stranger news appeared. The gubernatorial newspaper *Vladivostok*, citing a report from IMA-press, reported that in his Kremlin meetings Kopylov had proposed turning Vladivostok into a duty-free port (*porto-franko*). The idea was apparently well received and now Primorskii Krai is expecting the arrival of a group of experts from German Gref's Center for Strategic Research.

The news was a complete shock for locals. Neither Kopylov nor Nazdratenko had ever discussed similar plans in the region. The idea of a port without import or export duties had long been considered history. Such a plan has been actively discussed since Vladivostok was founded in 1860 but never became a reality. Even in the 1920s, when the Far Eastern Republic existed in the region and the Chinese Eastern Railroad in Manchuria was controlled by the Russians, the idea went no further than the introduction of reduced tariffs for transporting goods from north-east China to Japan through Vladivostok.

Even the newspaper *Vladivostok* suggested that IMA-press's correspondent may have been confused. More critical observers think the report is Kopylov's latest campaign trick. They point out that he has already promised to build other large-scale public works in the city. The critics also argue that Russian legislation has no provisions for giving the port such a status and that even if it were introduced, the results would hurt rather than help the city by depriving it of needed tax income. - Dmitrii Motovilov in Vladivostok

**PETERSBURG GOVERNOR'S RACE COMES TO FINISH LINE.** Just one week before the first round of the St. Petersburg gubernatorial elections, the anti-Yakovlev coalition succeeded in identifying a single candidate. First, Yabloko State Duma member Petr Shelishch withdrew his candidacy on account of poor health. Then Soyuz pravykh sil (SPS) candidate Yulii Rybakov dropped out of the race after the 5 May primaries, which Yabloko candidate Igor Artemev won with a strong lead. He gathered 72.7 percent of the votes (15,001 votes) while Rybakov won 27.3 percent (5633 votes). The voting was considered valid at 38 of 40 improvised polling stations located near metro stations. At two stations the voting was invalid because there was not an equal number of observers from Yabloko and SPS. More than 20,000 people participated in the voting, though enough ballots had been printed for 35,000.

Thus Russia's first primaries used to determine the leader of a coalition were completely successful.

Artemev's main task now is to try to force incumbent Vladimir Yakovlev into a second round runoff. Currently Artemev can count on 20 percent of the vote, while Yakovlev looks likely to win more than 50 percent and make a second round unnecessary. However, Yakovlev's rating could drop because of non-political events. Smolnii's hopes for the world hockey championship currently under way in St. Petersburg were crushed when the Russian dream team was shamefully eliminated from the competition early in the tournament.

The third candidate who hopes to make it to the run off is Yuri Boldyrev, whose rating is hovering between 5 and 8 percent. He refused to join the anti-Yakovlev coalition, declaring that it was aimed at him rather than at Yakovlev. Five other candidates are participating in the race (for material on the campaign, see <http://www.spbgubernator.ru/>).

Since the end of April, Artemev has run a powerful and expensive campaign, partially using the resources of Valentina Matvienko's aborted campaign. He has posted giant billboards with the slogan "Artemev - A Real Governor" and "We Deserve Better." He has replaced Matvienko's "Our City is Tired" with a new slogan, "History of our city," which is a riff on the famous satirist Saltykov-Shchedrin's "History of the City of Dumbville (*Glupov*)," a city headed by a less than brilliant leader. Additionally, Petersburg is filled with billboards declaring "I am for Artemev." These include photographs of real college students holding up signs like "I would like to have an alternative to military service," "I want them to stop lying and build roads," and "I want the metro to run all night," etc.

Artemev distributed 1.5 million copies of his platform and it is available on the Internet (<http://www.yabloko.spb.ru/News/docs/Prog2000.htm>). Artemev, who used to work in the Yakovlev administration, does not deny Yakovlev's accomplishments, but claims that he can do everything Yakovlev does "cheaper and more effectively." A future Artemev cabinet would include SPS representatives such as former Deputy Economics Minister Sergei Vasilev and former Deputy Finance Minister Anatolii Zelinskii. Artemev would also include "professionals" from the Yakovlev administration. His plan foresees three phases of development for the city:

1. Attractive Petersburg (3-7 months) Form a professional team to effectively manage the city, impose order on the budget, clean, light, and rebuild the city, get the transportation system working, increase pensions
2. Respectable Petersburg (14-20 months) Attract investments, raise city revenues 22 percent a year, increase civil service salaries, create 40,000 new jobs, create conditions for introducing top technology into the city.
3. Future Petersburg (5-7 years) Provide orders for local industry, overhaul local housing, build municipal housing for 450,000 city residents, realize the program for "Petersburg Culture and Science: a strategy for growth."

Yakovlev's campaign focuses on the major construction projects that took place under his watch, such as the hockey stadium, the new belt road, reconstruction of Birzha Square, the

Rastralnie Columns and key dates, such as the start of the hockey championships, and the 1 and 9 May holidays. Yakovlev has also recently begun to actively support the idea of moving the Federation Council to St. Petersburg, a move that would bring increased federal financial flows.

Additionally, the governor is widely distributing the pro-Yakovlev newspaper *Peterburgskaya tema*, which explains the governor's contribution to the city's social and economic life. The Petersburg TV is also firmly behind the governor. In addition to the news shows, it stressed the slogan "The Truth of Real Deeds." However, the ratings of this channel always fall short of the generally anti-Yakovlev Russian Television, NTV, and Channel 6. Russian Public Television (ORT) is basically neutral thanks to an agreement between Yakovlev and Boris Berezovskii and Presidential Chief of Staff Aleksandr Voloshin.

Following the departure of Matvienko from the race, Putin's role has been widely discussed. Currently, there are three versions making the rounds:

1. The Kremlin worked everything out in advance to win a more manageable Yakovlev, but after the death of former Mayor Anatolii Sobchak, a Yakovlev foe, it was necessary to do the honorable thing and nominate an alternative candidate. However, it is not clear why such an experienced bureaucrat like Matvienko got mixed up in the whole affair since her public career is now completely discredited.
2. Putin realized that Matvienko could not win and withdrew her to avoid being associated with a loser. If the Ministry of Internal Affairs team led by Deputy Minister Latyshev turns up evidence that Yakovlev misused budget funds, then Putin will obtain his resignation and hold new elections.
3. During his negotiations with Putin in the beginning of April, Yakovlev agreed to the introduction of a city prime minister, a position that would be filled by one of Putin's allies. The governor would then be a symbolic figure and all the money would flow through Putin's appointee. In this situation, Putin would not have to support an anti-Yakovlev candidate. - Daniel Tsygankov in St. Petersburg

### **LOCAL PARTIES FORM ELECTORAL BLOCS FOR ARKHANGELSK**

**ELECTION.** Elections for the 39-seat Arkhangelsk Oblast Council of Deputies will be held on 18 June. One distinct feature of the current campaign in comparison to previous elections is the active role of oblast's political party elite. Negotiations among different coalitions have already led to the creation of two electoral blocs. The first bloc, registered under the name Honest Politics (*Chestnaya politika*), brings together the regional branches of Regions of Russia and the Democratic Party of Russia. A third organization, Arkhangelsk Green Cross, tried to sign on with the bloc, but the oblast electoral commission refused its registration since the group was not legally registered as a "political social association." The bloc has already nominated 12 candidates and plans to nominate an additional 27.

The second bloc, consisting of the regional branches of Otechestvo, Sergei Kirienko's Novaya Sila, and the Pensioners' Party, registered under the name Solidarity. The leadership of Yedinstvo's regional branch also announced its support for this bloc, but is legally forbidden

from joining the bloc since the movement has not been registered long enough to participate in the elections. Chairman of the Yedinstvo Council Vitalii Fortygin stated in an announcement to oblast citizens that, "The words 'unity' [*yedinstvo*] and 'solidarity' are similar in meaning. We will coordinate our affairs together." The Solidarity bloc has nominated 5 candidates, all in Arkhangelsk districts, and is currently deciding on candidates in the outlying areas.

The Communist Party has not yet announced whether it will join any alliances and it has not yet nominated a single candidate. Several independent candidates have expressed their sympathies for the Communists. The region's remaining party organizations have not yet said whether they would participate in the elections. - Tatyana Barandova in Arkhangelsk

## **INTERVIEW**

### **BRYANSK GOVERNOR LODKIN: THEY COULD ARREST SHAIMIEV.**

*On 29 March, RRR Correspondents Vasilii Filippov and Dmitrii Grushkin interviewed Bryansk Governor Yurii Lodkin in Moscow.*

**RRR:** Do you believe that the declared equality of the regions is not implemented in the practice of federal relations?

**Lodkin:** We only say that all regions have equal economic and political rights, however, it is not true. According to the Constitution, several regions, mostly the [ethnically-defined] republics, have greater political rights than territorially-defined regions. With the inequality of political rights, there cannot be equal economic rights.

The regional inequality in the constitution was further developed in the treaties and agreements that we signed with the president. I mean the power-sharing treaties. We [Bryansk Oblast] have such a treaty, but if we compare our treaty with the document that started this process, namely the treaty which [Tatarstan President] Mintimer Shaimiev forced on the center, we will see that there is a very serious difference between these treaties. This is not normal and it is not acceptable! We should all act according to one set of rules and on the basis of a single agreement. Many governors of Russian oblasts have serious reservations about using ethnicity in defining regional boundaries. I am not alone!

If we are really concerned about preserving Russia, then we should proceed on the path of unifying the state structure of the country on the basis of a single territorially-based division, with the development of national-cultural autonomies. I think that this would be a normal division of the Russian Federation for the good of preserving unity.

**RRR:** What form of state structure would be optimal for Russia in your view?

**Lodkin:** If we evaluate what has been in Russia, then we should recognize that in such a large space, with so many peoples and tribes, with a tradition of having strict, hierarchical executive authority, then for Russia the most acceptable structure would be a unitary state model.

It is difficult to say today what path we will take, but I am very concerned about separatism in all spheres of life, not only in the political sphere. We face budgetary separatism and it appears quite sharply when the presidents of several "national" republics refuse to send

their taxes to the federal budget. If we follow this logic, then we will get to a point where young people living in the republics will not serve in the Russian army. This could go very far! Therefore there are many questions in this connection...

**RRR:** Is there a mechanism to overcome this ugly asymmetry?

**Lodkin:** I believe that today it is very important to overcome two breaks in the executive authority. Without overcoming them, it would be extremely difficult to solve this problem. What breaks am I talking about?

In 1993 I was elected governor of Bryansk Oblast, but five months later the president illegally removed me from power. I fought the president in the courts for two years. In the end the oblast population expressed its will and elected me as governor a second time, even before the court had ruled. With this relationship with Boris Yeltsin, right after my election I answered journalists' questions about how to reform the executive branch saying, "the president should appoint the head of a krai, oblast, or republic." Only this would restore a strict vertical authority. Today, according to Russian law, I am in no way dependent on the Russian president. This is the main break in authority! This hurts the state and as a state-builder (*gosudarstvennik*) I am prepared to renounce all ambitions!

Here there is a question: how to preserve the democratic base? It is possible to save it through indirect democracy. For example, in America, they do not vote directly for the president, they choose electors. In our case the electors could be the members of the regional legislatures. The president would appoint the governor at the recommendation (or agreement) of the legislators. Such a system would allow the preservation of a democratic base and at the same time create a strict and effective vertical of power.

**RRR:** And the second break?

**Lodkin:** The gist of the second break is that the regions all have local governments. They have municipalized everything to the point of ridiculousness. In my oblast, as governor I do not have the right to intervene in the activities of local government. It is absurd! We need to restore this vertical system of authority as quickly as possible. ...

**RRR:** Recently Chuvashiya President Nikolai Fedorov said that in several cases the center had signed special secret agreements with several republican leaders, agreements which place in doubt existing federal relations in Russia (see *EWI Russian Regional Report*, 27 May 1999).

**Lodkin:** I personally don't know about any such secret agreements, but if they exist, then they are probably only oral agreements of the type, "I will help you, if you help me." Republican emissaries resolve such problems in personal meetings. I am convinced that such "Munich Agreements" do not exist on paper. They are not so stupid as to do such things.

But look at budgetary relations! Look how Bashkortostan and Tatarstan transfer taxes into the federal budget. It is clear that powerful authorities, seeing such half-formed separatist intentions in inter-budgetary relations, should seize Shaimiev and [Bashkortostan President Murtaza]Rakhimov by the throat and make them pay their taxes in full as the other regions do. But the center doesn't do this even though it could.

**RRR:** Or does it simply not have the strength?

**Lodkin:** What do you mean it doesn't have the strength? Shaimiev is here now, they could arrest him, and that is all you need for strength. However, such a move would violate his immunity. There is strength for overcoming separatism in any form. I am convinced of it!

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**BREAKING NEWS**

**POLITICS**

**PUTIN CRACKS DOWN ON REGIONAL LAWS.** Russian President Vladimir Putin wasted no time following his 7 May inauguration on his mission to establish order in the Russian Federation. As many regional executives have speculated and feared, one of Putin's first attacks was on the regions. Putin put his long-discussed plan to bring regional legislation into accordance with federal norms into action on 11 May by issuing decrees demanding that Bashkortostan, Ingushetiya, and Amur bring their regional laws into accordance with the Russian constitution and federal legislation. Putin added one more decree regarding Smolensk Oblast on 16 May. According to various estimates, approximately 25-35 percent of regional laws violate federal legislation, and clearly these four decrees are just the tip of the iceberg. According to a representative of the chief legal administration in the Kremlin, the presidential administration is currently preparing 15 similar decrees.

Of the four decrees issued over the past week, Bashkortostan's was most severe. Ironically, it was issued to the chairman of the republican State Assembly Konstantin Tolkachev in response to a request by republican legislators to help bring federal and regional laws into

conformity (see *EWI Russian Regional Report*, 12 April). Putin's letter attacked most of the region's controversial laws and constitutional articles. Among the points Putin challenged are contradictions between regional and federal law regarding citizenship and the powers of the republican president, including the stipulation that the republican president must speak Bashkir. Putin also criticized the articles of the republican constitution which authorize the region to participate in international alliances and organizations, as well as conclude agreements with foreign partners and exchange diplomatic representatives.

The decree regarding Ingushetiya concerned a 1997 decree by the republican president on gas and electricity debts. Putin demanded that the president of Ingushetiya stop action on the decrees and recommended that the republic retract them. Ingushetiya has numerous other laws that contradict federal legislation beyond those addressed in the decree.

The Amur decree targeted an oblast decision from June 1999 granting Russian citizens passes to the trade complex in Heihe, China (near Blagoveshchensk on the Amur-China border). The Smolensk decree was the least severe, focusing on a 1998 law giving the oblast the ability to fine foreigners whose automobiles emit too much pollution.

The regions Putin chose to address in his first round of decrees are interesting. While Bashkortostan is among the regions exhibiting the most numerous and severe contradictions of federal law, so is Tatarstan, yet it has not yet been cited so far. Likewise, why target a relatively insignificant law in Smolensk, or only a part of the violations in Ingushetiya? Perhaps Putin is just testing the waters to see how far he can push his campaign before he moves further ahead. He seems to be moving against some of the weaker regions first before focusing on to the stronger regions and the most crucial violations. The president's logic in this course of action is not entirely clear, and his follow up in the next several weeks will give a better sense of what his strategy is. (Official Web-site of the President of the Russian Federation <http://press.maindir.gov.ru>, *Izvestiya, Nezavisimaya Gazeta*, 12 May)

## **ECONOMICS**

**CENTER SEEKS GREATER CONTROL OVER TREASURY IN REGIONS.** On 11 May a meeting of regional representatives of the federal treasury was held in Moscow, *Vedomosti* reported on 12 May. The only regions without federal treasury representations are Chechnya and Tatarstan. However, in at least 15 regions, including Moscow and St. Petersburg, the federal treasury does not handle all federal budgetary transfers. According to Deputy Minister of Finance Tatyana Nesterenko the ministry has established a framework compelling all institutions to open accounts with the federal treasury in place of handling transfers through commercial banks.

However, as *Vedomosti* pointed out, attempts to exert financial pressure on the regions have not always been effective. For example, the federal treasury in Bashkortostan was simply a concession made by Bashkortostan President Murtaza Rakhimov to the federal center. The treasury in Bashkortostan has never done any meaningful work and has failed to open up a single branch in the republic despite the presence of 791 organizations which receive funding from the budget. Overall in Russia, with the exclusion of Chechnya, Tatarstan, and the Ministry of Defense, there are nearly 600 federal budget institutions that have not transferred over to the

treasury system, 530 of which are located in Bashkortostan. This reluctance to join the federal treasury could partly explain the vehemence of Putin's attack on the region (see related article in this issue).

According to Nesterenko, the Ministry of Finance's top goals for 2000 include establishing treasury systems in Tatarstan and Chechnya and creating treasury branches in Bashkortostan. However, the greater goal is to establish a better system for transferring tax payments in order to reduce various forms of non-monetary payments and mutual debt cancellation. The ministry hopes to curtail the economic separatism of some regional leaders by making all transfers through one account.

**SPECULATION CONTINUES ON GREF PROGRAM.** German Gref's Center for Strategic Research should complete its plan for Russia's economy in the next few weeks. The long-anticipated document is expected to be one of many that will influence Russia's future course, rather than an actual blue print for Russian policy. The program offers a strategic plan for Russia's economic development over the next decade, divided into three sections, modernizing the economy, social reform, and political reform. The concept of the new program is to minimize state intervention in the economy. The program proposes spending cuts and changes in the tax laws in order to achieve a balanced budget for 2001.

One of the main components of the draft program calls for adopting a flat income tax rate of 12-13 percent, combining payroll contributions to social funds into one tax, and eliminating the cumbersome turnover tax for enterprises as well as all tax privileges. One of the Center's economists, Arkady Dvorkovich, commented to *The Moscow Times* on 13 May that the proposed tax cuts would reduce the tax burden by 20 percent of GDP in nominal terms, but that in real terms the tax reduction would be only about 3 percent since the taxes earmarked for cuts are not being paid anyway. Such changes must be passed soon in order for the new tax laws to be in place on 1 January 2001. Regional governments are likely to oppose the tax changes, which will place additional strain on regional budgets.

Among other controversial proposals are cuts in social benefits. The program calls for cutting many social benefits, including housing and transportation subsidies. These reductions will cause the greatest pain for ordinary people, and governors and mayors are likely to bear the brunt of the people's dissatisfaction. (*Vremya MN*, 16 May, *The Moscow Times*, 13 May)

**DE BEERS SELLS OUT TO ALROSA.** On 15 May South Africa's De Beers, the world's largest diamond company, announced that it was bowing out of its Russia project. On 4 May the company signed an agreement to sell its 27 percent stake in Seversalmaz (Arkhangelsk Oblast) to the Russian diamond monopoly ALROSA. ALROSA will add this stake to its own 12 percent share to become Seversalmaz's largest shareholder with 39 percent. The administration of Arkhangelsk Oblast owns an additional 25.5 percent stake in the company, but ALROSA is hoping to gain control of this packet through a trust arrangement. Seversalmaz maintains the rights to develop the Lomonosov diamond deposits in Arkhangelsk, which is speculated to be the largest diamond deposit in Europe with \$12 billion worth of precious stones.

Exploitation of the field began two years ago and a technical examination was completed at the beginning of this year. It was at this time that De Beers decided to leave the project. De Beers' reasons for leaving are most likely tied to the high risk factor in the project given the legal limitations for the participation of foreign companies in the diamond business that have appeared over the past two years. Specifically, a recent law prohibits foreign companies from exporting diamonds, and an amendment to the law on precious metals prevents companies in which more than half of the stock is owned by foreigners from exploiting deposits. (Polit.ru, 16 May)

**NORSI HEADED FOR BANKRUPTCY.** Nizhnii Novgorod's Norsii, which controls the largest oil refinery in European Russia, has begun bankruptcy proceedings. The company hopes that as a result of the bankruptcy LUKoil will gain control of the refinery. The refinery's financial troubles began in the mid-1990's when Norsii Oil was formed. The company did not have its own source of oil, was unable to turn a profit, and has teetered on the verge of bankruptcy for several years, causing Norsii to accrue 930 million rubles in tax debts. LUKoil supplied 72 percent of the oil for the Norsii refinery in 1999 and has expressed a strong interest in purchasing Norsii Oil. Norsii Oil President Vadim Vorobev told *Vedomosti* on 16 May that he personally hopes that LUKoil would buy out Norsii in an auction.

**RUSSIAN ALUMINUM PUSHES OUT OLD MANAGERS AT KRASNOYARSK, IRKUTSK PLANTS.** After announcing that he would resume his post as general director of the Krasnoyarsk Aluminum Factory (KrAZ) following a month's leave, Aleksei Barantsev submitted his resignation on 15 May. Although the factory officially stated that Barantsev left voluntarily, Barantsev's comments to journalists suggested that he had been pressured into leaving. Barantsev will probably take on another position in Russian Aluminum, which controls the factory, and his replacement will likely be Siberian Aluminum Deputy General Director Viktor Geintse, who headed KrAZ during Barantsev's leave.

General Director of the Bratsk Aluminum Factory (BrAZ) Boris Gromov, who refused to leave his position at the factory not long ago, also succumbed to pressure and offered his resignation. Gromov's resignation paves the way for Sibneft to take the factory under its full control. Sibneft already managed to takeover the KrAZ board at the factory's shareholders' meeting on 3 May (see *EWI Russian Regional Report*, 10 May).

Barantsev's and Gromov's resignations are clearly part of the new Russian Aluminum's plans to bring Russia's aluminum enterprises in synch. Barantsev, though a well-respected director, was brought to KrAZ in September 1998 by the Trans World Group and former Chairman of the KrAZ Board of Directors Anatolii Bykov. Clearly the management of Russian Aluminum wants to rid the structure of all Bykov remnants.

(*Kommersant Daily*, Polit.ru, 16 May)

## **CENTER-PERIPHERY RELATIONS**

**PUTIN CREATES SEVEN FEDERAL DISTRICTS TO BETTER MANAGE REGIONS.** On 13 May President Vladimir Putin created seven new federal districts for



managing the work of federal agencies in the regions (<http://press.maindir.gov.ru/> and *Rossiiskaya gazeta*, 16 May). These representatives will have considerably more power than the current representatives, according to Anton Fedorov, the presidential administration official currently in charge of coordinating the activities of the presidential representatives (*Nezavisimaya gazeta*, 16 May). The decree effectively abolishes the old system and the fate of the former representatives to the individual regions is unclear. Putin gave the Russian government and presidential administration three months to figure out how to coordinate the activities of the federal agencies in the regions. He ordered the presidential administration to define the size of the staff of the new representatives within one month. Approximately 30 federal agencies currently have branches in the regions employing a total personnel of 460,000. With this move, Putin avoided any constitutional questions by reforming his own administration rather than restructuring the Russian Federation itself. He did not directly alter the power of the governors.

Putin has yet to name who the seven representatives will be. Clearly their personal skills will be a crucial factor in determining whether this new institution is an effective way for the Kremlin to increase its leverage over the regions. NNS.RU reported 17 May that former Prime Minister and current Duma member Sergei Kirienko would head the Volga district, but that report has not been confirmed.

The decree makes clear that the representatives are directly subordinate to the president. In the past, the governors have often been able to capture the federal agencies because they supply them with housing, office space, transportation, and other necessities. The governors even provided jobs for family members of some federal employees. According to the new decree, the presidential administration and regional governments will work together to provide work and living accommodations, transportation, and other needs, but the presidential administration will pay for them. The obvious purpose of the decree is giving the federal government the ability to better control its own employees.

The main job of the seven new representatives will be to organize the work of the federal agencies in the regions, monitor the implementation of federal policy on the ground, and supply the federal government with information about what is happening in the regions. According to *Izvestiya*, the wording of the new decree is much tougher than the previous decree on presidential representatives, partly because it was drafted by the Security Council (the previous decree was published in *Rossiiskaya gazeta*, 16 July 1997, see *EWI Russian Regional Report*, 17 July 1997). The representatives will pay particular attention to the role of law enforcement agencies in the regions, and provide support for the presidential administration's Main Monitoring Administration and regional procurators. Additionally, they will coordinate the interaction between federal agencies and regional and local authorities. The representatives will work with the eight interregional organizations to develop social and economic policies. They will also determine candidates for positions appointed at the federal level. The tasks of the representatives are not greatly different from what Yeltsin assigned them in 1997, but the Kremlin clearly hopes that they will be more effective since they can stand above the governors.

The representatives will have extensive powers, at least on paper. They will be able to demand information from other parts of the presidential administration and the regional and local governments, delegate their employees to join the work of regional and local governments, and use federal employees to carry out inspections of organizations in their jurisdiction.

The capitals of the seven districts where the presidential representatives will be located are: Moscow, St. Petersburg, Rostov-na-Donu, Nizhnii Novgorod, Yekaterinburg, Novosibirsk, and Khabarovsk. Observers have pointed out that the districts correspond more closely to Russia's military districts than the eleven economic regions inherited from the Soviet era or the eight interregional associations. Accordingly some analysts believe that the new representatives would work closely with the military to keep the governors in line. The headquarters of the districts are the same as the military districts, except in Samara and Chita (Nizhnii Novgorod is head of the new Volga federal district, while Novosibirsk is the head of the Siberian district). Clearly Putin did not want to place a capital in Samara where Governor Konstantin Titov, who opposed him in the presidential race, is likely to win reelection on 2 July. The president also chose Khabarovsk over the more obvious Vladivostok to avoid coming too close to Primorskii Krai Governor Yevgenii Nazdratenko. The capitals of the seven districts are not necessarily the most loyal to Putin, particularly Novosibirsk where he won only 39.9 percent of the vote in the presidential election. Putin has a difficult relationship with Moscow Mayor Yurii Luzhkov and St. Petersburg Governor Vladimir Yakovlev, and Nizhnii Novgorod Governor Ivan Sklyarov was an early and strong backer of Luzhkov's Otechestvo.

No ethnic republic is the capital of a federal district. Such a move seems aimed at making the republics more like other regions, presumably taking away the higher status they currently enjoy. Currently there is no presidential representative in Tatarstan and Bashkortostan, but those regions are now under the purview of one of the new seven representatives. The governors of ethnic Russian oblasts and kraia have often criticized the benefits given to the republics, and Titov commented that not including a republican city as a district capital was a positive feature of the new scheme. Ingushetiya President Ruslan Aushev has already said that he will not travel to Rostov-na-Donu to meet with his representative.

Many articles in the media claim that this decree is just the first step in Putin's efforts to crack down on the regions. Putin may be seeking four types of follow-up measures. First, he is now apparently seeking legislation that would allow him to remove governors who violate the law. Current legislation theoretically make this step possible, but the procedure has never been tested. In fact, most observers think that additional legislation will be required to carry out such a move (*Vremya MN*, 16 May). Second, Putin is apparently seeking to remove the governors and regional legislative chairmen from the Federation Council (see *Vedomosti*, 16 May). The State Duma and Federation Council will have to approve a law to achieve this end. The governors currently sitting in the Federation Council will likely oppose this move. However, according to one scenario, the governors would be able to appoint one representative to the Federation Council and the regional legislatures, which are often controlled by the governors, would appoint another. This new system could go into effect in January 2001. In this case, the regional executives would maintain strong control over the Federation Council ([www.nns.ru](http://www.nns.ru), 17 May). Third, *Polit.ru* (17 May) suggested that Putin will try to deprive the governors of their right to approve appointments of local judges, procurators, and police chiefs, but these rights

are enshrined in the constitution, so implementing it would be difficult. Finally, another proposal would give the governors the right to remove mayors if they violate the law. If all four proposals are enacted, Putin would seem to be strengthening his hand somewhat, but also making considerable concessions to the governors.

As reports from Yekaterinburg and Kazan suggest (see separate articles in this issue), it is far from clear that Putin's reorganization of the presidential administration will really give the federal government greater control over the regions. Many governors have reacted positively to the decree, prompting commentators to point out that they are not frightened by it (*Moscow Times*, 16 May). Critics in Sverdlovsk Oblast, where the governor has tried something similar, think this move is just adding another layer of bureaucracy. Further decrees will have to define what powers the seven new representatives actually wield. - Robert Ortung

### **REACTION IN YEKATERINBURG: SKEPTICISM BASED ON PAST**

**EXPERIENCE.** Putin's decree of 13 May did not designate the seven new presidential representatives and that is now the main intrigue flowing from the decree in Yekaterinburg. However, so far the commentators in Sverdlovsk Oblast are very cautious since they are expecting additional guidance from the presidential administration. It remains unclear just how powerful the new representatives will be.

The presidential representatives will only have real power if they control all the federal agencies in the region, including the Federal Security Service, Ministry of Internal Affairs, tax inspectorate and police, federal treasury, and others. Today many of these agencies depend on the governors. According to his press secretary, Sverdlovsk Governor Eduard Rossel had a positive evaluation of the decree. In fact, creating such federal districts was partly Rossel's idea. Sverdlovsk Oblast has had similar districts since 1996 to give the governor better control over local governments and felt it was worthwhile "transferring this experience to the federal level." In the oblast, Rossel created six administrative districts to administer the 73 local jurisdictions (see *EWI Russian Regional Report*, 26 March 1997).

The establishment of these districts remains controversial. A seventh district, that would cover the central part of the oblast, has yet to be formed. Opponents of the plan say that the administrative structures are not useful since the bureaucrats needed to run them simply occupy the best offices and spend state money unnecessarily. Many in the region are skeptical that Putin's reform will be effective. Commentators believe that the new presidential representatives will also spend a lot of money without increasing the federal government's ability to manage the regions. The seven super districts are too big for anyone to control and they include oblasts where there are already political and economic ties that function on their own.

The creation of the districts and the naming of their capitals could create the basis for numerous conflicts. Now, for example, Tatarstan President Mintimer Shaimiev will have to deal with a presidential representative in Nizhnii Novgorod and Primorskii Krai Governor Yevgenii Nazdratenko will have to go to Khabarovsk. Rossel will not have such problems because Moscow recognized his authority and the authority of the Urals capital by naming Yekaterinburg as one of the capitals. The new status could provide Yekaterinburg additional authority and money since financial flows will now go through the new federal district capital. - Natalya Mints in Yekaterinburg

### **TATARSTAN: CHANGE BOTH RUSSIAN, TATARSTANI CONSTITUTIONS.**

Tatarstan State Council Chairman Farid Mukhametshin said, "I don't want to dramatize the situation. This decree was justified as a way to strengthen the federal executive branch's monitoring ability. The question of changing regional borders is clearly defined in the constitution.

"The decree focuses on the presidential representatives... It is good that the number of representatives has been reduced. There will also be large federal staff reductions in the regions. Today there are thousands of bureaucrats.

"Our approach before the decree was issued and today remains the same: we must determine the status of these representatives, the constitutionality of this job, and its legal basis in the federal system."

It is too early to say whether the decree will have a negative effect on relations between the federal government and the regions, he said. "One thing is clear Tatarstan remains a subject of the Russian Federation whose power is fixed in the Russian constitution."

Mukhametshin claimed that he never said that it was time to bring the Russian constitution into conformity with the Tatarstani constitution as had been reported in *Izvestiya* on 13 May. Tatarstan's position on this issue has always been clear and consistent. "We need to improve both the Russian and Tatarstani constitutions taking into account the experience of the last ten years. The process is not simple, it should be reciprocal. There is no point in stoking fear." Mukhametshin emphasized that cooperative and joint efforts should be made to bring federal and regional legislation into line. - Press Center of the Tatarstani State Council

**IRKUTSK: THIS IS A MOVE TOWARD APPOINTING GOVERNORS.** "I have a negative opinion of the decree," Gennadii Istomin, the deputy chairman of the Irkutsk Legislative Assembly, said. "By creating seven federal districts, Putin is trying to get away from the inequalities in the regions that exist today in Russia. In my opinion, this is not the right place to start. First, we must apply the constitution which gives all the regions equal status. For example, Irkutsk gives 50.7 percent of all the taxes it collects to the federal government. At the same time, Bashkortostan and Tatarstan do not contribute anything. We must collect taxes in equal measure in all regions of Russia. Then through various grants, subsidies, and transfers, it is necessary to equalize expenditures for every resident regardless of where he lives. Today, unfortunately, this is not happening.

"In my view, the decree represents the first step in Putin's federal reform. First, it limits the powers of the regions. Second, it in essence makes the election of the governors meaningless because all financial flows will go through the president. I see two things in this event: first, an equalizing of the regions and, second, a gradual approach toward appointing the governors." - Teleinform in Irkutsk

### **PRIMORSKII KRAI: DISSATISFACTION OVER CHOICE OF KHABAROVSK.**

The reaction to Putin's 13 May decree in Primorskii Krai has been a demonstrative silence. So far most officials are not talking. Such a reaction is to be expected. The choice of Khabarovsk as the residence for the presidential representative in the Far East did not find much enthusiasm

among local officials. Several months ago, when some information about the decree began trickling out from Moscow, many locals began to talk about the larger district and the appointment of Primorskii Krai Governor Yevgenii Nazdratenko as its head as a fait accompli. The media claim that Khabarovsk was chosen over Vladivostok because it is the capital of the Far Eastern Military district. The main question now is who will be the presidential representative. - Dmitrii Motovilov in Vladivostok

## **PATTERNS OF REGIONAL DEVELOPMENT**

**ST. PETERSBURG'S YAKOVLEV WINS REELECTION.** Incumbent St. Petersburg Governor Vladimir Yakovlev won a strong victory in the city's gubernatorial election on 14 May, taking 72.87 percent of the vote. Igor Artemev, the candidate supported by both Yabloko and Soyuz pravykh sil, won 14.60 percent even though the local branch of Yedinstvo backed him on the last day of campaigning (12 May). Turnout was 47.59 percent of the city's 3.6 million voting-age residents.

Immediately after the election, Artemev announced that he was going to protest the results, claiming that they had been falsified. However, a Gallup poll taken on the eve of the election showed that the returns were an accurate reflection of public opinion. Of course, there were clear violations of the campaign law. Legally candidates can spend no more than 30,000 minimum wages (\$88,500). The chairman of the local electoral commission suspects that Artemev spent at least \$600,000 on advertising. Yakovlev's critics suggest that he used city money to finance his campaign.

There are numerous rumors in the city that the Kremlin let Yakovlev win under certain conditions. Some believe he will be offered work in Moscow (*Kommersant*, 16 May). Others suggest that the federal government will appoint a city prime minister who will take much of the governor's power. A third camp says that the new presidential representative to the north-west district, established by Putin's 13 May decree, will take all the power. Among the names mentioned as likely to fill this post are the current presidential representative in the city Aleksandr Besppalov, who worked with Putin in the Our Home is Russia party and served under Mayor Anatolii Sobchak. Another is Leningrad Oblast Presidential Representative Georgii Poltavchenko, who founded the St. Petersburg tax police and worked there from 1992 to 1999. Poltavchenko was a member of the KGB and once worked in close contact with Putin. Both Yakovlev and Leningrad Oblast Governor Valerii Serdyukov welcomed the decree creating the seven representatives, but it is not clear if they really meant it (*Sankt Peterburgskie vedomosti*, 16 May). - Daniel Tsygankov in St. Petersburg

## **SVERDLOVSK GOVERNOR LOSES CONTROL OF REGIONAL LEGISLATURE.**

The Sverdlovsk Oblast Duma, the lower house of the region's legislature, elected Yevgenii Porunov as its chairman on 26 April. He is one of the leaders of the Our Home - Our City movement, which is allied to Yekaterinburg Mayor Arkadii Chernetskii and opposed to Governor Eduard Rossel. Porunov won 15 votes, defeating the pro-Rossel Yedinstvo Urala leader Zaborov, who won only 10 votes. Elections to the legislature took place on 26 March. Yedinstvo Urala, the successor to Rossel's Preobrazhenie Urala movement, lost several seats in

the Oblast Duma in the election, and now has lost the chairmanship as well. The party leaders thought that renaming the movement to demonstrate loyalty to Putin, who backed the national Yedinstvo party, would give them enough support to win a majority in the legislature, but their hopes were not borne out.

The vote shows the current weakness of Rossel's oblast administration. It had fought an intense battle to hold onto the seat. Like the governor, the chairman of the lower house of the regional legislature is automatically a member of the Federation Council. The election of Porunov means that Rossel now will not be able to present a united position to the federal government from the region. Most likely Porunov will try to present a different picture of what is happening in the region to the Moscow and national audience. Chernetskii lacked this ability when he lost his bid to unseat Rossel in last summer's gubernatorial election. As Oblast Duma chairman, Porunov will have considerable influence over the policies the body adopts.

Facing a 15-10 vote deficit, the oblast administration will have considerable difficulty approving the kind of budget it will want. The opposition will also be able to block any other initiatives.

On 21 April, the House of Representatives, the upper house of the regional legislature, elected Yedinstvo Urala's Viktor Yakimov as its chairman. Now the legislature will be divided between a pro-Chernetskii lower house and a pro-Rossel upper house. - Olga Gorchakova in Yekaterinburg

## **BUSINESS AND POWER**

**OIL AND POLITICS: LUKOIL SUPPORTS THIRD TERM FOR KOMI'S SPIRIDONOV.** Political circles in Komi have long discussed whether republican leader Yurii Spiridonov would seek a third term. Finally at the 25 April LUKoil board of directors' meeting in the city of Usinsk, he announced that he would indeed run. This move was important symbolically because the media had long speculated that only LUKoil would be powerful enough to oppose his candidacy and place its own person in the office. At the meeting LUKoil President Vagit Alekperov announced that he would support Spiridonov.

Following the meeting, the local paper *Molodezh severa* speculated that the republic would hold pre-term elections in the fall of 2000. If that happens, it would be the second set of pre-term elections to be held in the republic. The first set took place in December 1997, when Spiridonov moved the elections up six months to take advantage of the relatively good times the republic was experiencing in 1997. His current term should run out in December 2001. Spiridonov is already preparing for the elections. Last year the regional legislature amended the constitution to remove limits on the number of terms an individual could serve and the required retirement age. Until then the republican constitution limited the leader to two terms.

However, last fall the federal government adopted a law that limits governors to two terms (see *EWI Russian Regional Report*, 10 November 1999). The governors are currently trying to change this law to allow them to stay in power as long as possible. In theory the law could affect 32 governors who are currently serving their second terms. However, the law does not fully come into effect until 19 October 2001, so regional leaders can win a third term as long as they hold the elections before this deadline. Spiridonov cannot wait until December 2001 to

win a third term, so he will have to hold early elections. He believes that this fall will be the best time to hold the elections because Putin will still be relatively new to his office and will not be as powerful as he might become later in his term.

Spiridonov has set up a special group to organize his reelection that even includes judges from the republic's constitutional court. Additionally, the group is organizing a media campaign to support the incumbent. Additionally, it is working to reorganize the political institutions of the republic to give Spiridonov "judicial immunity" against any violations of federal law. This restructuring would create the post of republican prime minister, a position that would be filled by Spiridonov's deputy, Anatolii Karakchiev, who is seen as one of Spiridonov's most powerful potential opponents (*Molodezh severa*, 12 May).

Clearly, Komi is setting an example of how regional leaders can seek to hold onto their power and other regions may follow suit. The federal government's reaction remains unclear, but it may take counter-measures to block such moves.

In addition to supporting the early election of Spiridonov in Komi, LUKoil is trying to replace Nenets Autonomous Okrug Governor Vladimir Butov, who faces election in the fall (*Tribuna*, 5 May). LUKoil has already sent a team of PR specialists to prepare the ground for the victory of their candidate. For Komi it would be profitable if its factories and workers participate in the extraction of oil in the okrug. Komi would also like to link the strategy for developing the okrug to its own plans for strategic development.

However, not everyone is happy with LUKoil's strong position and its intervention into local politics. Many fear that LUKoil will dominate the region and dictate the rules of the game to the local authorities. They argue that the interests of the republican and local authorities do not completely coincide with those of the oil giant. Thus, Usinsk Raion leader Feliks Markov announced that he will not allow his oil producing region to be monopolized and will support small and medium oil extracting companies. He will also seek to attract competitors to compete against LUKoil in various oil tenders (*Krasnoe znamya*, 4 May).

Overall, an extremely powerful LUKoil is not in the interests of Komi. However, the authorities today desperately need its support in holding on to power and this union will grow stronger in the near future. LUK oil is trying to strengthen its position in a number of regions, but it does not always find such good conditions as exist in Komi. The Komi example demonstrates the growing role of big business in Russian political life. - Yuri Shabaev in Syktyvkar

## **CRIME IN THE REGIONS**

**ULYANOVSK PROPERTY CHIEF BADLY BEATEN.** On 16 May two unidentified assailants badly beat Ulyanovsk Deputy Mayor Valentina Korpova, delivering hammer blows to the head, in the entrance to her apartment house. Korpova was taken to the hospital with head and hand wounds. Fortunately, the injuries are not life threatening.

On the same day, Ulyanovsk Mayor Vitalii Marusin said that the attack was carried out in order to frighten the city authorities, who are currently implementing a City Duma decision to privatize seven large parcels of city property. In March the City Duma authorized the privatization of three hotels, three buildings that house small businesses (*doma byta*), and the city's Central Market. These buildings could only be privatized by joint agreement of the City

Duma and the mayor, which traditionally meant that nothing would happen. With the Duma's permission, however, the mayor's office is now conducting negotiations with the employees of these enterprises, discussing the options and methods for auctioning them.

The privatization has both political and economic significance. After adopting a tight budget for 2000, the City Duma must find additional sources of revenue. Privatization is one possibility. The buildings being privatized do not currently generate much revenue for the city, so their sale will not affect city income. The city authorities had hoped to sell off the sites to new owners who would invest in them and with the cash from the sales pay off mounting debts for children's and teachers' benefits. The political motivation for the privatization is that the new city authorities, who will be elected later this year, will not have to face these problems.

The mayor's office warned the deputies that they would face opposition from Governor Yuri Goryachev, who sees privatization as "selling off the people's wealth." However, the liberal members of the City Duma felt that the city should stop delaying privatization and speed up the process of handing over city property to more effective owners.

The governor is putting heavy pressure on the City Duma, and five members have already resigned, posing the threat that the body will have to disband (see *EWI Russian Regional Report*, 10 May). In a televised meeting with the local power ministries, Goryachev suggested that the agencies review the privatization decisions on the hotels because they might be strategically important in an emergency situation. The oblast administration also wanted the city to transfer the market to the oblast. The oblast media are broadcasting reports claiming that the property is generating profits and that that city does not have the right to privatize it.

It is possible that the attack on Karpova was carried out for other reasons, but public opinion has clearly connected it to her privatization activities. Chairman of the oblast's Association of Entrepreneurs Khamza Yambaev blamed the attack on the governor's propaganda which, he claimed, uses social demagoguery in denouncing entrepreneurs, privatization, and the management of city property. - Sergei Gogin in Ulyanovsk

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**BREAKING NEWS**

## **POLITICS**

**YAROSLAVL DUMA REMAINS SPEAKERLESS.** The Yaroslavl Oblast Duma, which was elected on 26 March, has so far failed to elect a speaker. As a result, former Oblast Duma Chairman Sergei Vakhrukov continues to serve with Yaroslavl Governor Anatolii Lisitsyn as the region's representative in the Federation Council. Two groups have been battling for the speakership since the election. The first group includes the heads of several prominent regional enterprises and the leader of the regional Yedinstvo branch, Nikolai Tonkov, who is backing Andrei Krutikov, general director of Yaroslavlrezinotekhnika, for the post. This group has the support of the deputies who are also heads of local administrations, including Yaroslavl Mayor Viktor Volonchunas. The other group, made up primarily of old enterprise directors and a few deputies, supports Slavneft-Yaroslavlnefteorgsintez Executive Director Yevgenii Zayashnikov for the chair.

Lisitsyn has not disclosed his preference for the speakership and even stated that he does not want to have an influence on the election. Nevertheless, Tonkov supported Lisitsyn in the gubernatorial elections, and the governor is unlikely to leave this favor unanswered.

The conflict began when Tonkov's group proposed amending the oblast charter to change the current system of electing the oblast duma speaker for a four-year term to electing the speaker on a yearly basis. This move was opposed by Zayashnikov's group. If Zayashnikov were elected chair, he would be leaving Slavneft-Yaroslavlnefteorgsintez to focus on politics full time. However, an annual election cycle would leave him vulnerable to losing his valuable position. The proposed charter amendments failed to gather the two-thirds majority vote necessary to pass. Since then, the duma has been unable to gather the quorum necessary to elect the speaker, leaving the duma in operational limbo. The duma is set to meet again on 30 May. (*Nezavisimaya Gazeta*, 23 May)

**TV-TSENTR TENDER OFF.** The Press Ministry announced that it will suspend the 24 May tender planned for Moscow Mayor Yurii Luzhkov's TV-Tsentr until a Moscow arbitration court reaches a verdict on whether the ministry was justified in issuing the warning it gave TV-Tsentr. The warning allowed the Press Ministry to hold a tender for the station's broadcast license rather than automatically extend it. A court is scheduled to hear TV-Tsentr's appeal in June. (*The Moscow Times*, 23 May)

**KRASONDAR GOVERNOR INSTITUTES SPECIAL BORDER ZONE.** Krasnodar Krai Governor Nikolai Kondratenko has established a special border zone with heightened security along the region's border with Karachaevo-Cherkesiya and Georgia. The zone includes four villages on the Georgian border, Veseloe, Nizhnyaya Shilovka, Yermolovka, and Aibga, and eight villages in the Mostovskii raion of the krai bordering Karachaevo-Cherkesiya. The residents of the border zone have special documentation of their status as living in the zone, and visitors must obtain a temporary permit. While the stated purpose of the zone is to better secure Russia's border with Georgia and Ukraine, it is unclear why Russia's internal border is included in the zone. (*Izvestiya*, 18 May)



**CONFLICT CONTINUES IN PRIGORODNYI RAION.** On 21 May six people were murdered in the Oktyabrskoe village in the Prigorodnyi Raion of North Osetiya. The Prigorodnyi Raion was home to conflict between North Osetiya and Ingushetiya in the early 1990s. The territory is not far from the conflict in Chechnya. The murders took place following a meeting between Ingushetiya President Ruslan Aushev and North Osetiya President Aleksandr Dzasokhov, who have appealed to Russian President Vladimir Putin to send a presidential representative to the conflict zone. (*Nezavisimaya Gazeta*, 23 May).

### **ECONOMICS**

**AVTOVAZ OFFICES RAIDED.** The offices of AvtoVAZ, Russia's largest automobile producer, were raided by tax police in 26 different regions on 23 May. Former Tax Minister Aleksandr Pochinok accused AvtoVAZ of tax evasion earlier this year, demanding that the company pay 7 billion rubles in taxes and a 1.7 billion ruble fine. The raid on AvtoVAZ's Moscow office resulted in \$50,000 being confiscated from the office of Igor Lyanchenkov, as well as a Justice Ministry identification in Lyanchenkov's name and eavesdropping equipment. (*Polit.ru*, 24 May)

**FORMER KRASNOYARSK ALUMINUM DIRECTOR TO HEAD BRATSK.** On 17 May former Krasnoyarsk Aluminum (KrAZ) General Director Aleksei Barantsev, who recently resigned from his post following the factory's absorption into the new Russian Aluminum monopoly, announced that he had agreed to head the Bratsk Aluminum Factory (BrAZ) in Irkutsk Oblast. BrAZ General Director Boris Gromov also resigned from his post recently (*EWI Russian Regional Report*, 17 May). Barantsev was offered a position to head any of the enterprises in the Russian Aluminum holding, but was encouraged to take on BrAZ's leadership.

However, it is very likely that Barantsev will come into conflict with the old managers who continue to own shares in the factory. Until recently Trans World Group (TWG) and Lev Chernyi were the primary stockholders in BrAZ along with former top managers Gromov and Yurii Shlyaifshtein. Gromov and Shlyaifshtein handled the majority of the factory's production and finance issues. In February 2000 TWG and Chernyi sold their stock to Roman Abramovich, allowing Sibneft to take over 64 percent of the factory (*EWI Russian Regional Report*, 16 February). Shlyaifshtein and Gromov, however, refused to sell their stock and Sibneft has thus far not managed to exert any real control over the factory.

Barantsev's former position at KrAZ will be filled by Viktor Geintse, who served as the factory's acting general director after Barantsev took leave from the factory in April. (*Kommersant Daily*, 18 May)

**FREE TRANSPORTATION FOR PENSIONERS IN VLADIVOSTOK.** On the eve of the city's mayoral elections, Vladivostok Acting Mayor Yurii Kopylov issued a decree granting all of the city's pensioners a free commute to their dachas throughout the entire summer. Almost

14,000 pensioners will receive this privilege. According to the city administration's press-center, the local budget has allotted over 9 million rubles for purchasing the train passes. A one-way trip to their dachas costs Vladivostok citizens up to 10-15 rubles. The 1 April decision of the railway and road administration to raise the train fares 30 percent made the trip even more expensive for many pensioners. The free transport will be greatly welcomed by the city's poor pensioner population, who are also the most likely to vote in the city's June mayoral election. (*Nezavisimaya Gazeta*, May 19)

**ROSTSELMASH FAILS TO RESTRUCTURE DEBT.** Rostov Oblast's Sberbank branch and Rostselmash failed to agree on restructuring the company's 94.4 million ruble debt. Sberbank intends either to initiate bankruptcy proceedings against Rostselmash or confiscate Rostselmash equipment to cover the debt.

Over the last several years the administration of Rostselmash, Russia's largest producer of combines, has been trying to save the plant from bankruptcy. In summer 1999 Rostselmash faced two possible paths of development--winning investment from the Russian government, or forming a partnership with its major competitor, the American combine manufacturer John Deere. After failing to come to an agreement with John Deere and the loss of federal support with the dismissal of Primakov government, the plant undertook other restructuring efforts by spinning off some of its operations into subsidiaries (see *EWI Russian Regional Report*, 19 September 1999).

In the course of negotiations between Rostselmash and Sberbank, the two sides came up with several scenarios for the plant to pay its debt on the loan received 2 years ago. None of them, however, seemed acceptable for Rostselmash. The bank therefore plans to either initiate bankruptcy proceedings or confiscate the company's property. Because of the importance of the factory to the region, Rostov Oblast Governor Vladimir Chub will likely oppose any attempts at imposing a bankruptcy. Rostselmash is certainly hoping for Chub's support, which it has garnered in the past. (*Vedomosti*, May 22)

## **BRIEFLY NOTED**

--Following Russia's pitiful performance in the 2000 World Ice Hockey championships held in St. Petersburg, Yaroslavl Governor Anatolii Lisitsyn initiated and will head a public council to support the development of Russian hockey. Clearly the governor is interested in keeping Yaroslavl the homestead of Russian hockey after having lost the honor of hosting the 2000 World Ice Hockey Championships to St. Petersburg. (*Kommersant Daily*, 23 May)

## **TIMELINE OF PUTIN DECREES ON RUSSIAN FEDERALISM**

11 May - Putin issues decrees aimed at bringing legislation in three regions (Bashkortostan, Amur, and Ingushetiya) into line with federal norms (see *EWI Russian Regional Report*, 17 May). The decrees focus on specific laws in the regions and omit any mention of Tatarstan, which is the most prominent offender in terms of violating federal norms.

13 May - Putin issues decree dividing Russia into seven federal districts to be headed by presidential representatives

16 May - Putin overturns a gubernatorial decree in Smolensk.

17 May - After State Duma confirmation of Mikhail Kasyanov as prime minister and Federation Council approval of Vladimir Ustinov as procurator general, Putin announces on national television that he will soon introduce legislation in the Duma to change the rules by which Federation Council members are chosen, give himself the ability to fire governors and disband regional legislatures that violate federal laws, and give governors the right to fire mayors. By speaking on national television, Putin went over the heads of the regional elite and appealed directly to the people. Putin discussed his plans in a three-hour Kremlin meeting after the approval of Kasyanov and before his television address. The details of these initiatives have not been published and have been the basis for considerable speculation.

18 May - Putin appoints the seven new presidential representatives (see biographical information below).

24 May - Procurator General Ustinov announces that there will be procurator general's offices in each of the seven federal districts headed by a deputy procurator general.

## **PUTIN NAMES SEVEN PRESIDENTIAL REPRESENTATIVES: SHORT BIOGRAPHICAL INFORMATION**

### **CENTRAL FEDERAL DISTRICT - GEORGII POLTAVCHENKO**

23 February 1953 born

1979 joined the KGB

1980-1992 served in the KGB in Leningrad Oblast

1992-99 founded and headed the St. Petersburg branch of the Federal Tax Police

1998 lost bid for St. Petersburg Legislative Assembly

1999 named presidential representative in Leningrad Oblast

### **NORTH-WEST FEDERAL DISTRICT - GENERAL VIKTOR CHERKESOV**

13 July 1950 born

1973 graduated from the Leningrad State University Law Department

1975 joined KGB

1988 became the head of the Leningrad KGB's investigative department

1992-8 headed Federal Security Service (FSB) in St. Petersburg and Leningrad Oblast

1998 - First Deputy Director of FSB

His wife is Natalya Chaplinaya, the editor of the pro-reform newspaper, *Peteburgskii Chas Pik* (<http://www.chaspik.spb.ru>).

Cherkesov helped prepare cases against Soviet-era dissidents who distributed books by Solzhenitsyn, Pasternak, and Nabokov. He sent numerous St. Petersburg intellectuals to prison for anti-Soviet agitation and propaganda. Among his victims were Vladimir Poresh (arrested in 1979), Vyacheslav Dolinin (1982), Rostislav Yevdokimov (1982), Geli Donskoi (1983), Dmitrii Akselrod (1984). President Gorbachev amnestied all of these people in 1987 and they were rehabilitated under a 1991 law on victims of political repression. Cherkesov gained international fame in 1996 when he filed a case against Captain Aleksandr Nekitin accusing him of espionage for his work with the Norwegian group Belluna. Nekitin was found innocent in the fall of 1999.

### **NORTH CAUCASUS FEDERAL DISTRICT - ARMY GENERAL VIKTOR KAZANTSEV**

22 February 1946 born

Served in the Trans-caucasus, Turkmenistan, Central Asian, and Trans-Baikal military districts  
Until April 2000 Commander of the federal troops in Chechnya

### **VOLGA FEDERAL DISTRICT - SERGEI KIRIENKO**

26 July 1962 born

1989-1991 second secretary of the Gorkii Komsomol

1993-96 chairman of the Garantiya bank

November 1996 elected president of Norsii-oil

April 1997-April 1998 deputy, first deputy minister and fuel and energy minister

24 April-23 August 1998 Russian prime minister

19 December 1999 elected to State Duma and served as Soyuz pravyykh sil faction leader, lost bid to oust Moscow Mayor Yuriy Luzhkov in city's mayoral elections

### **URAL FEDERAL DISTRICT - PETER LATYSHEV**

30 August 1948 born

long service in the Perm Ministry of Internal Affairs (MVD)

head of the Krasnoyarsk MVD, taking over Perm city MVD in 1986

1991 head of the Krasnodar Krai MVD

1990-93 member of the Russian Congress of People's Deputies

August 1994-2000 deputy minister MVD

headed the North-West region for the MVD, led the MVD investigation into corruption in St. Petersburg under Governor Vladimir Yakovlev

### **SIBERIAN FEDERAL DISTRICT - LEONID DRACHEVSKII**

5 April 1942 born

background in physical education (degree received in 1982), diplomatic courses (1993)

former world champion in rowing

1986-90 deputy chairman of the RSFSR State Committee on Physical Education and Sport

1990-91 first deputy chairman

1992 Russian general counsel in Barcelona

1993-4 head of the Ministry of Foreign Affairs Department for the CIS

1996 Ambassador to Poland

1998 deputy minister of foreign affairs, in charge of CIS relations

1999 Minister for CIS affairs in Sergei Stepashin's cabinet and reappointed in Putin's cabinet

Drachevskii is considered a moderate reformer and is well-liked by the intelligentsia

### **FAR EASTERN FEDERAL DISTRICT - LIEUTENANT GENERAL KONSTANTIN PULIKOVSKII (ret.)**

served as the deputy commander of the North Caucasus Military District

July-August 1996 - acting commander of federal troops in Chechnya, famous for issuing an ultimatum to Grozny residents in 1996, giving them 48 hours to leave the city. According to Carlotta Gall and Thomas de Waal, it is not clear if he had been instructed to give the ultimatum (see their book, *Chechnya: Calamity in the Caucasus*). Pulikovskii lost a son in the Chechen war and refused to shake Chechen President Aslan Maskhadov's hand at a meeting.

### **REGIONAL REACTION TO PUTIN INITIATIVES**

#### **North-West Federal District**

**KARELIYA: PUTIN PRESENTS CHERKESOV TO NORTH-WEST LEADERS.** On 22 May in the Kremlin, Putin presented North-West Federal District Representative Viktor Cherkesov to the leaders of the regions in the north-west district. During the course of the meeting, Putin mentioned that often the work of the federal agencies in the region overlapped and that they did not work effectively. He also pointed out that often federal laws were not carried out in the regions. Putin made clear that it was the job of his representative to address these issues. However, Putin also said that "he should not intervene into the competence of the governors and regional legislatures."

After the meeting Kareliya Prime Minister Sergei Katanandov said that the governors had proposed the creation of a State Council with the participation of the governors and regional legislative leaders. He said that the president supports this idea. Katanandov said that the governors and president discussed the time frame for introducing changes into the Federation Council and said that the president was open for "dialogue."

According to Katanandov, Putin is not planning to implement any constitutional changes. The president stressed that he is only changing the organization of the federal government. He said that each of the seven federal districts will have a deputy procurator general. In the future all fiscal agencies will be concentrated in the districts as well. The number of federal ministries and agencies will also be reduced. Katanandov said that now the governors had to figure out which ministries to leave at the federal level and which to transfer to the regional level. - Boris Matveev in Petrozavodsk

**ST. PETERSBURG: SPECULATION ON HOW CHERKESOV CAN REMOVE YAKOVLEV.** St. Petersburg is actively discussing the appointment of Viktor Cherkesov as the presidential representative to the North-West Federal District and Georgii Poltavchenko as the

head of the Central Federal District. They are not the only members of the Leningrad KGB who have been appointed to high positions in recent months. Others include: FSB Director Nikolai Patrushev, Security Council Secretary Sergei Ivanov, Moscow Tax Police Chief Aleksei Sedov and Federal Protection Service Yevgenii Murov.

St. Petersburg Governor Vladimir Yakovlev and Leningrad Oblast Governor Valerii Serdyukov praised the professional qualities of Cherkesov and Poltavchenko. On 23 May Yakovlev said that he suggested to Putin that he create a presidential State Council made up of governors and adopt a federal law on governors (<http://www.rusline.ru/index.html?news+24000>). In contrast, many former dissidents have sharply criticized the appointment of Cherkesov (see the profile of Cherkesov elsewhere in this issue for details on his relationship with the dissidents).

Local analysts have been examining what basis Cherkesov could use to remove Yakovlev from power. Cherkesov was the first representative that Putin presented to the regional authorities on 22 May. In 1999 the Petersburg procurator filed 11 protests against orders issued by Yakovlev that contradicted federal legislation. One of the protests concerning raising telephone rates was validated by the court and another about fees charged for parking is still being considered. - Daniel Tsygankov in St. Petersburg

**ARKHANGELSK: GOVERNOR ENCOURAGES VERTICAL POWER.** Consistent with the reaction of most governors, Arkhangelsk Governor Anatolii Yefremov announced his support for Russian President Vladimir Putin's recent decrees and initiatives. Of course, Yefremov is unlikely to oppose any major decision or action taken on by the federal government. In his official response to Putin's actions, Yefremov emphasized the importance of a strong system of vertical power and noted that he has long been in favor of having the president appoint and remove governors and granting the same authority to governors regarding local government. Concerning the proposed restructuring of the Federation Council, Yefremov stated that the governors did not have enough time for quality work in the Federation Council and that the Russia's legislative system would be much more effective with a full time upper chamber. - Tatyana Barandova in Arkhangelsk

### **Central Federal District**

**SMOLENSK: PUTIN CANCELS LAW FACILITATING CORRUPTION.** On 11 May President Vladimir Putin ordered Smolensk Oblast to bring its law on fining foreigners for automobile emissions into accordance with federal law (*EWI Russian Regional Report*, 17 May). The oblast law required that foreigners driving automobiles in Smolensk were obliged to pay an environmental fee to special officials, the size of which is comparable to a single entrance visa to the Russian Federation. The law created many opportunities for misuse and corruption and had virtually no ecological impact in Smolensk Oblast. The law violated two federal laws on taxation and on the environment and one government resolution on environment-related fines. The Smolensk law has been suspended since Putin's decree and Smolensk Governor Aleksandr Prokhorov has recommended that it be changed. - Aleksandr Ledovskoi in Smolensk

**VORONEZH: APPOINTMENT OF POLTAVCHENKO A SURPRISE.** Voronezh politicians were surprised by the appointment of the Georgii Poltavchenko as the Central Federal District's representative. He has absolutely no ties to the region and no regional organizations know him. According to the local media, however, he has already made some decisions regarding the oblast. Ostensibly, his assistant in the region will be Boris Kuznetsov, the former presidential representative, and he has an "adequate" opinion about extending the term of Governor Ivan Shabanov (*Voronezh Kurier*, 20 May). - Yulia Fedorinova in Voronezh

**KURSK: BETTER TO ELIMINATE FEDERATION COUNCIL.** On 23 May Kursk Governor Aleksandr Rutsvoi told the TV station Takt that he supported all of Putin's initiatives except one. He agreed with Vladimir Zhirinovskiy, who said that it is better to have a unicameral parliament than form the upper chamber on the basis of elections. - Sergei Sarychev in Kursk

### **Ural Federal District**

**SVERDLOVSK OBLAST: SHOCK AT APPOINTMENT OF LATYSHEV...** President Vladimir Putin's appointment of former Deputy Minister of Internal Affairs (MVD) Petr Latyshev as the head of the new Urals Federal District shocked the political establishment in Sverdlovsk Oblast. Within the power ministries, he is often described as a stern boss. Last year, he caused a scandal in Sverdlovsk when he criticized the Sverdlovsk State Road Inspection Unit for disorder in its administration and numerous complaints from drivers for officers demanding bribes on the roads. Many other oblasts also suffered from such inspections, which are characteristic of Latyshev's style of work. In St. Petersburg, Latyshev collected information on Governor Vladimir Yakovlev on the eve of the city's 14 May gubernatorial election (see *EWI Russian Regional Report*, 10 May). Some media speculated that Yakovlev would have to resign as a consequence of the information Latyshev was collecting. Many expected that Latyshev would publish information connecting Yakovlev with the criminal world. But the campaign against Yakovlev quickly ended when Putin decided to withdraw his candidate from the race in favor of Yakovlev.

Governor Eduard Rossel has already offered Latyshev an office on the 16th floor of the oblast administration building. Rossel told him that "the office is empty and you can get to work today." Yekaterinburg Mayor Arkadii Chernetskii is also ready to cooperate with Latyshev.

In contrast to the politicians who have to be cooperative, local political scientists are not hiding their disappointment. Director of the Institute of Philosophy and Law Anatolii Gaida, one of the developers of the concept of the governor-general, said that he has the feeling that the presidential representative is becoming a "general above the governors" rather than a governor-general. He said that it would have made more sense to appoint a politician as representative because he would have the skills required to establish relations with the local elites and would therefore be more effective in developing a more hierarchical system. It will be difficult for generals to behave in this manner since they think in different categories, he noted. - Nataliya Mints in Yekaterinburg

**... MIXED REACTION OVERALL.** In his initial statements regarding Putin's moves, Sverdlovsk Governor Eduard Rossel has generally praised the president. However, he has not been very outspoken and none of the local media have been able to elicit further commentary from him. Most likely, Rossel is waiting to see what Putin does next before making his position clearer.

Yekaterinburg Mayor Arkadii Chernetskii has also been supportive, saying Putin's move was a "useful initiative." He argued that a professional Federation Council would be "more effective." He claimed the moves could positively affect the development of the country. However, he noted that the "actions of the authorities should be carried out within the framework of the law."

Rossel-ally Viktor Yakimov, the chairman of the upper house of the regional legislature, has been more critical. He argued that Putin's actions "contradict the development of our society." Yakimov is the former mayor of one of the oblast's largest districts. He said, "either we develop along a democratic path and then only the voters can remove an elected official from office or we announce a special regime and completely do away with elections for governors and mayors. You can't combine one and the other." He also opposed Putin's decision to change the way the members of the Federation Council are chosen. According to a recent decision adopted by both houses of the Sverdlovsk Oblast legislature, Yakimov would represent the region's legislature in the national parliament's upper house from 2002. Currently, Yevgenii Porunov, the chairman of the lower house represents the oblast in the Federation Council. In contrast to Yakimov, Porunov believes that the members of the Federation Council should work on a full-time basis. However, he said that Putin was moving too quickly and called for amendments to the constitution, which would take more time.

Most observers believe that the politicians are not really happy about the proposals, but are seeking to demonstrate their loyalty so that they do not suffer from the changes. It is not clear if the removal of an elected official is constitutional. If the procedures for removing governors and mayors are not clearly defined, such a process could simply be used for settling scores. This is not a theoretical question for Sverdlovsk Oblast, where Rossel and Chernetskii have long been political opponents. Rossel could presumably try to use his new powers to remove Chernetskii from office. He then faces the risk that Putin could remove him from power, as Yeltsin once did. Since Putin's ultimate motives remain unclear, the situation in the region also remains unclear, despite the generally positive commentary. - Sergei Pushkarev and Natalya Mints in Yekaterinburg

**CHELYABINSK: CONCERN THAT FEDERAL DISTRICTS UPSET ECONOMIC TIES.** The tone of the response to Putin's decrees in Chelyabinsk are more alarmed than positive. The authorities are confused. The local politicians are trying to make a strange compromise between expressions of loyalty to the federal government and irritation over several surprises in Putin's actions. In general, Chelyabinsk Governor Petr Sumin gave vague support to the overall thrust of the decrees.

More interesting was Sumin's commentary on the decree's apparent impact in reducing the prestige of Chelyabinsk Oblast. He said, "there is no point fearing the weakening of Chelyabinsk's role in the Ural Federal District [whose capital is Yekaterinburg], because with



the removal of Bashkortostan, Perm, and Orenburg, its role will be stronger." These three regions are part of the Great Ural Interregional Association but are not part of the Ural Federal District. Clearly, the effect of Putin's decree is to strengthen the role of Sverdlovsk Oblast, while Chelyabinsk, which has recently been expanding its ties with Bashkortostan, will not become any stronger.

First Deputy Chairman of the Chelyabinsk Legislative Assembly Aleksandr Salomatkin went even further, stating that the decree destroys the Great Ural and Great Volga associations that had been setting up economic ties within the federation. Bashkortostan, Udmurtiya, Orenburg and Perm, which are geographically in the Ural region, are now assigned to other federal districts. He warned that the effective destruction of the Great Ural association would "weaken the region economically."

The current Ural Federal District now includes Sverdlovsk and Chelyabinsk, which are strong in metallurgy, and Tyumen Oblast, which is a powerful oil and gas region. The combination is a motley and contradictory conglomeration. Chelyabinsk's power in this group will be small, whereas it was relatively strong in Great Ural association. In fact, the association was recently discussing proposals put forward by Chelyabinsk, and Sumin's authority was clearly growing in relation to Sverdlovsk Governor Eduard Rossel. The association had even delegated Sumin, not Rossel, to present its opinions to the federal authorities. - Igor Stepanov in Chelyabinsk

### **North Caucasus Federal District**

**ROSTOV: SPEAKER SEES DECREES AIMED AT ETHNIC REPUBLICS...** Rostov Oblast Legislative Assembly Speaker Aleksandr Popov said that Putin's initiatives would reduce the governors' power to work on the federal level. However, the decrees would not reduce the power of the governors in their regions. Popov supports Putin's denunciation of regional laws that do not conform with federal legislation. However, he believes that these criticisms mostly apply to the legislation of the ethnically-defined republics. He said that the federal government had essentially never criticized Rostov. "If there are such criticisms, we can deal with them ourselves. We have always been very precise in such issues."

Many of the locals have expressed concern and alarm, rather than happiness, that Rostov was named the capital of the North Caucasus federal district. In essence, Rostov will become the administrative center of the buffer zone between Russia and the Caucasus. Thus this quiet city far from the front could become the focus of the Caucasus' problems, a situation city residents hope to avoid.

Popov said that the next step in the reforms should be "optimizing and cleansing the federal structures." He pointed out that today the region must finance many of the activities of the police and the procurators. If the state introduced a new system of organizing the work of federal agencies, then "the federal agencies would not come with an outstretched hand to the regional authorities."

Popov supports the idea of combining various Russian regions, but only on the basis of the appropriate legal reform and constitutional amendments. He also supports the abolishment of using ethnicity to define regional boundaries. He claims that the quicker the state moves away

from the use of ethnicity as a defining characteristic in setting up the federation, the stronger it will become. He admitted, however, that it is a long and difficult process. - Andrei Miroschnichenko in Rostov-na-Donu

**...WHILE OBLAST AUTHORITIES WELCOME APPOINTMENT OF**

**KAZANTSEV.** When the first rumors appeared that a new presidential representative would be appointed above the entire Caucasus Military District, there was a feeling of tension in the Rostov halls of power. However, when it became clear that the new representative would be Viktor Kazantsev, who has headed the North Caucasus Military District for the last two years, the authorities were notably relieved. They think of Kazantsev as one of their own and believe that he will focus on military matters rather than administrative or political issues. For many politicians, the main thing is that Putin named a well-known individual with whom they have already established contacts. He has a well-known approach to problems and is not expected to intervene much in the affairs of the administration. He will most likely focus on imposing order in Chechnya and the other North Caucasus republics, where there are much greater violations of federal law. - Andrei Miroschnichenko in Rostov-na-Donu

**DAGESTAN: FEAR THAT POWER OF REGIONAL GOVERNMENT WILL BE**

**REDUCED.** The Chairman of Dagestan's State Council Magomedali Magomedov announced his support for Putin's initiatives, saying that "they completely serve the interests of the country, are directed at strengthening the state, improving the institutions of power, and increasing the quality of managing social processes." Additionally, however, he made clear his opinion that in reforming the federal hierarchy, it was not acceptable to weaken the regional authorities. As for giving the regional leaders the power to remove local leaders, Magomedov said that in 1996 Dagestan adopted a law giving the State Council the right to fire local leaders. He believes that when local governments are financially dependent on the regional authorities, this issue is not as important. While supporting the idea of the seven representatives in principle, Magomedov warned again that there was a danger that they would take over some of the power of the regional leaders.

There was little social reaction to the move and the local newspapers have not tried to analyze the significance of the decrees. However, our neighbor, a shoemaker, said that he thought that by creating another level of bureaucracy, the new system would either raise his taxes or "the two generals would simply take more" from him. Nobody would even consider the idea of going to complain in Rostov, where the North Caucasus Federal District will have its capital. - Zaira Abdullaeva in Makhachkala

**VOLGOGRAD: GOVERNOR UNHAPPY TO BE LUMPED IN CAUCASUS**

**DISTRICT.** In reacting to Putin's decree, Volgograd's Communist Governor Nikolai Maksyuta said that he believed that the federal government should have reorganized its structure long ago. Even though the president needed to know about the situation in each of the 89 regions, he simply did not have time to meet with each of his presidential representatives, so this system makes more sense.

However Maksyuta is unhappy that Volgograd Oblast was joined to the North Caucasus Federal District rather than the Volga region where it is traditionally grouped. He complained that the presidential administration did not consult with the regional leaders to solicit their opinion on the new districts. He noted that Volgograd plays a large role in the Great Volga Interregional Association. Most of Volgograd Oblast's economic interests are directed at the Volga region rather than the North Caucasus. These include the structure of its industry, the development of agriculture, the search for new markets, and the optimization of its transportation system. "For me as governor, the association is much more preferable" than the new federal district, he said. "However, no one asked our opinion." Maksyuta stressed that the reorganization did not affect his power, but only changed how the federal government is organized. - Ivan Kurilla in Volgograd

### **Volga Federal District**

**TATARSTAN: PRESIDENT, SPEAKER DIVIDE WORK.** Tatarstan President Mintimer Shaimiev in principle supported Putin's decrees in his public statements. Shaimiev stressed that the authorities were strong in his republic and in two or three other regions, but no where else in Russia. "In the federation, there is no authority at all levels," he said (*Respublika Tatarstana*, 19 May). In this sense, Putin's actions made sense as an attempt to restore state power. Shaimiev said that the main components of the process should be, first, establishing a strong vertical hierarchy from the president to the local level, second, increasing the effectiveness of the interaction between federal and regional authorities, and third, clearly dividing the executive, legislative, and judicial branches at all levels. He praised the appointment of Sergei Kirienko as the representative in the Volga region and replacing the current Federation Council members with appointees by the regional executive and legislative branches.

Shaimiev suggested the creation of a presidential advisory council that would coordinate the work of the Russian president with the leaders of the regions in adopting key policies. He also said that the regional leaders should meet with the prime minister no less than once a month.

At a news conference, Shaimiev said that bringing Russian and regional laws into line should be a two-way process. When asked why there was not a division of power among the branches of government in Tatarstan, where local executives serve in the republican legislature, Shaimiev said, "our institutions are formed for the next five years. The State Council is working and there will be no changes. But I anticipated this question. The heads of the raions, being deputies, help write the laws. But they are not a majority of the State Council. They number only 52 of 130 members. There is a problem, but it will not be solved in this term of the legislature."

Shaimiev warned that if the authorities were weakened at the regional level, then Russia would also be weakened. "For example, federal appointments can be made without our participation. But from our point of view such candidates should be agreed upon." Shaimiev had spoken much more sharply before Putin's decrees appeared. For example on 11 May, he said that attempts to limit the power of the governors "would provoke unprecedented open opposition. They must work with us as we are, knowing that we are people who have already swallowed one gulp of freedom." (*Vremya i dengi*, 12 May)

Chairman of the Tatarstan State Council Farid Mukhametshin was much more critical, perhaps reflecting a division of labor with Shaimiev. He questioned whether the decrees conformed to the Russian constitution and particularly asked whether the president could transfer power from the regional leaders to his representatives. He worried that the new system would be too complicated, pointing out that in the past, the republic worked directly with the federal Finance Ministry and Economics Ministry and now if republican officials had to travel to Nizhnii Novgorod to get preliminary approval, the process would slow to a crawl. He suggested that creating the new federal districts required changing the constitution. He also expressed concern that the new Federation Council would be weak compared to the State Duma.

Concerning Putin's letter to Bashkortostan, Mukhametshin said that the process would lead to the establishment of a joint commission for the region and the center. He said that this process of negotiation would take years. Pressure from above could create a response from below. He said that such work also required constitutional amendments at both the federal and regional level. He pointed out with some concern that Bashkortostan had already created a commission to study how its legislation differs from Russian norms. "I said you are moving too fast Brother Bashkirs! Why are you in such a rush? If the federal government creates such a commission, we will try to place our representatives there." (*Respublika Tatarstan*, 20 May).

Additionally Mukhametshin argued that the president should not have the right to remove democratically elected governors or disband regional legislatures. - Midkhat Farukshin in Kazan

### **KIROV: PUTIN'S DECREES UNEXPECTED, WILL RESHAPE LOCAL REGIME.**

The Kirov Oblast authorities expected Putin to move against the regional elite slowly, engaging in a long, exhausting battle over the proper reform of Russia's federal structure. Things turned out differently. Putin dealt with the problem in the first ten days of his presidency, acting decisively, sternly, and precisely.

Today one cannot envy the local authorities. For the last several years they have become used to doing whatever they want without being punished. As far as they were concerned, the Russian laws and Constitution did not apply to them. On 17 May everything changed.

Now Kirov's Communist governor will not get any farther than Nizhnii Novgorod, where the capital of our federal district is located. Now all questions concerning Kirov Oblast will be decided in Nizhnii. The red governor will have a rather difficult time dealing with the presidential representative to the Volga District, reformer Sergei Kirienko.

Kirov Governor Vladimir Sergeenkov will have to abandon the "Vyatka Economic Model" that he has applied to the region over the last several years. In the coming weeks, the federal government will likely overturn numerous gubernatorial decrees that violate federal law. The oblast will have to open its borders to vodka produced in other regions, and the export of wood products and scrap metal. The governor will no longer be able to hand out favors to his favorite enterprises. He can forget about his primitive methods for licensing entrepreneurial activity and remember that Kirov Oblast is the only region in Russia (with the exception of Chechnya) where the obligatory medical insurance system does not work. The governor will also have to accept the fact that the oblast gained control of shares in the Kirov-Chepetskii

Chemical Combine and the OTsM factory not to increase the power of the governor, but to increase oblast revenue through open privatization.

Now the governor must work with the federal center. It remains to be seen what will happen... - Marina Bakhtina in Kirov

**ULYANOVSK: GOVERNOR READY TO GO AFTER MAYORS.** Ulyanovsk Governor Yurii Goryachev publicly supported all of Putin's initiatives (*Narodnaya gazeta*, 19 May). He said he was happy to give up his seat in the Federation Council, but noted that he should appoint his replacement. He warned that if elections were held for the upper house, it would allow the candidates who lost the 1999 State Duma elections to win a seat in Moscow anyway. He also did not see it as a problem that the president could fire him, noting that "separate kingdoms" were dividing Russia. However, this statement was not completely honest since Ulyanovsk is in many ways a separate kingdom itself.

He met the proposal to give governors the power to remove mayors with great enthusiasm. In fact, the pro-gubernatorial oblast press depicted Putin's initiatives as an attack on the excesses of local government, and removing them would allow the state to function more effectively.

Legislative Assembly Speaker Sergei Ryabukhin worried that taking the governor and regional legislative chairman out of the Federation Council would create new problems, since no one knows the situation better in the regions than the top officials. He supported the idea of the president disbanding regional legislatures that violate federal norms, but claimed that this issue did not affect Ulyanovsk since, as he claimed, "we do not have any violations of federal law." However, this statement was untrue since the regional legislature every year adopts budgets that violate a series of federal laws. - Sergei Gogin in Ulyanovsk

**PERM: POLITICIANS REMAIN CALM AND CAUTIOUS.** Russian President Vladimir Putin's recent initiatives have been calmly received in Perm, a region that is traditionally politically stable. The region had no surprising reaction to Putin's decree establishing the seven new federal districts, and the local media reacted in a reserved fashion, refraining from publishing any criticism of the decrees. Perm politicians also abstained from offering any criticism. Perm Governor Gennadii Igumnov noted, "I consider the president's proposals logical, and based fully on the Russian political experience of strengthening the political institutions of the Federation." The Perm newspaper *Zvezda* polled several regional politicians, including the chairmen of Soyuz pravyykh sil, Yedinstvo, and the Russian Regions group, workers in the oblast administration, the local branch of the Ministry of Internal Affairs, and others, who were careful in their responses, but generally supportive, noting that it remains to be seen how the decrees will be implemented. - Andrei Suslov in Perm

### **Siberian Federal District**

**NOVOSIBIRSK: HAPPY TO BE THE CAPITAL OF SIBERIA.** Novosibirsk society met Putin's decree naming the city the capital of the Siberian Federal District with unhidden approval. If before the decree, the city pretended to the title of capital of Siberia, the decree has

now codified this position. Local observers believe that the decree will bring many new benefits, including greater information flows to Novosibirsk, direct access for Novosibirsk's governor to the new presidential representative, and even increased abilities to influence the federal government. These pleasant thoughts somehow pushed the political meaning of the decree into the background and there have been no serious local discussions of its influence on the principles for constructing federalism in Russia.

Governor Viktor Tolokonskii said that today, "the federal government controls all the levers to implement legislative and state policy" because it controls the budget and has the power to adopt laws. Indeed, Tolokonskii has little room for maneuver against the federal government today. He was elected in January and is little known to the presidential administration. Certainly the administration has no reason to criticize him as it does many other governors. Thus there is little reason for Tolokonskii to be afraid at the moment. Nevertheless, he offered some criticism of the decree: "...we all understood that sometime in the future the combination of regions would occur. Everyone understood that this was in the distant future. But today, when the economy is still unstable, it is not the best time for an administrative restructuring." - Irina Maslennikova in Novosibirsk

**IRKUTSK: GOVERNOR OPENLY CRITICAL OF PUTIN'S ACTIONS.** Irkutsk Governor Boris Govorin was one of the few governors openly critical of Putin's decrees. He agrees that a reform of the federal government's agencies in the regions was long overdue, but believes that Putin's reforms are not well thought out. He thinks it is more effective to have the governor and speaker in the Federation Council than their appointees. He said that the top regional officials have a better sense of the situation in their region and better understand the laws that the State Duma is working on. He believes that the federal government went too far in accusing the governors of being separatists and princes. He argues that the governors held Russia together during the difficult years of reform. "I am firmly convinced that the oblast governors and republican presidents saved Russia from serious crises at the federal level," he said on 23 May. He believes that the seven districts also will not be effective. He said that only if the president wants to fence himself off from the problems of the regions, would this system be useful.

Govorin doubted that the new system of seven presidential representatives will be effective. "[Siberian Federal District Representative Leonid] Drachevskii does not have any instruments [to affect policy], neither financial, nor administrative. It turns out that we are going to discuss some problems with him, he will take notes, and then go somewhere to discuss them." That is how the governor thinks the new system will work.

Govorin is likely critical of the new plan because Irkutsk Oblast seems to lose from the arrangement where the new Siberian district will be headquartered in Novosibirsk. He apparently believes that a bureaucrat based there will not be able to obtain a deep understanding of Irkutsk's problems. - Teleinform in Irkutsk

**KRASNOYARSK: USS BACKS MOVES, LEBED SILENT.** Chairman of the Krasnoyarsk Legislative Assembly Aleksandr Uss believes that the main problem of Russian federalism is hidden and open separatism because the regions are poorly integrated and the

power of the president is not great. In the recent report of the Council on Foreign and Defense Policy, Uss made preserving the unity of the state the top priority. Even before Putin's decree was published, Uss had recommended giving the president the power to dismiss governors and disband regional legislatures that do not obey federal norms. After the publication of the decree, Uss reiterated these opinions, but criticized those media which paint all governors as princes and bandits. "I am categorically against this," he said. He said that the members of the Federation Council were happy to give up their power by the end of the year.

Governor Aleksandr Lebed, in contrast, did not state a public opinion. However, there is clearly a nervous mood in the administration and some members even claim that Lebed is planning to return to his native Rostov Oblast, where he plans to run for governor. However, these rumors were not confirmed. - Pavel Avramov in Krasnoyarsk

### **TOMSK: UNHAPPY ABOUT REDUCTION IN SIBERIAN ACCORD'S POWERS.**

The local media have done a poor job analyzing Putin's latest decrees. The governor and oblast administration have also avoided offering any real commentary. The expressions of complete loyalty seem to hide a certain amount of dismay. The decrees will shift power in the region, reducing the influence of the Siberian Accord Interregional Association and threatening Governor Viktor Kress's newly created government. This structure was established when the federal government was constantly changing. It reflects the influence of Sverdlovsk Governor Eduard Rossel who often met with Kress during their joint lobbying efforts in Moscow.

The establishment of the seven federal districts introduces new, powerful figures to regional politics, upsetting the system of checks and balances that had grown up until now. The only question is how quickly the new presidential representatives will take on their new powers. Combined with the possible changes in the way Federation Council members are chosen, the decrees would lead to a considerable loss of gubernatorial power.

Now the governors are making many attempts to soften the possible consequences of the new decree. For example, Governor Kress and his team have made numerous trips to Moscow in recent days. The greater power the governor will have over the mayors in the region is small comfort. Even without this decree, the Tomsk Oblast administration long ago found levers to use against the mayors.

Russian regional leaders have long been working together to exert pressure on the federal government. The Siberian Accord, of which Kress is the leader, has pursued these plans for several years, eliciting suspicions of separatism among Moscow politicians. Putin's decrees are a tactical approach to overcoming separatist tendencies and using the desire of the regional leaders to unite as a way to strengthen the federal center. However, if the tactics are logical, then the strategy raises many questions. The dissolution of the USSR was facilitated by the destruction of the party-administrative apparatus and the collapse of the state proceeded along the lines of the Soviet republics, which were strong administrative and military centers united by general geopolitical interests. Many have already pointed out that the new federal districts are based on the country's military districts. It is not hard to imagine that following the next Moscow crisis, the country could fall apart along the lines of the new districts. While Putin's decree is aimed at preventing further separatist tendencies, they also ironically contain the threat of a more decisive collapse. - Andrei Bondarenko in Tomsk

## Far Eastern Federal District

**PRIMORSKII KRAI: NAZDRATENKO TAKES CREDIT.** Just when the silence exhibited by Primorskii Krai authorities regarding Russian President Vladimir Putin's initiatives began to raise concern among the locals, Governor Yevgenii Nazdratenko's administration issued a press release stating the governor's steadfast support for the president's legislative initiatives. Nazdratenko stated, "I fully support the thoughts and ideas the president has placed before Russians. I completely agree with Vladimir Putin's opinion that without strengthening vertical power, plans for economic revitalization cannot be implemented. The core of the draft laws is to establish order and execute laws throughout the country."

Like Sverdlovsk Governor Eduard Rossel and Moscow Mayor Yurii Luzhkov who noted that Putin is taking on restructuring the federation in a manner they proposed long ago, Nazdratenko also claims that he has tried to push for these laws for many years. The governor emphasized that all federation subjects--republics, kraia, and oblasts--should have equal status, and that the practice of concluding bilateral agreements between the center and the regions, which has been used widely in recent years, ruined the constitutional basis of the country.

However, one should note that Nazdratenko began his appeal with very careful statements: "To recommend a mechanism for realizing the initiatives today is quite difficult. I feel that the ideologists and designers of these projects themselves need to answer this question." Such caution can probably be explained by the fact that one of the initiatives included in the draft laws would allow the Kremlin to remove governors, which is linked to Yeltsin's unsuccessful attempts at removing Nazdratenko in 1997 (the governor was backed by the solidarity of the governors in the Federation Council, see *EWI Russian Regional Report*, 10 July 1997). Moreover, like other regional leaders, Nazdratenko probably does not care for the budget initiatives that would transfer management of federal property and energy resources from the regions to the seven new districts.

Nevertheless, the packet of draft laws contains initiatives that are favorable for the Primorskii Krai governor. "The one that impressed me most," Nazdratenko stated, "is the equal degree of responsibility for the president, the governor, and the heads of local governments." The possibility that the governor would remove local administration heads is quite realistic for Primorskii Krai, which has witnessed an on-going battle between the governor and former Vladivostok Mayor Viktor Cherepkov since 1993. Observers note with irony that Acting Vladivostok Mayor Yurii Kopylov, a Nazdratenko protege, can already count on his victory in the city's mayoral election next month. Even if Cherepkov gathers the most votes on 18 June, the governor could legally remove his chief rival.

The authorities have not yet offered any comments regarding the appointment of General Konstantin Pulikovskii, former commander of Russian forces in Chechnya, as the presidential representative to the new Far East district. Local media emphasize that the general should be familiar with Primorskii Krai's problems, as he was born and educated in the kraia's second largest city, Ussuriisk. The newspaper *Vladivostok* described Pulikovskii's troops' 1995-1996 assault on Grozny as a brilliant military operation that was spoiled by the Kremlin



for unclear reasons. Other media are more cautious in their estimations of the general's military accomplishments. - Dmitrii Motovilov in Vladivostok

## **POLITICAL ANALYSIS**

### **THE GREAT SEVEN**

by Leonid Smirnyagin, former presidential advisor

MOSCOW - President Vladimir Putin's 13 May decree creating seven federal districts elicited a lively reaction from the country's press and politicians. The press published a series of articles, one more sensational than the next, with some even giving themselves over to hysteria. Before they read the text, the country's governors praised the timeliness and wisdom of the decree. It was almost comical to see how, when they finally learned all the details, the same politicians lost their previous ardor and some could not even hide their depression.

In reality, the decree contained neither cause for the commotion in the press nor the depression of some governors. The first attempts to create federal districts appeared in the Kremlin in 1994 and were well developed by 1995. Then the number of districts was much larger, 34 in one project, 25 in another.

Now, as then, the president is only talking about reorganizing the federal administration without any attempt to restructure the regional or local authorities. Many Russian journalists do not recognize this distinction. Putin is trying to impose order on federal employees, 90 percent of whom are located in the regions. Overall, there are 410,000 federal employees, with 30,000 in Moscow and 380,000 in the regions. The 89 regions taken together employ only half as many, 190,000. It is noteworthy that the republics have more employees than the federal government on their territory (Bashkortostan, Komi, and Tatarstan employ twice as many people locally as the federal government), while in many ethnic Russian regions regional bureaucrats are only a fourth or fifth as numerous as federal employees (examples include Voronezh, Murmansk, and Krasnoyarsk).

This giant army of federal employees has long functioned as if no one was in charge. The federal agencies in the regions were only weakly tied to each other and their subordination to Moscow was constantly compromised by the influence of the regional authorities. Moscow only paid the salaries of its regional branches, while the governor covered the other expenses (rent, transportation, etc) according to an implicit agreement with Moscow. As a result, the federal branches were effectively under the control of the governors. If the interests of the federal government and the regions contrasted, the employees of the agencies generally had much more sympathy for their regions. In many cases, the heads of federal agencies in the regions were sucked into regional political intrigues, often on opposite sides of the barricades, and ended up fighting among themselves. Thus they often did not have time left over to protect federal interests.

In 1997, the administration introduced changes to overcome this chaos. Anton Fedorov, the head of the Presidential Administration's Department for the Affairs of the Presidential Representatives, succeeded in winning a presidential decree which gave the

presidential representatives leadership of the so called federal collegium in the regions. The collegium included the heads of all the locally-based federal agencies and the presidential representative was supposed to coordinate their activities. The decree had a power positive effect on the situation. However, at that time, the presidential representatives were of rather mixed ability and only the most active were able to make any real change on the ground. Unfortunately, there were few such representatives. The vast majority had long since become allied with the governors, often having been put in power at their recommendation.

The 13 May decree is another step in overcoming this chaos. It removes the federal agencies from direct control by the governors, mainly because the federal districts are much larger than the regions. Secondly, the decree greatly strengthens the president's presence in the regions. Until now the president had little personal contact with the representatives and their communication was coordinated by numerous Kremlin intermediaries. The seven new representatives will be visible and key players. They will have more contact with the president and this fact alone will increase federal authority in the regions. However, there is no point in exaggerating the influence of this decree, as many journalists have done.

One exaggeration is the numerous speculations that representatives will have enormous powers and will use them to rule their districts while subordinating the governors in the name of the president. The list of the representatives' powers in the decree does not go much beyond the powers assigned to each of the presidential representatives in the regions. Their tasks are basically monitoring and communicating, coordinating the activity of federal agencies, and helping choose new federal personnel. However, these same powers are described in a more threatening way, with many unclear details. For example, the decree is rather unclear when it says that the representative can "send his deputies and employees to participate in the work of the regional or local authorities." We can only guess what this clause actually means in practice.

This participation in the work of lower-level bodies signals the main difference between this decree and previous ones on the federal administration. The degree threateningly calls for organizing the implementation of state domestic and foreign policy and does not make a distinction between whether the representative is working with federal or regional authorities. Thus the decree could mean that the representative is organizing the work of the regional authorities.

Additionally, the representative will represent his district to the federal authorities because he must sign off on federal decisions as they affect the interests of his district. This responsibility was not in the purview of the representatives sitting in each of the regions, but it is within the capacity of the great seven. This innovation is extremely clever from the perspective of the theory of federalism. It means that the federal authorities themselves can check to see whether a draft law meets the interests of the regions before submitting the draft to the federal legislature where regional representatives themselves will examine it. This move will undoubtedly strengthen state management. Of course, it is hard to imagine how the representatives will deal with this task. They will have to rely on a large staff of analysts, or base their opinions on the opinions of the regional leaders, collecting them quickly every time a draft law appears.

The overlap of the new federal districts with Russia's military districts has provoked considerable comment. Many journalists see this as suspicious because almost all of the new representatives are generals, either retired or currently serving. More likely, Putin chose the

military districts because they have excellent transportation, communications, and information infrastructures. The decree specifically states that the representatives have the right to "use state and government communication systems."

The unfinished nature of the decree limits its meaning. Many important details are simply left out. Most important: now practically all federal agencies have set up their regional units in the country's 89 regions. If there are 15 regions in a federal district, then the presidential representative will have to work with 15 leaders of one ministry. Since there are dozens of federal agencies working in each region, coordinating their activity in one federal district will simply be impossible. Of course, the decree gives the head of each district the right to appoint deputies and house them where ever it makes sense. Judging by rumors, these deputies will be the former presidential representatives in each of the regions. Of course the Great Seven will have to appoint presidential representatives to the republics where there are no presidential representatives. That means that the head of the federal districts will become one more link in the managerial chain.

Another unfinished aspect of the decree is the monitoring functions assigned to the representatives. They are now too wide and seem to have only a demonstrative effect. As a result they overlap with the functions that are supposed to be carried out by the procurators. The decree does not even mention the courts. The procurator is only mentioned in terms of coordinating with the representative, but not in the section where the representative is obliged to recommend that the president stop action on gubernatorial decrees that violate federal law. Apparently, the representative will carry out these functions without consulting the procurator. Subordinating the judicial branch to the executive branch in this way is unfortunately characteristic for contemporary Russia. It is a legacy of the Soviet era and a mistrust of the legal system is deeply engrained in Russian culture. It is a pity that the decree continues this nasty tradition.

The text of the decree reflects the speed with which it was prepared. Only haste would explain the formulation that the head of the districts would "develop together with the [eight] interregional associations programs for the development of the regions in the given federal district." The seven districts do not have much in common with the eight interregional associations, and this sentence clearly was left in the decree from a previous draft which would have drawn the lines of the federal districts in conjunction with the interregional associations. There are rumors that the previous version of the decree was put together so hastily that it did not include all of the regions in the list laying out which region would be in which district.

Nevertheless, there are two reasons to take this decree dividing the country into seven districts seriously. First, the given decree is only the form which will in the future be filled with substance, as Anton Fedorov pointed out in *Nezavisimaya gazeta*. There is considerable reason to assume that over time additional powers and functions will be assigned to the representatives and the main (if not the only) limit will be the desire or lack of desire among the regional leaders to oppose this process. So far such opposition is not visible even though the constitution gives the governors many levers to avoid strict control by the federal authorities and the president himself. The governors are not bureaucrats, but political leaders elected directly by their constituents. Today they are prepared to go along with Putin's decree (except for Ingushetiya's Ruslan Aushev who has already stated that he will not go to Rostov-na-Donu,

where the capital of the North Caucasus federal district is based). This current readiness is more an atavism of the ancient Russian habit of bowing before authority and is not a result of the conditions established by the Constitution and federal law. If the governors change their minds, then their battle with the president could cause the country considerable trouble, so let's hope that the governors are smart enough not to rethink their actions...

This, in my opinion, is the main political meaning of the decree, which is only barely connected with the formal text. The main point is not to restructure the country's administrative and territorial divisions, but to separate the president from the governors and to end the traditions that developed under President Yeltsin. Yeltsin always saw the governors as the buttress of his power. He jealously worked to strengthen their personal union with him and, one must admit, was able to rule with them. The new president apparently does not plan to study this science. With his decree, he showed that he plans to run the country alone and does not plan to meet with the governors as often as Yeltsin did. Just the opposite, he set up his own state institutions which will distance him from the regional leaders. This decree is a strong blow to the prestige of these regional leaders. Yesterday's boyars, deciding the fate of the country together with the president, are now merely regional politicians, whose names will quickly disappear from the national newspapers and television networks.

I have discussed the new decree with several Kremlin veterans. One of them, who has an especially good sense of how the Kremlin works, answered my question about the practical meaning of the decree by waving his hands: he believes that the decree will not be implemented in the near future and it is not clear if it will even be completely implemented. The real meaning of the decree can be summed up in two words, he said emphatically, "The governors have been pushed down (*Gubernatorov opustili*)."

## **BOOKS THAT RAISE QUESTIONS**

**A WILD RIDE WITH GOSKOMSTAT'S "*REGIONY ROSSII*."** Goskomstat -- the Russian State Committee on Statistics -- has always been regarded by the academic and business communities as somewhat unreliable. Nevertheless, it is the only officially available source of statistical information on Russia and is therefore widely cited.

Shockingly, the regional figures listed for population and gross regional product in the various sections of the 1999 *Regiony Rossii* are different. In other words, not only do the figures have a questionable relationship to reality, they are not even internally consistent within the confines of the two-volume set. For instance, pages 20-23 of volume 2 and the regional profiles in volume 1 feature different population sizes for Russian regions than pages 32-35 of volume 2. For example, the disparity for Moscow City is more than 200,000 people on 1 January 1999. Likewise, percentage shares of different industries in gross regional product do not conform in the two volumes (pages 282-285 in volume 2 and in individual regional profiles in volume 1). There may be other inconsistencies as well, but we did not check all indicators.

The Goskomstat staff, whom we contacted to clarify the confusion, apparently did not see any controversy. They said that in respect to population, one set of numbers includes only those permanently living in a specific region, while the other also contains those who are there temporarily. As for the regional product, the difference, according to the committee, results from

using different product prices -- base and market -- in different places. The population data is explained on volume 2, pg. 74, but the gross regional product information is not explained anywhere. Unfortunately, only the most attentive reader will what information there is because it is rather well hidden. -- RRR Editors

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**BREAKING NEWS**

**POLITICS**

**EXPLOSION ROCKS VOLGOGRAD.** A powerful explosive device blew up on a Volgograd military base on 31 May. Governor Nikolai Maksyuta blamed the bomb on Chechens, saying it was either a terrorist attack carried out as part of the general Chechen resistance or revenge for jailing Shamil Basaev's nephew in a Volgograd prison four days ago. Either way, the event will likely change local perceptions of the region's large Chechen diaspora, fostering considerable mistrust. The blast was so loud that our correspondent heard it in his apartment.

### **PUTIN NAMES PRESIDENTIAL REPRESENTATIVES TO SECURITY COUNCIL.**

President Vladimir Putin named his newly-appointed seven presidential representatives to the Security Council on 27 May. Other members of the Council include Secretary Igor Ivanov, the prime minister, defense, foreign, interior, justice, and emergencies ministers, the procurator-general, Federal Security Service head, presidential chief of staff, State Duma chairman, Federation Council chairman, FAPSI director, military intelligence head, Federal Border Service head, and the Russian Academy of Sciences president. The move suggests that the presidential representatives will focus on security and law enforcement issues. In contrast, former Prime Minister Yevgenii Primakov included the heads of the eight interregional associations in his government presidium (see *EWI Russian Regional Report*, 23 September 1998). The interregional associations are more focused on economic issues than Putin's seven federal districts seem to be.

**COURT PRESIDIUUM RULES AGAINST LUZHKOVA IN POLICE DISPUTE.** On 23 May the presidium of the Russian Supreme Court ruled against reinstating Moscow Police Chief Nikolai Kulikov, deciding in favor of the Ministry of Internal Affairs. Kulikov was dismissed by Russian President Boris Yeltsin in December 1999 (*EWI Russian Regional Report*, 8 December 1999), a move that angered Moscow Mayor Yurii Luzhkov, who claimed that Yeltsin's action was politically motivated. Luzhkov filed a complaint to the Supreme Court, noting that Kulikov's removal violated federal and city legislation requiring the regional executive's approval before dismissing or appointing police chiefs. The Supreme Court rejected Luzhkov's complaint in December 1999 stating that the president was not removing Kulikov as head of the Moscow police, but as deputy minister of internal affairs. The two positions had been merged in October 1998. Luzhkov intends to appeal the decision to the Constitutional Court. (*Kommersant Daily*, 24 May)

**RAKHIMOV WINS SUIT AGAINST YABLOKO.** The Beloretsk City Court, which is located in Bashkortostan, ruled in favor of Bashkortostan President Murtaza Rakhimov in the lawsuit Rakhimov filed against Yabloko leader Grigorii Yavlinskii. According to the court decision, Yavlinskii must publicly renounce his accusations against Rakhimov and pay him 800,000 rubles in damages, *Kommersant Daily* reported on 27 May. The basis of Rakhimov's allegations was 300,000 leaflets distributed prior to the December 1999 State Duma elections in which Yabloko expressed support for Rakhimov's opponents. The leaflets called Rakhimov's regime a "feudal nomenklatura" and called for "honest and wise" leaders in the republic who would "not steal or lie, but serve the people," language that the court deemed damaging to Rakhimov's honor and dignity.

### **ECONOMICS**

#### **MAGADAN GOVERNOR ISSUES ULTIMATUM TO CANADIAN FIRM.**

Magadan Oblast Governor Valentin Tsvetkov sent a warning letter to Canadian Pan American Silver, which holds the license to exploit the region's Dukat silver mines, Russia's largest silver deposit, warning that the company must begin mining operations immediately or it would lose its

license. Pan American Silver formed the Serebro Dukata joint enterprise with Russian firm Geometall Plus and won the Dukat mining license in November 1997 (*EWI Russian Regional Report*, 4 December 1997). The Dukat silver reserves were discovered only in the 1970s and were a profitable production until the collapse of the Soviet Union, which left the mine's processing partners inaccessible in Kazakhstan. The mine's mounting debt frightened off potential investors, so ultimately Tsvetkov sought to save the mine from bankruptcy by auctioning off the mining license. The majority of the money Serebro Dukata paid for the auctioning license went to pay wage arrears.

Pan American Silver's license demanded that the mine reach full operation no later than 2001. However, the company's operational plans hit a road block last year when the Moscow company Kaskol purchased Dukat's silver processing mill and the mine's infrastructure in a competitive tender. The deal left Pan American without an on-site processing mill. As a result, Pan American and Kaskol have only part of what they need to make the mine work. Kaskol has made clear that it wants to exploit the Dukat reserves itself. Pan American Silver responded immediately to Tsvetkov's ultimatum, stating that it would begin construction of a new mill this autumn and is currently raising the \$26 million necessary for construction. Pan American Silver does not expect to have to pull out of Magadan, though the governor clearly favors its rival. Meanwhile, Kaskol continues to hope that it will be able to take over the Dukat reserves and is ready for its partner Polimetall to seek a temporary mining license if Serebro Dukat's is revoked. (*Izvestiya*, 26 May)

**KRISTALL WORKERS BACK FIRED DIRECTOR.** Last week the board of directors of Moscow's Kristall vodka factory voted to dismiss General Director Yurii Yermilov, appointing former Rosneft Vice-President Aleksandr Romanov to serve as acting general director. The formal reasons for Yermilov's dismissal include poor performance and alleged violations of the company's charter, however, the board was probably more motivated by the general director's opposition to the formation of state alcohol monopoly, Rosspirtprom, and his close ties to Moscow Mayor Yurii Luzhkov. The state owns a 51 percent stake in Kristall, and the stake is held in the trust of the Moscow City government. The city is expected to turn over the state holding to Rosspirtprom in June. On 29 May the Kristall workers' collective organized in protest of Yermilov's dismissal and have sent a letter to Russian President Vladimir Putin asking him to overturn the board's decision. (*Vedomosti, Kommersant Daily*, 30 May) The authorities had to send in the police to restore order at the plant.

**CATERPILLAR EXPANDS PROGRAMS IN RUSSIA.** On 23 May Caterpillar in Russia General Director James Tevebaugh announced the company's plans to expand its dealer network. There are currently eight official Caterpillar dealers in Russia and the CIS, but the company plans to increase that number to twelve, eight of which will be in Russia. Dealership agreements are soon to be completed with two companies, one will work in Irkutsk Oblast and the other in Yamal-Nenets and Khanty-Mansi autonomous okrugs, Komi, and Tyumen Oblast.

Caterpillar is also planning to launch a financing program to make its products more marketable to businesses. While in the past Caterpillar has financed large scale projects with the oil and gas industry, the new initiative is targeted to construction companies and small

businesses. Caterpillar is also considering establishing a lease-to-own program for its machinery.

Caterpillar opened a factory in Tosno, Leningrad Oblast in March, but assembly of Caterpillar machinery has already been suspended. Tevebaugh noted that the factory was ready to begin producing Caterpillar machinery as soon as demand for the products is sufficient. (*Kommersant Daily*, 24 May, *The Moscow Times*, 27 May)

**NOVOLIPETSK METALLURGICAL COMBINE TO ISSUE ADDITIONAL SHARES.** The management of Novolipetsk Metallurgical Combine (NLMK) announced plans to issue additional stock, which were met with stern opposition by Vladimir Potanin's Interros, owner of a 34 percent stake in the company. NLMK argues that the additional shares are being issued to cover its debts. However, the share scheme calls for current investors to purchase additional shares in proportion to their current holdings, forcing minority investors like Interros to pay for the stock simply to maintain their current position in the company. (Polit.ru, 29, 30 May)

## **PUTIN'S INITIATIVES IN THE STATE DUMA**

### **STATE DUMA APPROVES PUTIN FEDERALISM BILLS IN FIRST READING.**

On 31 May the State Duma approved President Vladimir Putin's three legislative initiatives on Russian federalism in the first reading. The Duma approved the bill on changing the way the Federation Council is formed by 362-34 with 8 abstentions, giving the president the right to remove governors 357-28, and giving governors the right to remove mayors by a vote of 319-39, with 7 abstentions (Polit.ru, 31 May). The Yedinstvo, Narodnyi deputat, Communist, and Liberal Democratic factions voted in favor, while the Otechestvo-Vsya Rossiya, Soyuz pravyykh sil, and Yabloko factions were generally opposed. State Duma member Boris Berezovskii led the opposition to the bills, making many of the points that were published the same day in *Kommersant Daily* (see related article in this issue). With majorities over 300, the Duma could override any vetoes by the Federation Council and send the bills directly to Putin.

However, the first reading means that the lower house has only adopted the president's texts as a basis for discussion. The bills are likely to look considerably different after the necessary three readings. The Kremlin has indicated that it is willing to compromise on several points, according to acting Deputy Presidential Chief-of-Staff Aleksandr Abramov, who is in charge of the expanded territorial department. In an interview with the RRR, Deputy Leader of the Soyuz pravyykh sil faction Viktor Pokhmelkin said that SPS support for the bill to reorganize the Federation Council is likely to remain firm. However, the faction will probably not support the other two bills if its recommendations are not taken into account.

There were several accusations that the governors put pressure on the State Duma members to thwart Putin's initiatives. On 30 May members Dmitrii Savelev (SPS), Valerii Gartung (Narodnyi deputat) and Ivan Zhdakaev (Agrarian-Industrial group) sent an open letter to Putin saying some members of the Federation Council were pressuring them. They did not name who exactly was pressuring them (Polit.ru, 30 May). Earlier, Putin's representative in the

Duma, Aleksandr Kotenkov had also complained of such pressure (see the response from Primorskii Krai Governor Yevgenii Nazdratenko elsewhere in this issue).

### **DETAILS ON PUTIN PLAN TO RESTRUCTURE FEDERATION COUNCIL...**

According to the bill Putin submitted to the Duma on restructuring the Federation Council, members of the Federation Council would be elected for a four-year term by the regional legislature. The proposal follows the norm established in the constitution that one delegate would represent the governor and one the regional legislature. Both the governor and chairman of the regional legislature would nominate candidates to represent their respective branches. The regional legislature would then elect the two representatives by secret ballot according to procedures it devises. The members will work in the Federation Council as a full-time job and cannot hold other seats in national or regional legislatures or executive positions. The regional legislature would be able to recall any Federation Council member through a secret vote. Putin hopes to implement the new procedures on 1 February 2001 with the new members elected no later than 1 April 2001. The current members of the Federation Council would lose their membership at that point.

State Duma member Viktor Pokhmelkin, one of the leaders of the Soyuz pravyykh sil faction, believes that the best solution would be for the voters to directly elect members to the Federation Council. However, he supports Putin's plan as an improvement over the current system because he thinks it allows for a better division between the executive and legislative branches and allows the body to work on a professional basis (of course the division would not be complete, since regional executives would still have control over half of the members in the federal parliament's upper chamber). Currently governors and regional legislative leaders only work in the Federation Council a few days a month and do not have time to contribute much to the legislative process. Some governors, on the other hand, have expressed concern that they would not be able to recall their representatives to the Federation Council (Polit.ru, 26 May).

**... AND REMOVING GOVERNORS.** The bill on the removal of the governors and disbanding of legislatures that violate Russian legal norms takes the form of amendments to the law defining the organization of regional political institutions adopted in October 1999 (see *EWI Russian Regional Report*, 10 November 1999). The bill effectively gives the president the power to remove a governor if he so desires. Existing legislation gives the regional legislature the power to declare no confidence in the governor if he violates regional law. The bill does the same thing, but the vote of no confidence does not appear to remove the governor from office. If the president removes a governor from office, he then appoints a temporary governor to replace him. According to the existing law, a governor who resigns continues to perform his functions until a new one is elected (a clause that Putin seeks to remove). New gubernatorial elections would have to be held within six months. The bill gives both chambers of the legislature, the general procurator, and the regional legislatures the right to recommend that the governor be removed. The president can also temporarily remove a governor while criminal charges that have been filed against him are being studied.

On regional legislatures, the bill says that regional legislatures can be disbanded through the force of a federal law. Previously the law gave the governor the right to disband the

legislature if the court ruled that the legislature had passed a law that violated Russian norms and did not rescind it in the course of six months. The amendment reduces this term to three months. Other parts of this law make it easier for the president and the courts to overturn laws that violate the Russian constitution or federal norms.

Pokhmelkin said that his Soyuz pravyykh sil faction supported the bill in its first reading because it thinks that it should be possible to remove the governors from their job for violating the constitution. However, the faction is not happy with the mechanism the president defined for removing governors from office. Before the second, more important, reading in the State Duma, the faction will propose a number of amendments. First, it will suggest that the courts, particularly the Russian Supreme Court, rather than the president, play the key role in removing the governor. The federal court must play this role since regional courts are too loyal to local governors. Second, the faction wants to better define when a governor can be removed from office. They believe that the current formulation is too abstract and almost any legal infraction by the governor could be considered grounds for removal. The faction will try to make the grounds for removal extremely serious, such as usurping federal authority or a significant violation of civil rights. Third, the bill gives the president the right to remove the governors if a criminal case is filed against him. However, the faction wants to apply a stricter standard. Namely the president could not remove a governor until the procurator files charges against him. The procurator does this once he believes he can make a solid case against the governor. The faction is not saying that the president has to wait until the governor has been convicted of a crime.

Pokhmelkin also pointed out that Putin's desire to appoint a temporary governor after sacking the previous one would violate the legislation of Perm Oblast, the region that he represents, whose charter says that if a governor leaves office, his first deputy takes over until new elections are held. Pokhmelkin thinks that Putin's attempt to name even a temporary governor is an incorrect intervention into the affairs of a region and will seek to remove this provision in future readings of the bill. He also said that the text of the law must explicitly state that an acting governor only serves until new elections are held according to regional legislation. The current draft of the bill only states this provision implicitly.

Pokhmelkin and his fellow faction members have similarly strong reservations about the bill designed to give the governors the power to remove mayors. This bill is the most controversial of the three and some believe that it will give the governors far too much power over local elected officials. In many regions the governor and mayor are in conflict and the federal authorities will not always want to side with the governor. Pokhmelkin believes that often it would be useful to have third-party input. Here the president, working on the basis of the courts, could play a mediating role.

**BEREZOVSKII LETTER FIRST REAL CRITICISM OF PUTIN.** On 31 May *Kommersant Daily*, one of the Russian newspapers owned by Boris Berezovskii, published an open letter from Berezovskii to Russian President Vladimir Putin, the stated goal of which was "to begin an open, argumentative public discussion" on the president's recent decrees and draft laws. Berezovskii claims that the president's initiatives would bring more harm than good, stating that they are attempts to solve a real problem with inadequate methods. He argued that Putin's



proposals are anti-democratic, violating the system of checks and balances and expanding the authority of the executive over the legislative branch.

Berezovskii warned that Putin's initiatives could spur several negative tendencies including governors compensating for their weakness on the federal level by exerting greater power on the local level through the removal of mayors. Berezovskii further argued that the seven new federal districts could divide regional leaders into first and second classes, ultimately leading to the disintegration of Russia. Regarding Putin's hope to remove elected regional executives who violate laws, Berezovskii commented, "you can never change the rules of the game after it has begun. I personally would not run for governor if the governor could be removed." He also spoke out against Putin's idea of forming the Federation Council from appointed representatives, arguing that the Constitution calls for a separation of the legislative and executive branches, and therefore necessitates elected deputies.

Berezovskii's motives in issuing the open letter are not entirely clear. It is equally plausible that the oligarch is coordinating his activities with the president or fighting against him. Berezovskii's relationship to Putin has never been very transparent. The oligarch is believed to be the mastermind behind the Yedinstvo movement that helped boost Putin to power. One theory is that the financier's letter is a deception meant to distract attention away from his actual close ties with the president (*RFE/RL Newsline*, 31 May). Another possibility is that Berezovskii has broken with Putin and is now trying to rally regional support behind him.

## **REGIONAL REACTION TO PUTIN INITIATIVES**

**PRIMORSKII KRAI: NAZDRATENKO SEEKS TO CALM HYSTERIA.** After Presidential Representative to the Duma Aleksandr Kotenkov declared that some unidentified governors were putting heavy pressure on the State Duma to block Putin's initiatives and rumors began circulating that 16 governors would immediately be put on trial if the bills were adopted, Governor Yevgenii Nazdratenko's opposition immediately began to spread rumors that Nazdratenko was one of the key troublemakers and targets. However, Putin's presentation of Far Eastern Federal District leader Konstantin Pulikovskii to the governors contradicted both Kotenkov's statements and the hopes of the Primorskii Krai opposition.

During the presentation, Putin said that there were no contradictions between the governors and the center. He claimed that such statements were made by provocateurs who wanted to destroy Russia's social unity. The president said that the governors clearly understand the goals of his reforms.

On his return to Vladivostok, Nazdratenko said that the conversation was business-like and peaceful, presenting a strong contrast to the atmosphere of arguments and scandals created around the reforms in the media. Nazdratenko is sure that he will not have any major problems with the new presidential representative. The governor suggested that the main conflict would not be between him and Pulikovskii, but between Pulikovskii and the federal authorities. The governor pointed to the enormous internal debts mounting in the regions of the Far East as a major problem. In particular, he mentioned the Defense Ministry's debt to Dalenergo, the agricultural sector, and the housing sector. Nazdratenko suggested that when the new presidential representative is made aware of all these debts, he will have a real picture of what is

going on in the country. Nazdratenko believes that General Pulikovskii will be disgusted once he sees the difficult life Far Eastern civilians face.

Nazdratenko argued that bringing regional laws into conformity with federal norms is a difficult question. He believes that many of the contradictions should have been resolved in favor of the regions long ago because such laws are simply necessary for living. "If you are looking for violations, you can find 40 of them every day for every governor," he said. "How are we supposed to get medicine or fuel, which only comes to the Far East at a high price? Such violations as the lack of payment on one side, and the lack of a federal defense order on the other and the need for fuel when winter temperatures drop to minus 30... our entire life will be nothing but violations of federal law."

The average resident of the region is now wondering how many new bureaucrats the new decree will create and how much money they will require from the local budget. Beyond the staff for the new presidential representatives, there will also be branches of the procurator and justice ministry at the federal district level. According to the media, the regions will have to bear the main cost for the new state employees. *Komsomolskaya pravda* (31 May) reported the only good news in that the regions will not have to buy plane tickets for the representatives because Putin has given his seven representatives personal airplanes from the government's plane pool. - Dmitrii Motovilov in Vladivostok

**KOMI: REGIONAL LEADERS RESORT TO ETHNIC FACTOR.** President Vladimir Putin's unexpected administrative reforms have provoked a mixed reaction among the Komi elite. It is clear that many of the authorities are frightened and do not know how to react to the president's initiative. Within the Komi elite there are a variety of reactions, so clearly the leadership has not defined a unified, coordinated reaction (*Molodezh severa*, 25 May).

Anatolii Karakchiev, first deputy head of the republic, expressed the most radical point of view. "Putin was right to start with reforms. His first target is the governors. I think that the reaction will be unpredictable. Particularly in the northern republics. It will be worse than Chechnya. If they unite and the people support them, then they could declare that they want to withdraw from the Russian Federation. If they are not allowed to go, then there could be a war. It will be necessary to enlist the support of the governors before this happens." This statement was broadcast on Russian Public Television (ORT) on 26 May.

Karakchiev is far from providing a realistic evaluation of the mood among Russians and the residents of his own district. Public opinion polls show that the people wanted to see a strong, active leader as president and this is the way the majority currently perceive Putin. Moreover, the people either do not support or are indifferent to the calls for sovereignty backed by the regional leaders. Our research in Komi shows that 60 percent of the ethnic Russians see themselves not primarily as citizens of the republic, but as citizens of Russia. Among the titular population, which includes Karachiev, this opinion is also common. The mood is similar in other republics and autonomous okrugs and people there will not allow their leaders to distance themselves from Russia.

Komi leader Yurii Spiridonov took a different approach. He agrees that the Russian national legislature could stand reform, but warns against creating "two Dumas." He was concerned by how decisively the federal authorities went into action. He believes that the

president should have consulted with the regional leaders. "I think that if Russia needs a new chamber in the legislature, then it is necessary to create a House of Nationalities to take into account multi-ethnic interests within the framework of a unified powerful state." With this statement, Spiridonov is making an attempt, characteristic for Russia, to draw on ethnic factors, allowing the regional and ethnic elite to mediate their implementation. Such calls are particularly striking coming from an ethnic Russian republican leader like Spiridonov. The Russian congresses of Finno-Ugric peoples and Komi nationalists have called for creating a parliament of indigenous peoples. Going further down this path, however, means rejecting civil society in favor of ethnic divisions. - Yurii Shabaev in Syktyvkar

**SMOLENSK: GOVERNOR THINKS FEDERATION COUNCIL COULD BLOCK PUTIN MOVES.** Smolensk Governor Aleksandr Prokhorov believes that the Federation Council could block President Putin's legislative initiatives, his press service announced (*Rabochii put* 24 May). Removing the governors from the Federation Council deprives them of powerful influence over the State Duma and the government when issues important to the country and particular regions are at stake. Additionally, the governors would be deprived of the chance to regularly exchange experiences, an opportunity that the Federation Council afforded.

The presidential team should think of ways to avoid turning the regional leaders into stewards and lowering their status, he said. "Don't do any harm" is an important principle in rebuilding relations between the federal government and the regions.

On the ability of the president to remove the governors, Prokhorov said that monitoring from above and below was always a useful tool to ensure that the authorities stayed in line. However, that ability should not be turned into a lever of punishment for leaders who disagree with the federal authorities. He said that the federal authorities should not judge regional leaders by the number of laws adopted that violate federal legislation, but by the concrete results of the social and economic development of the region, the effective use of its potential, and the improvement of living standards among its population. - Arsentii Ledovskoi in Smolensk

**NIZHNI NOVGOROD: NEW SITUATION FOR GOVERNOR, MAYOR.** Putin's initiatives have created a new configuration of political forces in Nizhnii Novgorod Oblast. For Governor Ivan Sklyarov the main change is that he must operate in a more complicated political environment. On one hand, now he must report to Presidential Representative in the Volga Region Sergei Kirienko, whom he recently denigrated as someone constantly in and out of the region. On the other hand, in the near future two new players who will represent the oblast in the Federation Council will appear on the scene. Of course, the governor will try to ensure that the two are as close to him as possible, however, he will hardly succeed in making them completely dependent on the oblast administration. In this sense, the governor's access to purely administrative resources will shrink, while the significance of more subtle political levers will grow. The use of such political levers was never Sklyarov's strong suit. The appearance of the three independent political players will be a test for Sklyarov's entire team since the appearance of the new "poles" could divide up the spheres of political influence among the Nizhnii Novgorod elite.

Sergei Kirienko should be happy with his new position, which seems logical for two reasons. First, under his influence, the Soyuz pravyykh sil party supported Putin in the presidential elections. Second, the "young reformers" were always opposed to turning the regions into feudal princedoms. However, Kirienko faces two political problems. First, most likely he will have to renounce any plans to run against Sklyarov for governor. Putin would hardly like it if his representative, charged with overseeing the enforcement of federal laws, used the position to flex his muscles and seek the governor's post.

Kirienko will also have a problem operating as one of Putin's seven representatives. Most likely he will not feel very comfortable as a civilian and liberal in the company of the five of his colleagues who are in uniform. Perhaps Putin is running an experiment: if the generals are more effective than the civilians as presidential representatives, then it will be easy to replace the two civilians.

At first glance, Nizhnii Novgorod Mayor Yurii Lebedev seems to be the main loser from the changes since Putin has put local government at the lowest level of power in the oblast. But the situation is not so simple. Putin is hardly likely to allow Sklyarov to replace Lebedev with someone more to the governor's liking. Moreover, removing Lebedev, regardless of the reason, would automatically turn him into Sklyarov's most dangerous opponent in the next gubernatorial elections.

Two additional factors are complicating this situation. First, it is not clear what position the Moscow financial-industrial groups working at Krasnoe Sormovo, and in Dzerzhinsk and Kstovo will take. Second, in light of recent revelations about criminal groups working in the GAZ dealership network and the unclear fate of the GAZ-Fiat joint venture, it is not clear whether the auto plant's leadership will be able to play as large a role in supporting the regional elite as it did in the past. - Andrei Makarychev in Nizhnii Novgorod

**NIZHNIi NOVGOROD: BILLS TOO VAGUE.** Boris Nemtsov, the head of the Soyuz pravyykh sil faction in the State Duma believes that the bills Putin introduced to the State Duma will not be adopted quickly. Nemtsov believes that giving the president the power to remove governors for "violating federal law" is too vague. In any region, one can find dozens of laws which conform with one federal law, but violate another. In Nizhnii Novgorod Oblast, the regional legislature adopted about 40 laws in 1999 and the beginning of 2000 that violated federal norms, Nemtsov said. The oblast procurator often makes protests against such moves. Governor Ivan Sklyarov has called on his staff to improve the quality of the documents sent to the legislature and issued by the administration.

Sklyarov said that the federal government should not create the illusion that it can simply remove regional leaders it does not like. There should be a process by which an attempt to remove a governor must go through a court. Sklyarov stressed that "we should not ignore the opinion of the people who elected us." - Yurii Rodygin in Nizhnii Novgorod

**MORDOVIYA: FEAR THAT REGIONAL POWERS WILL BE TRANSFERRED TO FEDERAL DISTRICTS.** Political observers in Mordoviya's capital Saransk believe that Putin's decree creating seven federal districts will reduce the power of the Mordoviya government. The leaders of the Volga Federal District are planning to create a united natural

resources bloc of the executive branch and transfer leadership on these issues to Nizhnii Novgorod. This new organ will take over functions now performed by the republic's Ecology Ministry and Forestry Committee.

Additionally, observers believe that there will be a similar unification of the social support agencies, including the Social Security Ministry, Labor Ministry, Press Ministry, and committees on physical education, youth affairs, and nationalities policy. There are also likely to be changes in the National Bank, with the transfer of its key functions to Nizhnii Novgorod. Whether these plans are implemented will become clear in three months. At the moment, no one is talking about massive staff cuts in Mordoviya or dismissals of many republican bureaucrats. - Igor Telin in Saransk

**TVER: FORMER DEPUTY GOVERNOR ARRESTED.** On 24 May, the Tver procurator arrested former Deputy Governor Valerii Rumyantsev. He was accused of taking large bribes and other abuses of his official position. He is the third deputy governor to be arrested in the region, following Viktor Volkov and Ibragim Gulaev (see *EWI Russian Regional Report*, 1 July and 4 February 1999).

Rumyantsev allegedly used oblast funds to buy grain from the Geliotrop company. The oblast paid the company about \$1 million for a grain shipment. The company actually delivered grain to the oblast, but it was low quality and worth only a fraction of what it was supposed to send (*Vechernaya Tver*, 26-29 May). After receiving payment, Geliotrop quickly ceased to exist and the money was deposited in an American bank. One of the executives of the company has been arrested and allegedly described other crimes carried out by Rumyantsev. Rumyantsev's closest relatives own a considerable amount of property, with no apparent sources of income to pay for it.

The scandal has a long history in the region. The governor had already fired Rumyantsev from his administration post, but left him in charge of the Agriculture Department, which has performed poorly.

Putin's reforms have invigorated the oblast's procurator, which has long been critical of Governor Vladimir Platov's team (see *EWI Russian Regional Report*, 1 July 1999). Now that the atmosphere in the country favors prominent anti-corruption crackdowns, the procurator is more likely to take decisive action.

The Rumyantsev affair could become one of the first in a series of federal actions directed at imposing order in the regions. Such a perception follows from the inclusion of the heads of the seven districts in the Security Council. Undoubtedly, the heads of the districts will demand that the procurators actively root out corruption in the regions. Tver journalists believe that soon a special state commission will visit the region to conduct an exhaustive investigation of the administration's activities. - Boris Goubman in Tver

**BASHKORTOSTAN: VIEWS DIFFER FROM MOSCOW.** The Bashkortostani reaction to Putin's initiatives can be characterized as hidden irritation and insult. Putin's steps were not completely unexpected. Even before his election, he had demanded that Bashkortostan President Murtaza Rakhimov bring republican laws into conformity with federal norms. When

the republic did not rush to do this, Putin issued his famous decree of 11 May ordering the same thing (see *EWI Russian Regional Report*, 24 May).

Speaking on republican television on 20 May Rakhimov said that Putin had not exceeded his authority. But that was as far as he was willing to go. Rakhimov expressed doubt that the decrees would improve the social and economic situation in the regions. Rakhimov called on Putin to clearly divide power between the center and the regions. He said that the concept of joint federal and regional control should be removed from the constitution and the powers currently defined as being under joint control should be handed over to the regions that have the ability to deal with them independently.

Rakhimov was skeptical about the appointment of Sergei Kirienko as the head of the Volga Federal District. "We will see what kind of aid he can provide us." Asserting that no one could take away the republic's sovereignty, Rakhimov called on the federal government to work together with the regions and not limit their self-sufficiency. He stressed his belief in the formula "strong regions - strong Russia," and denounced as baseless any attacks on the republic and its leadership for having "special privileges" and engaging in separatism. He pointed out that many regions violated Russian law and that it was not right to expect Bashkortostan alone to bring its laws into conformity.

According to Otechestvo party leader and State Duma Member Rim Bakiev, it does not make sense to lump together donor regions like Bashkortostan and recipient regions that are dependent on subsidies from the federal budget to survive. He claimed that during the years of sovereignty, the republic moved from around 70th place to become one of Russia's leaders in terms of social and economic development. The republic has also effectively used the tax revenue that it collected but did not send to the federal government. He said that the presidential representatives should focus on providing aid to the regions in improving living standards, building industry, and reviving agriculture. Bakiev thinks that the regions and federal government should work on these goals together.

The republican authorities were particularly unhappy that Putin included Bashkortostan in the Volga district rather than the Urals region where it traditionally belongs. Rakhimov claimed that the designation would hurt the ties that have developed between Bashkortostan and the Ural regions in recent years. Republican Forestry Minister Rim Kazakkulov said that the Samara and Nizhnii Novgorod forestry industries "which already dictate to the regional authorities of these regions how to use forestry reserves" would threaten Bashkortostan's resources. Many local observers predict dire economic consequences following the creation of the district, but these are largely without foundation. Realistically, however, the Bashkortostan authorities fear the development of economic ties with neighboring Volga regions which tend to be more liberal and market-oriented than Bashkortostan, where the state has almost total control over the economy. - Igor Rabinovich in Ufa

**OMSK: POLEZHAEV SAYS DRACHEVSKII WILL HELP WITH BORDER ISSUES.** Omsk Governor Leonid Polezhaev said that he supported the appointment of Leonid Drachevskii as the head of the Siberian Federal District because of Drachevskii's diplomatic experience as the minister of CIS affairs. Beyond Omsk's domestic problems, it faces difficulties in relations with its neighbor, Kazakhstan. Siberia has more than 3,000 km of borders with

Kazakhstan and there are many economic, social, and nationality disputes across the border (Channel 12, 29 May). - Marina Chukhlomina in Omsk

### **CHELYABINSK: SUMIN SUPPORTS COMPLETE OVERHAUL OF**

**FEDERATION COUNCIL.** On 31 May Chelyabinsk Governor Petr Sumin said that the Federation Council is currently a decorative institution "primarily for stamping the decisions of the lower chamber of the Federal Assembly." Sumin argued that it was necessary "to modernize" the content of the Federation Council's work. He said that the reforms should not be limited to simply replacing governors and heads of the regional legislatures with their representatives or elected individuals.

According to Sumin, the Federation Council should have a more clear and defined object in its legislative activity. At present the Federation Council is primarily a "machine for voting." The mechanical replacement of governors and heads of legislative organs with representatives would only reduce the quality of the law-making process since "the measure of competency and responsibility of the new representatives will be lower than the leaders of the subjects of the federation."

At the same time Sumin believes that the reorganization of the Federation Council should not deprive governors or heads of regional legislatures of an all-Russian tribunal for exchanging opinions and experiences in their work, but that "this tribunal should be organized as a State Council type forum." Speaking of Putin's initiatives as a whole, Sumin noted that they simply aimed at restoring the capability of all vertical management to function in order to secure a real balance of power.

In Sumin's opinion, by introducing the institution of federal districts headed by presidential representatives the president is simultaneously solving two strategic problems: centralizing and decentralizing the system of management. The presidential representatives will make it easier for the governor to more effectively solve problems between the region and the center. In this respect the new system is not only a form of federal surveillance, but a way for both the governor and the president to improve their communication. At the same time Sumin is certain that the presidential representatives will raise the effectiveness of the work of federal departments on the local level considerably. Sumin also stated that "the independent behavior of different governors and local presidents either directly or indirectly paralyzes vertical management, giving way to administrative tyranny and violating Russia's unified legal space." In regard to this assessment, Sumin called the president's new laws "good medicine," which allows for the restoration of federalism and legality "to remove the new banana republics from Russian statehood." - Igor Stepanov in Chelyabinsk

## **POLITICAL ANALYSIS**

### **PUTIN'S NEW FEDERALISM**

by Richard Sakwa, University of Kent at Canterbury

The recent actions by Putin to reorganize the operation, if not the substance, of federalism in Russia must be seen in the context of the events of the last four years. As Yeltsin's power and authority weakened during his second term in office, more and more powers accrued to the regional governors. Asymmetrical federalism in this context did not so much mean a natural legal reflection of different historical traditions, regional resources or political weight, but a personalistic and ad hoc approach to relations between the center and the regions. In addition, perceiving a growing vacuum of power at the center, the regions in the run-up to the December 1999 State Duma elections prepared in effect to take power themselves, in alliance with some central politicians.

This is the deeper meaning of the creation of a number of associations bringing together regional leaders (Otechestvo, Golos Rossii, Vsya Rossiya). By the summer of 1999 it looked as if the next president would have to come from the regions, or at least to enjoy the support of regional leaders. The creation of Otechestvo-Vsya Rossiya (OVR) in August 1999 with former Prime Minister Yevgenii Primakov at its head seemed only to confirm this fact. However, in the autumn of 1999 the Kremlin fought back. The creation of Yedinstvo divided the regional lobby, and its successful development as the new incarnation of the party of power represented a massive defeat for the insurgent regional elites. Following the 1999 parliamentary elections, regional leaders who had formerly supported OVR were now quick to mend their fences with the Kremlin. The Kremlin's authority was reasserted by the exertion of a range of open and covert forms of pressure. It did indeed look as if the process of regionalization had now come to an end.

However, as we shall argue below, Putin's many declarations about the need to strengthen the state should not be seen only as the recentralization of state authority, but also as part of a broader defense of a concept of unitary citizenship. The reinforcement of executive authority does not necessarily entail defederalization. The central concept is 'reconstitution' - the establishment of a single legal and normative space throughout Russia. Putin's declarations in defense of constitutional principles had already encouraged oppositionists in some of Russia's regions to protest against the development of authoritarian regimes in the regions. A joint letter to Putin from various oppositional groupings in Tatarstan, for example, expressed their concern that 'residents of Tatarstan no longer felt that they were residents of Russia'.

Yeltsin's traditional style of managing the regions, where relative independence and selective privileges had been granted in return for support for the Kremlin at the federal level, now gave way to a period of federal activism. This activism combines at least three elements.

### *1. The Re-establishment of Presidential Authority*

The reassertion of executive authority was not something that took place in a vacuum but reflected debates and concerns that had long been aired, not only by the center but also by regional leaders themselves. The letter of three governors to Putin in February 2000 calling for the appointment of governors in return for their right to dismiss local leaders was only the latest in a long line of attempts to see the restoration of the so-called 'executive vertical' (see *EWI Russian Regional Report*, 1 March). As far as they were concerned electoralism fostered regional particularism, something in their view that could only be overcome by recentralization.



The first evidence of the new 'state gathering' policy was Putin's decree of 13 May dividing Russia's 89 regions into seven larger administrative districts. This is something that has been much discussed and I will not go into details here. The establishment of an administrative layer between the federal center and the regions could not but reduce the significance of the latter. The new regions were to be headed by presidential appointees, thus undermining the principle of regional democracy although formally not changing the status of the existing governors. Whether the measure would restore the 'executive vertical' as intended remained doubtful. If the reaction of governors and presidents was correct - that Putin's decree did not in any way threaten the regions - then it was hard to see the point of the exercise.

As part of the reform the system of presidential representatives was also abolished. They had been appointed in eighty regions, and had not been notably successful in restoring presidential authority; indeed, many had been 'co-opted' by the very regional authorities that they had been intended to monitor. The new system would make the emergence of these regional 'policy communities' much more difficult since each of the new presidential representatives would be responsible for a dozen-odd regions. Nevertheless, it was unclear how the new system would be an improvement on the old. The powers of the new 'governors-general' remained vague and, although given three months to work out how to co-ordinate the work of federal agencies in the regions (of which there were about 30 employing a total staff of some 460,000), the efficacy of the change remained in doubt.

The reform, moreover, was enacted through a presidential decree rather than through a law or constitutional amendment, and thus the juridical basis for the new system remained precarious. Any attempt to 'constitutionalize' the change would be fraught with difficulties. In principle, since the change affected only the president's own administration and did not alter the powers of the governors or restructure the Russian federation itself, the constitutional question was avoided. In addition to the legal issue of ensuring regional conformity to national laws, the measure had a straightforward administrative rationale: to stop the 'capture' of federal agencies by regional executives, who had often supplied the former with offices, transport and other facilities. The aim was clearly to reassert central control over its own agencies.

The measure appeared to be a halfway house on the way towards the fulfillment of Solzhenitsyn's (and indeed Zhirinovskii's) plan for the 'gubernization' of Russia. The new representatives would report directly to the president, with deputies in the regions within their jurisdiction. While the decree signaled that Yeltsin's tolerance of diversity and asymmetry in federal relations was over, it did not yet indicate that an effective way had been found of ensuring effective national governance and the subordination of the whole country to the constitution.

The changes to the way that the Federation Council is formed, with the new full-time representatives to be nominated by regional leaders and legislative bodies, would render the new 'senators' delegates of the regional authorities rather than popular representatives. How this would resolve the problem of the 'separation of powers' was unclear. The existing members of the Federation Council would lose their immunity from criminal prosecution, but in compensation they would be able to control the nominees; their influence on national affairs would be little diminished. There were plans, moreover, to establish an extra-constitutional consultative council (referred to as a State Council) under the president made up of regional

leaders to ensure that the latter retained direct access to the national leadership. Since the body would be consultative, its creation would not require amending the constitution.

It might be noted that it was only in 1913 that Senators in the USA were directly elected (the Seventeenth Amendment); before then, they had been indirectly chosen by state legislators. In Germany, too, representatives to the upper chamber (the Bundesrat) are indirectly nominated by the Lander, depending on the strength of the parties in each Lander. In short, Russia is facing a problem that took a long time to resolve in all bicameral systems, and is one now facing Britain as it moves to the second phase of the reform of the House of Lords (the first phase was the abolition of the voting rights of most hereditary peers). If the upper house is directly elected, then it could challenge the sovereignty of the House of Commons; if it is appointed, then it becomes a toothless body in the hands of the government.

The measure granting the regional leaders the right to dismiss local authorities subordinate to them appeared to be unconstitutional. Regional executives had long sought greater control over local self-government, including the power to fire mayors and dissolve legislatures in towns and cities on their territory. Local self-government is not part of the state system, and thus the proposal runs directly contrary to the attempt to democratize local government that had been one of the main aspirations of social movements since the late 1980s, quite apart from violating the principle enshrined by the constitution.

These measures required the approval not only of the Duma but also the Federation Council itself to become law, so consensus was essential if Putin was to remain within the framework of the existing constitution. Most commentary, however, argued that the measures did not require changes to the constitution. It was noteworthy that at this point Putin did not seek to deprive governors of their constitutional right to approve appointments of local police chiefs, judges and procurators, although there was considerable pressure for such a measure.

## *2. The Reconstitution of Federal Relations: Democracy and Individual Rights*

The second strand focused on the reassertion of the writ of the constitution throughout the territory of Russia. This element did not threaten the development of federalism but instead sought to ensure that Russia became a single legal space, with the principles of legality and individual rights enshrined in the constitution enforced throughout Russia. This legal offensive sought to bring regional charters, republican constitutions and all other normative acts in conformity with the Constitution and federal law. A concrete manifestation of Putin's 'dictatorship of law' policy was announced by Supreme Court Chairman Vyacheslav Lebedev on 16 March 2000: all courts - from the top down to the regional and lower courts - were to be financed solely from the federal budget. The aim was to eliminate the courts' financial dependence on regional governments, something that obviously compromised their independence. At the same time, the salaries of judges were to be increased to increase their level of 'professionalism' and 'honesty'. The federal authorities at this time won a court victory that allowed courts of general jurisdiction (with the Supreme Court at the apex of this system) to rule on the constitutionality or illegality of regional constitutions and laws.

The attempt to bring regional legislation into conformity with federal norms began with decrees issued on 11 May demanding that Bashkortostan, Ingushetiya and Amur bring their

regional laws in line with the Russian Constitution and federal legislation. On 16 May another decree was issued with respect to Smolensk Oblast. It was not clear why these had been singled out since it was estimated that between a quarter and a third of regional laws violate federal norms. Many similar decrees were in preparation.

In all of this it is clear that the strengthening of the state is not to be interpreted simply as an authoritarian reorganization of state capacity, above all its coercive resources, but is associated with a concept of individual security.

### *3. Consensus and Bargaining*

The third can be considered under the rubric of bargaining and dialogue. It was clear that Putin, by contrast with Primakov's initial threatening approach, went out of his way to demonstrate his openness to enter into dialogue with regional elites. This conciliatory approach was vividly in evidence in the St. Petersburg gubernatorial election in early 2000.

In all of his initiatives, Putin tried to avoid alienating the regional leaders by eschewing populist forms of mobilization and anti-elite rhetoric. In his television broadcast of 17 May Putin was at pains to stress that his recently announced package of draft laws was 'not directed against regional leaders'; on the contrary, he insisted that 'regional leaders are the most important support for the president and will act as such in the strengthening of our state.'

The first indications appeared to be that Putin would be able to forestall concerted opposition from the regions and republics. One way he did this was by an active policy of meeting with regional leaders. The response of Tatarstan, with the most to lose from the proposed reforms, can be taken as symptomatic. After meeting with Putin, Shaimiev argued that the majority of regional leaders approved of the laws because they understood that the measures were intended to restore the governability of the country.

#### *Putin and the Regions: Evaluation*

These three strands did not always fit comfortably together. The third approach could lead to the dilution of the others, and represented a continuation of Yeltsin style personalized relations that undermined the institutional framework of the state and compromised the rule of law and the constitution. The second approach remained within the framework of the federal principles espoused by the constitution, but any attempt to reassert the authority of the center could be seen as a challenge to the rights of the subjects of the federation. It was not clear whether reconstitution could be contained within the framework of federalism. Fears that the reassertion of federal authority would lead to defederalization were focused on the implications of the first strand of Putin's policy, the re-establishment of the presidential 'vertical'. Would recentralization be the same as defederalization? In his book *First Person* Putin noted: 'From the very beginning Russia has been created as a supercentralized state. This is fixed in Russia's genetic code, in its traditions, and in the people's mentality'. Were these policies vis-a-vis the regions now a concrete manifestation of these traditions?

The question can be considered within the framework of theories of sovereignty and their relationship to Russian practices. For the republics in Russia, sovereignty came to be

equated with federal non-interference in their internal affairs and a degree of economic autonomy. Another way of examining the issue is from the perspective of general civil rights. Regional authorities had long been condemned for transforming their territories into separate fiefdoms where they ruled like the boyars of old, apparently insulated from the writ of federal laws and the Constitution. The decrees concerning Bashkortostan and the other regions, in this light, were not only about the reassertion of federal authority but about the defense of the rights of citizens. While the strengthening of the 'vertical power hierarchy' could be seen as a simple power bid by the center, it also suggested that the country was to live according to one constitution and one set of laws regardless of the region where one lived. The era of special privileges for territorial entities appeared to be over. Whether the assault on the special status of regional oligarchs would be broadened out into a general attack on oligarchs as a class remained to be seen.

The main question was whether the attempt to undermine the boyar-like powers of regional leaders would actually increase the democratic rights of citizens. There was considerable skepticism on this score. For example, Yulia Latynina argued that the changes would do no more than substitute 'the arbitrary rule of the governors' with 'centralized arbitrary rule.' In addition, the regional authorities had acted as an important 'check and balance' against the overweening power of the center; now this federal element in the separation of powers had been undermined.

The manner in which Putin approached the regions is also noteworthy. As he reminded his audience in his televised address of 17 May, in his inaugural speech of 7 May 'I promised you that there would be open government, with policy aims and specific steps clearly explained to citizens'. The use of direct public addresses sought to ensure a popular base for his reforms, but he avoided populist sloganeering. At the same time, he sought to forge a reform consensus that would include the governors themselves, and thus in his public speeches he did not make broad condemnatory statements against them of the sort that Gorbachev had made against his own officials during perestroika.

Although we have noted that Putin sought to avoid a direct confrontation with regional leaders, the clear effect of the creation of a presidential federal administration was to shift power away from regional elites. As more and more federal agencies shifted their main regional offices to the seven new federal district capitals regional governors lost one of their main sources of local control. As one report put it, they were now reduced to 'ordinary medium-rank officials'. It was not surprising that after an initial calm reaction, there were signs of growing unease in the regions. The fact that five out of seven of the first cohort of 'governors-general' came from a security background suggested that the necessary political skills to establish good working relationships with the existing regional leaders might be lacking. Used to military methods, subordination rather than consensus could be their approach.

The most intriguing aspect of the reform, however, was whether a measure designed to enhance the unity of the country could well inadvertently hasten its fragmentation. By creating seven powerful new units Putin may well have established the framework for seven new countries, each with the resources able to sustain statehood. We are only at the beginning of a process whose end is impossible to predict: 'Putinism', in so far as we can now ascertain its

features, has both the potential to transform the country into an ordered liberal democratic state; or it may permit the restoration of authoritarianism. So far it seems to be doing both.

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**BREAKING NEWS**

**POLITICS**

**FEDERATION COUNCIL SEEKS COMPROMISE WITH PUTIN.** The Federation Council sent a message to President Vladimir Putin today asking him to initiate a consultative procedure on how to change the way members of the upper house of the legislature are formed. Currently the body is made up of the governors and chairmen of regional legislatures and Putin wants to replace these officials with their representatives (for details, see *EWI Russian Regional Report*, 31 May). The members of the Federation Council generally support leaving the status quo unchanged and warned that Putin's reforms "would weaken the Federation Council." The message, however, stopped short of calling on the president to retract the "harmful" bill as some governors had demanded earlier. Nevertheless, the governors' opposition to Putin's moves to

restructure the Federation Council and improve central control over the regions has now come fully into the open, replacing the previous expressions of loyalty.

In addition to issuing the statement, the Federation Council also adopted suggestions for amending Putin's bill. The members of the Federation Council are seeking a number of changes in the bill that Putin originally introduced. For example, the governors want the sole responsibility for appointing and recalling their representative to the Federation Council. According to the bill, the regional legislatures would have to approve both the appointments and removals of the governors' representatives. Second, the upper chamber proposed that the speakers of the regional legislatures remain as members of the Federation Council. Putin is seeking to replace them with designated representatives.

The Kremlin is doing a good job of playing on divisions among the governors to ensure that they do not create a united front against Putin. The president, for example, took Moscow Mayor Yurii Luzhkov on his trip to Italy this week, while the seven heads of the new federal districts have been making different promises to different governors. As a result, the opposition against the bills was mainly led by marginal governors such as Krasnodar Krai Governor Nikolai Kondratenko. (*Polit.ru*, 7 June)

Additionally, the Federation Council also approved seven deputy procurator-generals to serve in the seven new federal districts. They are Yurii Zolotov (Urals), Aleksandr Zvyagintsev (Volga), Vladimir Zubrin (North-West), Nikolai Makarov (Central), Valentin Simuchonkov (Caucasus), Sergei Fridinskii (Siberia), and Konstantin Chaika (Far East).

**ABRAMOV NAMED REGIONS POINT MAN FOR KREMLIN.** Among the appointments to the presidential administration announced on 3 June, Russian President Vladimir Putin named Aleksandr Abramov Deputy Chief of Staff in charge of regional policies. As he promised, Putin re-appointed most of the members of the previous administration. The one key figure who was not invited back was former First Deputy Chief of Staff in charge of regional policy, Igor Shabdurasulov (*Kommersant*, 6 June). Shabdurasulov's sacking is no surprise as the former regions point man was essentially blacklisted for failing to properly support the pro-Kremlin Yedinstvo movement prior to the 1999 State Duma elections. Just days before the presidential election Shabdurasulov announced his intention to resign from the administration (*EWI Russian Regional Report*, 28 March).

**SAMARA'S COMMUNIST CANDIDATE FAILS NOMINATION.** On 30 May all Samara gubernatorial hopefuls had to hand in their nomination signatures. Much to everyone's surprise, Communist Party candidate Albert Makashov failed to gather the 50,000 necessary signatures before the deadline. The Communist Party has struggled in regional elections and apparently part of the regional Communist Party organization wanted to support a different candidate. Although Samara Communists were realistic about Makashov's slim chances to actually defeat former Samara Governor Konstantin Titov in the election, many hoped that he could serve to consolidate the support of the region's Communists and their allies. (*Nezavisimaya Gazeta*, 2 June)

**YAROSLAVL ELECTS SPEAKER.** On 2 June, after two months of failing to elect a speaker, the Yaroslavl Oblast Duma elected Andrei Krutikov, general director of "Yaroslavlrezinotekhnika" as its new chairman. Local oligarch Nikolai Tonkov and Yaroslavl Governor Anatolii Lisitsyn backed Krutikov's candidacy. He won 34 out of 50 votes. Krutikov's main challenger for the post, Slavneft-Yaroslavnefteorgsintez Executive Director Yevgenii Zayashnikov, chose not to stand for election. The delay in electing a new speaker resulted from proposed amendments that would have changed the election procedure so that the Duma chair is elected on a yearly basis (see *EWI Russian Regional Report*, 24 May). (*Nezavisimaya Gazeta*, 2 June)

## **ECONOMICS**

**RUSSIAN ALUMINUM FAILS TO BUY OUT BRATSK MANAGERS.** Last week it appeared that former Bratsk Aluminum Factory (BrAZ) managers Boris Gromov and Yurii Shlyaifshtein had finally agreed to sell their 33 percent stake in the factory to Russian Aluminum. Details were expected to be worked out prior to the BrAZ shareholders meeting on 3 June. However, the two sides failed to reach an agreement, prompting the shareholders to announce a temporary break until 1 July, in hopes that negotiations with Gromov and Shlyaifshtein could be concluded.

The conflict between Gromov and Shlyaifshtein and the other BrAZ shareholders began in February when Sibneft purchased a 66 percent stake in Russia's largest aluminum factory from the Trans World Group (TWG) and Lev Chernyi (*EWI Russian Regional Report*, 16 February). Gromov and Shlyaifshtein refused to sell their stake to Sibneft, preventing the company from exerting significant control over the factory. This problem had the potential to continue as Russian Aluminum takes over BrAZ, since Gromov and Shlyaifshtein's 33 percent stake made it possible for them to block any initiative put forth by the other shareholders, such as electing a new board of directors, which the shareholders had hoped to accomplish on 3 June. (*Vedomosti*, 5 June, *Kommersant Daily*, 6, 2 June)

**MINISTER OF FINANCE ON FISCAL FEDERALISM.** In a 5 June interview with *Vedomosti* Minister of Finance Aleksei Kudrin shared his opinion regarding fiscal federalism. In response to a question on how the budget plan, which would return 60 percent of taxes to the center could be considered liberal rather than communist, Kudrin stated, "In Russia without the strengthening of central power, nothing will happen--it's as the doctor ordered. The problem is that the territories are extremely differentiated in standard of living. Moscow has a clear advantage over other regions. There is not enough money in the local budget[s of other regions]--and this is not dependant on the position of the mayor or governor." In his statements Kudrin implied that federal transfers to the regions did not always make it to the proper recipients, such as public sector employees. He asserted that when central authority was weak, the donor regions managed to force through a 50/50 tax paying formula, "but if in a country 12 regions give out 66 percent of the taxes and the remaining 77 federation subjects collect only a

third, then 50/50 is a symbol of absolute inequality." In other words, the federal government will now control more of the taxes collected than it has in the recent past.

## **PRESIDENTIAL REPRESENTATIVES GET DOWN TO WORK**

### **ROSTOV: KAZANTSEV TO FOCUS ON SECURITY ISSUES, THEN ECONOMY.**

Presidential Representative in the North Caucasus Federal District Viktor Kazantsev said that security would be his top concern in a press conference on 1 June, the day he officially took up his duties in Rostov. Most observers had expected him to concentrate on the region's hot spots.

His first step was to ask the current presidential representatives working at the regional level to continue performing their duties. Kazantsev is still working out the structure of the federal district staff with the presidential administration. Kazantsev said that he cannot now offer anyone a job until the administration determines how many staff members he will have. Putin gave each of the representatives two months to resolve organizational issues.

Kazantsev said that his duties were "first of all - the security of our region and the coordination of the activities of the law enforcement agencies [*silovye strukturi*]. Second is the economy. Now I will not provide any details on this topic. You will see what I do based on my first steps. However, it is necessary to point out that there are terrorists in the economy, in agriculture, and in the social sphere." Thus the general made clear that he was going to solve the problems connected to the Chechen conflict, but that he would also work on economic problems.

However, Kazantsev understands that a military temperament will not solve all problems. He admitted that he has a good understanding of the military situation, partly understands the economy, but is less familiar with specific sectors, such as agriculture. He said that he would include professionals in his staff rather than just military men. He emphasized that nobody could accuse him of shady connections and that he would hire staff with similar qualifications.

Kazantsev is planning to visit refugee camps in Igushetiya. However, he does not like the word "refugee." "Part of the population that was living in Chechnya has moved to neighboring regions. We need to investigate who they are, how many of them there are, and why they are there. Many times there have been broadcasts of some woman from Chechnya with her children complaining how difficult life is. But for some reason the journalists don't ask her where her husband is. ... families often leave to collect benefits and create a wave of refugees. At the same time the husband might be fighting with a group of bandits." Perhaps Kazantsev is defining the new federal policy toward refugees. He wants people to return to Chechnya and sees one of his goals as making the entire North Caucasus region safe for tourists.

The headquarters of the North Caucasus Interregional Association is located in Rostov-na-Donu. Kazantsev said that now Volgograd, Astrakhan, and Kalmykiya, which are part of the North Caucasus District but not part of the interregional association, will have to cooperate with the economic association. Kazantsev said it would have made more sense to name the district "The Russian South," so that the name did not coincide with the North Caucasus military district. Kazantsev suggested it would be better to end the identification of the region with the

Caucasus and more strongly emphasize that it is part of Russia. He said that since Kalmykiya, Volgograd and Astrakhan were so compact, they would likely have a common federal district local staff to prevent the size of the district's overall staff from becoming too large.

Kazantsev avoided the question of which regional leaders it would be easier to work with. "The main issue is that work be productive in each region and not depend on personality. Of course, I will spend more effort where there are more questions and problems." He suggested that the North Caucasus republics would be his main focus since most of the legal violations are there. "I can't say on the fly," he said. "Professionals need to work on this, staff from the Justice Ministry, and other federal structures." He stressed that it was a problem when some regional leaders feel that they are little czars. In this context, he mentioned Ingushetiya President Ruslan Aushev, who has long promoted the idea of polygamy in his region.

He said that it was ridiculous to think that the governors would travel to his office for a flogging (*na porku*). "That is stupidity. They will not come. My job is to go and see how things are going in their region. My purpose is not to thrash them, but to provide help. If someone violated the law, then we have to hold them responsible." He sees his main task as understanding the situation, rather than managing what is happening. He said that it would be much easier to understand the situation in the seven districts rather than the 89 regions. He also made clear that he did not intend to interfere in the governors' performance of their functions.

Asked how he felt wearing a civilian suit rather than a military uniform, Kazantsev said, "by weight, it is lighter, in terms of tasks, it is much heavier." - Andrei Miroshnichenko in Rostov-na-Donu

**URALS: NOT CLEAR WHAT LATYSHEV WILL DO.** President Putin presented his representative to the Urals Federal District, Petr Latyshev, to the Urals regional leadership on 1 June. Events are moving so quickly that the main reaction of the local elite is "Wait and see." Latyshev started his career in the Ministry of Internal Affairs in Perm and then headed the police in Krasnodar Krai. His star started to rise there because he joined the team of Governor Nikolai Yegorov, who later became one of President Boris Yeltsin's chiefs-of-staff. After he investigated the activities of Governor Vladimir Yakovlev in St. Petersburg, he is often described as a member of the "Stepashin, Chubais, Kirienko group." Local officials are now waiting to see what he will do. - Olga Gorchakova in Yekaterinburg

**FAR EAST: PULIKOVSKII WILL HAVE TO DEAL WITH VLADIVOSTOK MAYORAL ELECTIONS.** One of the first problems Presidential Representative in the Far Eastern Federal District Konstantin Pulikovskii will have to address is the Vladivostok mayoral elections set for 18 June. On 1 June seven of the nine candidates complained that the process of falsifying the results had already begun.

The cause for concern was early voting, which according to the law should only begin 15 days before the elections. The candidates complained that the authorities were pressuring many civil servants to vote early. Such voting makes it easier to escape the observation activities of opposition party members on election day. The candidates believe that since acting Mayor Yurii Kopilov controls the electoral commission which manages the ballot boxes, number of

ballots, and the envelopes used for the ballots, it will be easy for the authorities to replace votes cast for the opposition with those for Kopilov.

Viktor Cherepkov charged that the authorities had spend \$150,000 on the early voting and that 1,300 people were involved in organizing it. City Electoral Commission Veniamin Chichaev said that the charges were baseless. The pro-gubernatorial press said that Cherepkov's figures were a product of his "notorious extrasensory powers."

According to *Kommsomolskaya pravda na Dalnem Vostoke* (6 June), many groups are complaining about illegal pressure. The chief doctor at the Vladivostok orphanage told his colleagues to vote early on 5 June, according to another doctor who was unhappy about the pressure. The inmates of the city jail have all voted early. Pensioners have also complained about pressure to vote for Kopylov. According to Cherepkov, 5,000 had already voted by 6 June. - Dmitrii Motovilov in Vladivostok

**SIBERIA: MILITARY DISTRICT HQ TO MOVE BACK FROM CHITA TO NOVOSIBIRSK.** Presidential Representative to the Siberian Federal District Leonid Drachevskii said on 1 June that he was not ready to discuss his activities in detail, but he made clear that he would not interfere in the affairs of the governors. One of his priorities is to analyze and monitor what is going on in each region. The only news he imparted at his press conference was that he was planning to move the headquarters of the Siberian military district from Chita back to Novosibirsk.

So far the governors have been relatively supportive of Putin even though he is reducing their power. Only Tomsk Governor Viktor Kress said after Putin presented Drachevskii to the Siberian governors in Moscow that "when I heard about the appointment, I understood that these are generals, not governor-generals. They are completely different things."

Kress, the head of the Siberian Accord Interregional Association, spoke out against the concentration of the entire federal district staff in Novosibirsk. He said that Novosibirsk should stop thinking of itself as the capital of Siberia, a belief that encourages rejection among other Siberians. He believes that it would be better to leave the military district headquarters in Chita, while placing representatives of the education ministry in Tomsk and natural resource ministries in Kemerovo. Altai Krai Governor Aleksandr Surikov warned that the creation of the new districts would create additional potential conflict points in the relations between the federal government and the regions.

The mayors united in the Council of Associations of Siberian and Far Eastern Cities met on 26 May in Krasnoyarsk. While generally supporting Putin, they pointed out several potential problems. Many mayors feared that they would become victims of the governors in their regions. They expressed dissatisfaction that the bill Putin introduced to the State Duma on local government was developed without their input. They reminded Putin that Russia had signed the European charter on local government and warned that violating the principle of electing local leaders could create a negative reaction in the international community. - Irina Maslennikova in Novosibirsk

**KRASNOYARSK: FEDERAL GOVERNMENT GRABS PROPERTY.** Observers in Krasnoyarsk generally believe that the farther one is from Moscow, the weaker the president is

(*chem dalshe na vostok, tem menshe Putina*). However, in terms of property ownership, Putin is clearly cracking down. In the next several days, the Krasnoyarsk Krai leadership is expected to transfer to the federal government krai holdings in the airline Krasnoyarskie avialinii (one of the largest and most profitable in Russia), the Ofset publishing house, Krasnoyarsk nefteprodukt, and several other properties. Additionally, Moscow will also have a voice in the appointment of the managers of the local liquor factories. Until recently, krai officials managed the state's 51 percent stake in these factories.

There will likely be personnel changes at the enterprises being transferred from krai to federal property. Until now the governor was able to approve all of the key officials working in the factories. Now Moscow will try to put its people in charge of valuable enterprises like Krasnoyarskie avialinii and Ofset. - Pavel Avramov in Krasnoyarsk

## **CENTER-PERIPHERY RELATIONS**

**TATARSTANI LEADERSHIP WAITING IN FEAR.** The mood among Tatarstan's ruling circles can be described as fearful expectation. The leadership is waiting to see how relations with the central government will evolve, how ties to the new presidential representative in the Volga Federal District will develop, what measures the federal authorities will take in relation to Tatarstan, what will happen to the Tatarstani constitution and power-sharing treaty of 15 February 1994, and whether the federal authorities will agree to a third term for President Minitimer Shaimiev. According to a source close to the Tatarstani government, the republican leadership is demoralized.

Shaimiev recently had a seven-minute meeting with Putin, according to republican representatives to the Soyuz pravyykh sil (SPS) congress who recently returned to Tatarstan and described their experiences to the pro-Yabloko newspaper *Zvezda Povolzhya* (25-31 May). During their brief encounter, Shaimiev pointed out that Tatarstan gave Putin 69 percent of the vote in the presidential elections. Putin allegedly put six folders of compromising material about the republican leadership on the table. On leaving Putin's office, Shaimiev had a dark look on his face. Volga Presidential Representative Sergei Kirienko apparently told this story to the SPS leadership.

On the other hand, when Putin presented Kirienko to the Volga leadership on 2 June, the president announced that he had initially offered the job to Shaimiev, who turned it down because he did not want to leave the republic (*Izvestiya*, 3 June). These reports are not necessarily contradictory. According to information now being circulated, the federal government will simply remove Bashkortostan President Murtaza Rakhimov from power, while Shaimiev will be squeezed out of the Tatarstani presidency with the offer of a federal job, perhaps a position in the new Federation Council. If Shaimiev held a federal job, Putin could easily fire him. With Shaimiev out of the way in the republic there would be no more protection for Shaimiev's numerous relatives who are currently involved in political and business activities throughout the region. Under a new president, the old practices would be exposed. There are rumors that Shaimiev's health is failing and that these problems will become more apparent if he has to travel frequently to Nizhnii Novgorod.



In his most recent statements, Shaimiev has expressed concern about the bills Putin has recently introduced in the State Duma (see *EWI Russian Regional Report*, 31 May). In particular, he said that the power of the regional leaders could not be limited in any way. He warned that such a move could hurt the republican economy, which already was not doing very well (*Respublika Tatarstan*, 1 June). Shaimiev said that although the governors initially supported Putin's initiatives they have now come to their senses and are starting to ask whether the proposals conform to the constitutional principle of the division of power. Shaimiev called for further political and legal discussions of Putin's proposals.

At the 31 May meeting of the State Council, the opposition deputy A. Shtanin suggested including the question of bringing republican laws into conformity with federal norms on the regional legislature's agenda. This move put the body in a difficult position: if it voted no, then it would seem to be an attack on Putin; if it voted yes, it would have to set up a special committee, which the leadership does not want to do. The regional legislature did not approve the decision, but Shaimiev then unexpectedly interrupted the session for several days until the State Council presidium could decide how to proceed. - Midkhat Faroukshin in Kazan

**YEDINSTVO SEEKS TO EXPAND IN THE REGIONS.** "Yedinstvo is becoming the center of the evolving party system in the country, a link between the Communists and right-wing parties," State Duma Member Aleksandr Shelekhov (Tver, Yedinstvo) said in an interview with the RRR. The recent Yedinstvo party congress showed that the party is having some trouble integrating a wide range of members, including those joining from Our Home Is Russia and the leftist Dukhovnoe nasledie. However, Shelekhov believes that the party will overcome these difficulties. The congress adopted the party's rules and sent a draft program for discussion in the regions.

Shelekhov said that the party is "actively" building up its regional membership. In Tver Oblast, the party has 2,000 members and is headed by Deputy Governor Yurii Krasnov. The main issue now is finding financial resources to support the party at the local level. Money is needed to pay for staff members, office space, and equipment. Shelekhov said that the goal is to support the party from the contributions of party members, without seeking money from the state. To attract new members, the party needs constant attention in the national print and broadcast media. Another problem is attracting people who really want to support changes in the country, while preventing careerists from joining the party.

In terms of its relations with the governors, Yedinstvo's Shelekhov pointed out that many governors, such as Tver's Vladimir Platov, backed the party from the beginning and support Putin's moves to create a stronger federal hierarchy. "Strengthening Yedinstvo in the regions means an ability to influence political life on the ground and the decisions taken by governors through regional legislatures. I think that in principle it is possible to criticize the decisions of the gubernatorial administration on specific issues, but the most important thing is not to create an opposition to it, but a positive resolution of the problem through coordinated efforts." - Boris Gubman in Tver

**SMOLENSK TRADE UNIONS PROTEST FLAT TAX PROPOSAL.** The presidium of the Smolensk Oblast Council of Trade Unions has filed a strong protest against the idea of

introducing a 13 percent flat tax with the president, Federation Council, and State Duma (*Smolenskie novosti*, 31 May). The current progressive system applies rates from 12 to 30 percent depending on an individual's income. The trade unions believe that a flat tax violates social justice and would lead to a greater stratification of society. The new tax will essentially raise taxes on low and middle income people by 1 percent, while reducing it by 17 percent for high wage earners. Thus, the rich get richer, and the poor get poorer, they claim. Additionally, the trade unions believe that abandoning a progressive income tax scale will not make it any easier for the weak executive authorities to collect taxes, which is the intent of the reform.

The trade unions also object to the idea of creating one social tax, claiming that it would encourage the use of these funds in ways that were not intended. The reform is being sold as the only way to remove the heavy burden of social taxes from employers. But the changes threaten the very existence of Russia's social security system, one of the major principles of working relations between employers and employees, the trade unions claim. The result could be further delays in the payment of pensions, and other social benefits. The trade unions believe that the introduction of these reforms would be destabilizing and could lead to unpredictable consequences. The Smolensk unions are not alone. Unions are making similar protests in Moscow, Moscow Oblast, Ryazan, Vladimir, Kaluga, Yaroslavl, Bryansk, Tula, Kostroma, Orel, and Ivanovo. In response to this pressure, the State Duma voted to delay consideration of a second version of the government's proposal on 7 June. The Federation Council also denounced the single social tax on the same day. - Arsentii Ledovskii in Smolensk

## **DIFFICULTIES OF ENFORCING FEDERAL LAWS IN THE REGIONS**

**LAW-BREAKING DEPUTIES LEAVE KURSK LEGISLATURE.** Seven members of the Kursk Oblast Duma, who also illegally hold various positions in the oblast's executive branch, have now resigned their seats in the legislature. Federal law denies employees of the executive branch the right to simultaneously serve in the legislature. As members of the regional legislature, the deputies took orders from Kursk Governor Aleksandr Rutskoi rather than serving the interests of their constituents.

These deputies should have resigned from the legislature when the governor appointed them to executive positions. However, Rutskoi appointed them regardless of whether they actually did resign, flagrantly violating federal law. Furthermore, until now he did not implement a court decision which declared the executive-branch appointments of three of the deputies illegal.

The deputies apparently resigned at Rutskoi's order as a concession to Putin's attempts to implement federal laws in the regions. However, in the case of Anatolii Popov, one of the seven deputies and Rutskoi's father-in-law, serving in the administration violates federal laws prohibiting nepotism.

Despite his difficulties obeying the law, Rutskoi recently proposed to Putin that he put a moratorium on all elections and then simply reappoint the existing governors to their offices. Rutskoi faces elections in the fall.

The resignations will have little impact on the legislature, which will be reelected in December 2000. However, the remaining 34 deputies will have to be more conscientious in

their work since the minimum number of members required for a quorum is 30. - Sergei Sarychev in Kursk

**PROBLEMS REMAIN IN KOMI LAW ON LOCAL GOVERNMENT.** Komi's law on local government has already been heavily criticized and the issue arose once again at the latest session of the republic's legislature, the State Council. Currently the republic's law on local government and its model charter for local governments violate the federal law on the basic principles of organizing local government because they provide for the election of local officials at the recommendation of the republican executive. Federal law prevents federal and regional leaders from interfering in local government.

The republican procurator insisted that the republican legislature consider corrections to the laws, but this was not done. The legislature cited its creation of a committee on 29 September 1999 to make recommendations on improving the laws as the reason for its failure to act. The committee will only submit its report in September and the regional legislature prefers to wait until then before acting.

At the moment there is no real local government in the republic nor a serious law defining how it would function. It is difficult to say when such a law would appear since the republican legislature does not operate on a professional basis and is generally unable to engage in serious legislative work. - Yurii Shabaev in Syktyvkar

**STATE DUMA INSPECTOR INVESTIGATES ULYANOVSK CITY DUMA DISPUTE.** At the request of State Duma Chairman Gennadii Seleznev, State Duma Deputy Nadezhda Korneeva, the deputy chair of the Committee on Local Government, came to Ulyanovsk to study the reasons that the City Duma is on the verge of being disbanded (see *EWI Russian Regional Report*, 10 May). Although six deputies have resigned under pressure from Governor Yurii Goryachev, depriving the city council of its necessary quorum, any action has been put off until 1 August.

City Duma Chairman Aleksandr Balandin and Mayor Vitalii Marusin had asked Seleznev to investigate the governor's attempts to disband the City Duma. Korneeva said that the governor's actions had deprived the oblast of local government, but admitted that the situation was common to many regions besides Ulyanovsk.

Korneeva expressed shock that Governor Goryachev refused to meet with her. Goryachev simply said that Seleznev had not personally asked him to do so. By not taking the meeting, Goryachev violated the law on deputy's status, which requires him as a regional official to make meeting with the deputy a priority.

Korneeva said that the local press had covered the superficial aspects of the conflict, but had failed to examine its root causes: the battle over the budget between the oblast and the city. Such battles are taking place across Russia, but in Ulyanovsk they are taking on a particularly extreme form because the city has a particularly poor budget.

Korneeva turned up many shocking findings. The oblast budget only gives the city of Ulyanovsk 4.8 percent of the funds needed to support local government even though half of the population live in the city. The oblast budget includes no funding to implement the federal law providing veterans' benefits. This law is poorly implemented everywhere, Korneeva said, but in

no other region did the regional government simply shift all responsibility to the city government. Additionally, the city of Ulyanovsk received only one-sixth of the oblast funds for children's benefits. She also claimed that the oblast violated the law by telling the local government how to spend some of the taxes it collected (requiring outlays for children's benefits). She said that federal law required that regional governments pay children's benefits. The oblast legislature has also refused to consider any of the proposals of the city Duma, a violation of the oblast charter.

Korneeva's visit will undoubtedly help the City Duma. She described the governor's actions as "unwise," noting that the City Duma could change the situation in the region if its members acted together and avoided political disputes. Korneeva made clear her opinion that the federal law on local government was not working and suggested corrections that would prevent oblast bureaucrats from putting pressure on deputies elected to local-level legislatures. She also called for minimal social standards which would set the level of budgetary payments. "We know what laws we need to adopt or improve," Korneeva said. - Sergei Gogin in Ulyanovsk

## **PATTERNS OF REGIONAL DEVELOPMENT**

**ST. PETERSBURG FINALLY ELECTS PARLIAMENT SPEAKER.** After failing to elect a speaker for a year and a half, the St. Petersburg Legislative Assembly finally elected Sergei Tarasov its chairman on 7 June. Tarasov is the leader of the pro-governor Nash Gorod faction and a member of the legislature's legal committee. Twenty-nine of the 34 deputies present at the session voted for Tarasov. Sergei Mironov, leader of the Zakonnost faction, was elected deputy chairman. Tarasov's election was the result of a compromise of five of the six factions in the assembly, including Yabloko, whose leader Mikhail Amosov is trying to find common ground with St. Petersburg Governor Vladimir Yakovlev and is distancing himself from city Yabloko leader Igor Artemev who lost to Yakovlev in the recent gubernatorial election (*EWI Russian Regional Report*, 17 May). Tarasov's election was undoubtedly a direct result of Yakovlev's victory in the May election.

Tarasov's election will mean that for the first time in more than two years (since then speaker Yurii Kravtsov was dismissed in February 1998) the St. Petersburg Legislative Assembly will be represented in the Federation Council. Since only the governor and the head of the regional parliament hold seats in the Federation Council, Tarasov could become one of the most important figures in St. Petersburg politics over the next few years (if the proposed changes to the Federation Council's composition are not accepted). - Daniel Tsygankov in St. Petersburg

**PSKOV PREPARES FOR GUBERNATORIAL ELECTIONS.** Pskov will elect a new governor in October. Although the exact date will not be set until July, the upcoming elections are already setting the tone for local politics. The influence of Vladimir Zhirinovskiy's Liberal Democratic Party of Russia (LDPR) in the oblast came to an end after the presidential elections in March. Governor Yevgenii Mikhailov left the party then and became the leader of the Pskov branch of the pro-Putin Yedinstvo. He completely controlled the establishment of the Yedinstvo party in the region, leading observers to claim that he was creating a new party of power and a

completely undemocratic structure. Several of the governor's allies hold leadership positions in the new party, including State Duma Deputy Igor Dines, Deputy Governor Mikhail Gavunas, and SinteZ Director Andrei Bukin. The party is also quickly establishing branches in the raions of the oblast.

Although Mikhailov has officially changed his party membership, the masses still see him as a member of the LDPR. Currently the governor is trying to dispel this extremely harmful reputation and neutralize the activities of his most dangerous opponent, State Duma Member Mikhail Kuznetsov.

Kuznetsov was elected to the State Duma in 1995 on the LDPR party list and played a major role in helping Mikhailov win election as governor in 1996. In the following years, the two politicians worked very well together. Kuznetsov was a manager of the powerful Russian MDM-bank, which opened a branch office in Pskov. The administration deposited all of its money there as well as the funds controlled by state enterprises. The bank actively provided credits for the region's social sphere and several administration business projects. Eventually, the MDM branch became the independent Rusregionbank. Kuznetsov served as an economic advisor to the governor on economic questions. As the deputy chairman of the State Duma Budget Committee, he actively lobbied the Finance Ministry to provide funds to support development programs in Pskov Oblast. It is not surprising therefore that Mikhailov gave Kuznetsov his full support in the 1999 State Duma elections.

However, the relations between the governor and State Duma deputy were spoiled in May when it became clear that Kuznetsov wanted to run for governor, breaking his gentleman's agreement with Mikhailov.

Now the two former friends are conducting a bitter campaign against each other. The pro-gubernatorial media are constantly publishing negative material about Kuznetsov. The governor has attacked media outlets that support his enemy. For example, he took away the offices belonging to the private newspapers *Panorama* and *Tak nado!* and members of the governor's staff tried to ban their publication at the state-owned oblast printing press. They warned the director of the plant that he would be fired if he continued to work with the newspapers.

In May Mikhailov moved the oblast's budgetary funds from Rusregionbank to branch offices of the well-known Petersburg banks Baltiiskii and Promstroibank. Rusregionbank is one of the main creditors of the region's social program and served as the guarantor of a \$1.5 million credit that MDM-bank gave the oblast. The loan will expire with the gubernatorial elections, which is good timing for the incumbent.

The governor did not limit himself to these attempts to curb his opponent's electoral, informational, and financial resources. Deprived of the support of the LDPR faction and not yet receiving much help from the Kremlin, the governor is actively seeking the support of the oblast elite, particularly the members of the oblast legislature. Earlier relations between the Pskov executive and legislative branches had been relatively cool, with occasional serious conflicts.

Members of the Yedinstvo and Otechestvo factions in the legislature voted to change the region's gubernatorial electoral law on 30 May, lowering the required turnout for the election of a candidate from 50 to 25 percent. If no less than three candidates participate in the elections, the candidate with a simple plurality of votes will win. This amendment effectively

means the end of the two-round system used earlier and sharply increases the chances that Mikhailov will win another term. Seventeen of the legislature's 21 deputies voted for the measure, arguing that it would save money.

The only media to complain about the vote were those supporting Kuznetsov. He said that now Mikhailov wants to add another condition to the electoral law, requiring that the governor be at least 35 years old. Kuznetsov is 31. Even if Kuznetsov remains in the race, public opinion polls show the governor winning with 27 percent to Kuznetsov's 14 percent.

During the four years of his tenure, Mikhailov has not changed the oblast economy in any significant way. The numerous scandals and information wars that marked his tenure have not made him popular. With a few months to go before the elections, his strong suit is the lack of an organized opposition, his ability to use administrative resources, and the support of a significant part of the regional elite, as the vote in the regional legislature demonstrated.

Observers believe that the Russian president could have a major impact on the vote in the region, but for the time being the Kremlin is quiet. The candidates and the local elite supporting them have considerable freedom for maneuver at the moment. - Andrey Shcherkin in Pskov

## **MEDIA ISSUES**

**MEDIA-MOST LOSING SUPPORT.** Support for Vladimir Gusinskii's Media-Most is quickly slipping away, according to Togliatti Mayor Sergei Zhilkin, the organizer of the Soyuz pravyykh sil (SPS) in the Volga region. He said that many politicians, cultural figures and social activists who signed the Union of Journalists' declaration denouncing the raid on Gusinskii's offices on 11 May are now trying to distance themselves from the media holding company. Chairman of the State Duma Committee on Information Policy Konstantin Vetrov, who strongly supported the statement, has now decided to refrain from engaging in such political activities. Most of the media in the regions were indifferent to the statement supporting Media-Most. Journalist Union Secretary Vsevolod Bogdanov said that his participation in this protest hurt his image.

Zhilkin said that the SPS is now taking a more reserved approach in its relations with Gusinskii. The party is extremely critical of his future in politics and business. The party's State Duma faction leader, Boris Nemtsov, may not share this critical view of Gusinskii, but he will face growing opposition from the other party members, Zhilkin said. - Yuliya Yeliseeva in Saratov

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**BREAKING NEWS**

**POLITICS**

**PUTIN INSTITUTES PRESIDENTIAL RULE OVER CHECHNYA.** On 8 June, Russian President Vladimir Putin signed a decree establishing presidential rule over Chechnya. Along with the decree, the Cabinet of Ministers adopted a program on the republic's immediate reconstruction. The decree is aimed at bringing order into the legitimate sphere and establishing one single governing body in the region.

The appointed administration will act as the republic's executive body until the conditions are ripe for democratic elections in the region, which the defense committee estimates will not be the case for two-three years. The Chechen Republic's administration will comprise the executive body and the administrations of raions and cities in the republic. The Chechen administration will be accountable to the Russian president, the Russian government and the president's authorized representative in the newly formed North Caucasus federal district, colonel Viktor Kazantsev. On 12 June, Putin appointed Mufti Akhmed Kadyrov, the most charismatic of Kremlin loyalists, head of the Chechen administration. The Russian president retains the right to appoint, as well as to dismiss, the head of the Chechen administration.

While the presidential decree waits for the legislature's approval, the Duma has adopted a program for immediate reconstruction for the Chechen Republic. The total budget approved for the reconstruction is 7.8 billion rubles. Thirty percent of the money will come from the federal budget, 15 percent will be provided by out-of-budget funds, primarily from the pension fund, and the rest will come from independent sources, such as Gazprom, the Railway Ministry, and Unified Energy System (EES). The highest priority reconstruction projects will target the water supply and sewage systems, providing the population with electricity and gas, and rebuilding medical and educational institutions.

Though most of Moscow's political elite was quick to applaud Kadyrov's appointment, the Kremlin's move has met criticism. Kadyrov's rivals for the post contend that he is not likely to change anything in the military and political situation in the republic. They allege that his appointment risks further aggravating Chechen rivalries. In any case, Kadyrov will face a difficult task consolidating even the pro-Moscow part of the Chechen population, when the rebels are certain to continue their guerrilla war. (<http://president.kremlin.ru/>, *The Moscow Times*, 14 June, *Vedomosti*, *Izvestiya*, *Nezavisimaya Gazeta*, 9 June)

**PUTIN ATTACKS DECREES IN ADYGEYA...** On 8 June Russian President Vladimir Putin added another decree to his list of orders striking down regional laws not in compliance with federal legislation. This time the target was Adygeya. Putin's decree stated that two declarations issued by the president of Adygeya, one from 8 October 1997 and a supplementary order from 4 June 1999 were in violation of the Russian Constitution. The two decrees concerned the appointment and dismissal of the heads of territorial organs of federal executive power, as well as other state organs and state extra budgetary funds. The decrees in question gave the power to appoint and dismiss these posts to the president and cabinet of ministers of the republic of Adygeya, contradicting Article 78 of the Russian Constitution, which gives federal organs this authority. Putin has also issued similar decrees against laws in Ingushetiya, Amur, Smolensk (see *EWI Russian Regional Report*, 17 May), and Tver (see below). (<http://president.kremlin.ru/>)

**...AND TVER.** On 13 June Russian President Vladimir Putin issued a decree overturning an order issued by the governor of Tver Oblast on 28 September 1999 regarding electricity tariffs for the oblast's population. Putin's decree states that the Tver governor's order illegally imposes electricity tariffs on the oblast's residents and violates the federal law on state regulation of tariffs on electricity and thermal energy in the Russian Federation. Putin ordered that Tver Governor Vladimir Platov stop action on his September decree immediately. (<http://president.kremlin.ru/>)

**KALMYKIYA AMENDS CONTRADICTIONARY REGIONAL LAWS.** President of Kalmykiya Kirsan Ilyumzhinov announced at a press conference on 9 June that he has brought all 10 laws in his republic that violated constitutional standards into accordance with federal legislation. The republican legislature, the Narodnyi Khural, reported to the president that all local laws now agree 100 percent with Russian legislation. According to Ilyumzhinov, the move to re-work the republic's laws was done deliberately to show full support for Russian President Vladimir Putin's reforms. Even though Putin has given regional governments until October 2001

to bring all regional laws into accordance with federal norms, Kalmykiya completed the task in only two weeks. Contradictions between federal and local laws existed in legislation concerning issues such as immunity of members of the republican parliament, budgetary issues, and a clause in the republican constitution allowing the republican president to introduce an emergency ecological situation. Presidential Representative for the North Caucasus, Viktor Kazantsev was satisfied with Ilyumzhinov's actions. He stated that he expects similar developments in other North Caucasus regions as well, but also anticipates problems with some regional executives, although he did not specify which ones. (*Nezavisimaya Gazeta*, 10 June)

**PRESS MINISTRY DEMANDS PRINT LICENSES.** The Press Ministry has granted itself more power over the Russian press by demanding that all publications in the country obtain government-issued licenses in order to continue printing in the future. Although the Ministry does not yet have the authority to take a license away from an offending publisher, it now has reserved the right to suspend a license for up to six months if the publisher violates any law.

In response to objections that the past law, which required only the registration of publishing activity, sufficiently monitored the written press, Minister of the Press Mikhail Lesin noted the law, if it had been strictly followed, would have permitted shutting down the press. It is currently unknown as to whether the publishers currently registered with the Press Ministry will automatically receive their publishing licenses, or whether they will now have to meet certain standards to obtain the new licenses. Lesin also said that he does not like his role as a "policeman", but feels that he has to atone for the absence of a government-controlled media policy in the past. Furthermore, he declared that he does not intend to act harshly against those publishers who are not currently holding licenses, which includes the majority of the current print media. Nevertheless, the ministry's decision clearly marks another step in the federal government's increasing attempts to gain more control over the media.

Meanwhile, the conflict between the Press Ministry and Moscow Mayor Yuriy Luzhkov's TV-Tsentr remains unresolved. The Press Ministry temporarily won a battle over the broadcasting rights of TV-Tsentr. The Ministry alleged that the station broadcast biased coverage of the 1999 parliamentary election campaign of Luzhkov's Otechestvo. After a court hearing in May, the Press Ministry won the right to tender the station's broadcasting license instead of automatically renewing it as was scheduled when the license expired on 20 May 2000. The Press Ministry then announced that it would suspend the planned tender until a Moscow arbitration court reaches a verdict on whether the ministry was justified in issuing the warning it gave TV-Tsentr. The hearing is scheduled for this month. (*The Moscow Times*, 10 June).

## **ECONOMICS**

**TYUMEN OIL BLOCKS SLAVNEFT SHARE EMISSION AND FOREIGN LOAN.** At a 6 June shareholders meeting, the Tyumen Oil Company (TNK) used its minority stake in the Yaroslavl refinery, Yaroslavnefteorgsintez (YANOS), to block an additional share emission and a loan disbursement from Japan's Eximbank. The additional share issuance was one of the conditions made by Eximbank, which agreed to lend \$200 million to modernize YANOS, a

leading petroleum manufacturer in Russia. The Russian Finance Ministry, through which Eximbank acted, required Slavneft to increase its stake in the refinery so that YANOS keeps its credit obligations to the bank. Slavneft, which owns 60 percent of YANOS, expected the share emission to strengthen its grip over the refinery, thus, weakening TNK's 34 percent share. However, TNK does not want to yield to Slavneft. As a result, Slavneft managed to reduce the number of seats on the YANOS board of directors, depriving TNK of a seat. TNK intends to contest the legality of the shareholders meeting in court. (*Vedomosti*, 7 June, *Kommersant Daily*, 7 June)

## **MEDIA ISSUES**

**MEDIA-MOST HEAD ARRESTED.** On 13 June, Vladimir Gusinskii, head of Media-Most holding company, was arrested by the procurator general's office. One of the most likely reasons for Gusinskii's arrest was his connection to St. Petersburg's Russian Video affair. In September 1998 Chairman of the Board of Directors of Russian Video Dmitrii Rozhdestvenskii, was arrested for embezzling large sums of state money through a Russian Video merger with Channel 11. Russian Video was established in 1989 as a state television company, but soon became a private commercial enterprise doing other projects, as well as television broadcasting. Russian Video has used Channel 11 to broadcast in St. Petersburg since May 1993. The channel provides broadcasting space for programs from TNT, a television network owned by Media-Most.

The 11 May raids on the Moscow offices of Media-Most were carried out on the basis of a criminal case that arose on 26 April after new information appeared in the Russian Video case proceedings. Recently, the Russian Accounting Chamber published a report on the results of the raids. The report states that on 19 December 1996, the Russian Video management established the limited liability partnership Russian Video-Channel 11 so that Media-Most could join in the future. Russian Video's original partner in this venture was Rozhdestvenskii's Yuridicheskoe Sotrudnichesvto, which held 30 percent of the charter capital while Russian Video maintained 70 percent. Russian Video's management transferred the company's broadcasting license from Channel 11 to the new Russian Video-Channel 11. They promised Chairman of the Federal Radio and Television Service Valentin Lazutkin that Russian Video, a state company, would hold 70 percent of the new company's capital.

As a result of a 1998 deal with Gusinskii, Russian Video's stake in the Russian Video-Channel 11 dropped to 17.5 percent. According to the original charter of Russian Video-Channel 11, the partners were not permitted to transfer their stakes over to third parties. Later, however, an appropriate amendment was made to the charter. Under the new provisions, Media-Most joined the company with a 75 percent stake. The Accounting Chamber feels that Russian Video has served as a well designed cover for the embezzlement of \$10 million in state money.

Russian President Vladimir Putin was in Spain at the time of Gusinskii's arrest and claims to have no bearing on the procurator general's move. Nevertheless, most observers connect the arrest to the May raids on Media-Most and a government crack down on the press. - Daniel Tsygankov in St. Petersburg

## **CENTER-PERIPHERY RELATIONS**

**BASHKORTOSTAN RESISTS CONSTITUTIONAL CHANGES.** On 5 June, the Commission to Develop Recommendations for Reconciling Differences between the Bashkortostan and Russian constitutions, headed by State Assembly Chairman Konstantin Tolkachev, opened its latest session to discuss changes to the Bashkortostan constitution. Since the republican constitution was adopted in December 1993 by the former Bashkortostan Supreme Soviet, not a single word has been changed. A working group chaired by Bashkortostan State Secretary Ildus Adigamov has proposed a packet of changes.

Among the most important changes are those concerning the status of the republic, the powers of the president and State Assembly, and the judiciary. Thus in Article 1 which states that "The Republic of Bashkortostan has supreme authority on its territory, independently defining and conducting domestic and foreign policies, adopting the Bashkortostan Constitution and laws, which have supremacy on its entire territory." The working group has changed the last part of this phrase to say "which, 'in the jurisdiction of Bashkortostan,' have supremacy on all its territory." This norm formally is based on Article 76 of the Russian constitution, which says that outside of purely federal and joint federal and regional jurisdiction, the republic has sole discretion, including the right to adopt laws.

However, the primary idea of this clause in the constitution remains in place, that the republic has supreme authority on its territory and that its constitution and laws remain supreme. Additionally, Article 5 of the Bashkortostani constitution remains unchanged. It states that "Bashkortostan joined the Russian Federation on a voluntary and equal basis. Relations between the Republic of Bashkortostan and the Russian Federation are determined by the Treaty on the basis for intergovernmental relations between the Russian Federation and Bashkortostan, and other bilateral treaties and agreements." This article states that the only Russian laws that must be enforced in Bashkortostan are those that were "voluntarily given by Bashkortostan to the purview of the Russian Federation."

Also left unchanged is Article 10, which states that "the earth, resources, natural wealth, and other resources on the territory of Bashkortostan are the property of its people. Questions about the ownership, use, and distribution of the land, resources, natural wealth, and other resources are determined by Bashkortostani legislation." This provision violates the federal constitution which states that control over land and resources is within the joint jurisdiction of the federal and regional governments (Article 72, point "v"). According to Article 76 of the Russian constitution, federal laws and regional laws adopted in coordination with the federal laws are supposed to regulate the use of these resources.

A new draft of Article 36 of the republican constitution, introduces two state languages in Bashkortostan, Bashkir and Russian. The text also preserves the institution of republican citizenship as determined by republican law, violating the parts of the Russian constitution that reserves citizenship questions to the federal level.

The draft clauses of the constitution also offer new freedoms. Article 32 now offers citizens the right to move about freely and choose their own place of residence. Previously, the constitution only allowed this within the limits of Bashkortostan.

The new draft leaves untouched the previous clauses about Bashkortostan's right to ratify and annul foreign treaties. Thus Bashkortostan remains a subject of international law, contradicting Article 72 point "o" of the Russian constitution.

The Bashkortostan parliament would lose the right to appoint the republican procurator, but there is a new clause giving the parliament a voice in his appointment. The parliament also retains the right to nominate judges, violating the Russian constitution, which gives the Russian president the right to appoint judges (Article 83, point "e") and reserves the judiciary for federal control (Article 71, point "p").

The republican president retains the right to appoint judges at all levels. The president also gets the right to name the members of the electoral commissions and still presents his candidates for the position of republican procurator to the republican legislature. However, the president no longer has the right to remove a procurator, since that right is held by the procurator general.

The amendments would remove the current two-term limit on the republican presidents and also allow candidates over the age of 65 to run. The requirement that a candidate have lived in the republic 10 years and speak Bashkir remain. These clauses are violations of Russian legislation.

Another amendment would forbid Bashkortostani cabinet members from simultaneously managing commercial enterprises. This practice is common in Bashkortostan now. - Igor Rabinovich in Ufa

## **CRIME AND TERRORISM**

**EXPLOSION IN VOLGOGRAD THREATENS INTER-ETHNIC PEACE.** Over the past weeks after the 31 May explosion in Volgograd (see *EWI Russian Regional Report*, 31 May), the political situation in the region has become tense. Some of the local politicians have used the tragedy to serve their purposes.

Oleg Savchenko, chairman of the board of directors of the Volga Ball Bearing Factory (VPZ-15), who is not hiding his intention to run for governor in the December 2000 elections accused the oblast authorities the day after the explosion of an "irresponsible policy... which allowed the Chechen terrorists to rise." The Volgograd government boasts its peaceful relations with the large Chechen diaspora in the region. According to Savchenko, this policy is nothing but a "criminal inaction." "The oblast and local authorities close their eyes as our region turns into a bandit front. This inaction led to the uncontrollable settlement of Chechens...They assisted the Chechen diaspora to seize control over the most profitable sectors of the Volgograd economy. Our region is being turned into a home base for the Chechen rebel fighters. They are financing themselves here and they can hide here if they need to." Savchenko essentially accused the Chechen diaspora of carrying out the terrorist act. "It is clear that years of co-existence with such a government convinced the bandits that they could do whatever they like. They do not fear any revenge for the blood shed on the Volgograd soil. We need to dissuade them," Savchenko stated. In his address to the oblast leadership, Savchenko demanded that the authorities "immediately clean the oblast from all Chechens located on the oblast illegally, and investigate everyone who is under any small suspicion of terrorism or criminal offense."



However, what he meant by Russian citizens "illegally" living in the oblast, Savchenko did not specify.

Leaders of Caucasus groups in Volgograd became worried when other similar statements appeared. Elders of the Azerbaijan diaspora expressed their concern that "law-enforcement agencies will hold suspicion in criminal acts against any persons of Caucasus nationality (*litsa kavkazkoi natsionalnosti*)" and " will conduct a purge based on nationality."

Last week in Pallasovsk, a raion center housing the largest number of Chechens in Volgograd, elders of the Chechen diaspora held a meeting with participating delegates from many raions and neighboring regions. The main purpose for the meeting was to assure that the Chechen diaspora did not have a hand in the explosion, however, the delegates used the meeting as an opportunity to express complaints against the oppression coming from the local government and law officials.

General Viktor Kazantsev, the recently appointed presidential representative for the North Caucasus federal district (which the general himself calls South Russia), demanded that the word "Chechens" be excluded from the vocabulary of the mass media covering the explosion. "Along with the rebels there are Chechens who genuinely support the federal government. In any case, bandits have no nationality," Kazantsev stated.

Nevertheless, head of the oblast administration of internal affairs General Mikhail Nikiforov admitted that following the explosion a massive investigation into " persons of Caucasus nationality" was begun. Firms controlled by people of Caucasus nationality have been subject to investigations. As a result, 31 companies, including the Volgograd Central Market, have been shut down on various grounds.

No one in Volgograd questions legitimacy of such actions by the police. Similar to Moscow after the fall 1999 explosions, the local population sympathizes with the actions of the authorities. One must hope that Volgograd Oblast's inter-ethnic peace will not be buried under the ruins of the explosion. Most likely, the explosion itself was meant to undermine the peaceful co-existence of the large Chechen diaspora and the Russian population. - Ivan Kurilla in Volgograd

**KHACHILAEV BROTHERS FOUND GUILTY OF 1998 RIOTS.** On 13 June the Dagestan Supreme Court found brothers Nadir and Magomed Khachilaev guilty of the riots that took place in Makhachkala on 21 May 1998 (see *EWI Russian Regional Report*, 21 May 1998). During the event two years ago, the police clashed with an automobile procession led by the Khachilaevs into Makhachkala, resulting in the death of six police officers. Having taken an additional four police officers hostage, the Khachilaev henchmen hid out in Nadir Khachilaev's home. Nadir is the leader of the Union of Muslims of Russia and at the time was a member of the State Duma. The Khachilaev group then managed to take control of a complex of government buildings in the center of Makhachkala for several hours.

The elder brother, Magomed Khachilaev, leader of the Lak ethnic movement, was arrested in September 1998 and with his arrest a large scale fight against corruption and the mafia in Dagestan was declared. More than 100 investigators from the Federal Security Service (FSB), the Ministry of Internal Affairs, the procurator's office, and the tax police were ordered to Makhachkala by the federal center to help local law organs organize the fight against

crime. This undertaking failed miserably and all of the incriminating figures are free and many of them occupy important positions. The Khachilaevs, whose criminal persecution began before the others, managed to disentangle themselves from the problems with the law organs.

Their freedom was the subject of ongoing political bargaining with the Dagestan authorities. Magomed Khachilaev started to run for the People's Assembly, the republican parliament, in March 1999, and was released from investigation for several days after removing his candidacy. The conditions of his release demanded that he remain in the mountains in the Lak raion and not appear in Makhachkala or other cities in Dagestan.

Nadir Khachilaev, having good relations with Chechen leaders, was in Chechnya for about a year. While in Chechnya he conducted raids to free people being held against their will in Chechnya. According to one of his accomplices, Nadir helped free about 50 people. Nadir Khachilaev did not support the invasion in Dagestan conducted by Shamil Basaev and Khattab in August-September 1999. After several conflicts, during one of which Shapi Mikatov, a Dagestani that had been with Nadir in Chechnya, was killed, the field commanders demanded that Nadir leave the republic.

Nadir spent several weeks in the Wahhabi enclave Karamakha in Dagestan, which was inaccessible to state authorities. After the defeat of Karamakha in November 1999, Nadir, leader of the largest political organization of Muslims in Russia and a State Duma deputy, was stripped of his parliamentary immunity and arrested.

Charges were brought up against the Khachilaev brothers on several points: organizing the 21 May 1998 riots, which resulted in deaths, storing and carrying weapons, and kidnapping. The brothers did not admit their guilt on any of these charges, and Nadir even stated that he considered himself a victim of this situation.

Over time the Khachilaevs adopted the following defense: they did not incite the 21 May riots, but rather, calmed the people and brought the situation under control. The deaths of the six police officers was the fault of Shapi Mikatov, who was killed later in Chechnya, and the Khachilaevs should not bear the responsibility of his actions. As evidence of the Khachilaevs' guilt, five videocassettes were produced, but the Khachilaevs' lawyer argued against the quality of the tapes as sufficient evidence. The court was left in a precarious situation as the evidence produced against the Khachilaevs' was rather weak to prove such severe charges. However, to fully excuse the Khachilaevs would discredit the widely publicized work of dozens of investigators. Magomed Khachilaev was sentenced to three years in prison and Nadir to one and a half years. The brothers were then released directly from the court due to an amnesty dictated by the government in conjunction with the 55<sup>th</sup> anniversary of the World War II victory.

- Nabi Abdullaev

## **POLITICAL ECONOMY**

**NOVOLIPETSK METALLURGICAL COMBINE INFLUENCES TVER BANK.** On 7 July the Central Bank of Russia recalled the temporary administration of the Tveruniversalbank (TUB). The decision was motivated by the normalization of the bank's financial position and the Novolipetsk Metallurgical Combine's (NLMK) desire to handle strengthening the bank's situation (*Veche Tveri*, 8 June). Until summer 1996 TUB was among

the leading banks in Russia, considered highly respectable and trustworthy, and had branches in Moscow and other large cities throughout the country. The reputation of the bank was linked to Nikolai Ryzhkov, who headed the bank's board of directors.

According to the Tver local press, NLMK's current interest in TUB's fate is linked with Anatolii Trachenko's participation in the December 1999 gubernatorial elections (see *EWI Russian Regional Report*, 23 November 1999). Trachenko is the deputy director of the Russian Managing Metallurgical Company (Rumelko), which controls NLMK. NLMK itself recently announced that it did not have the means to modernize production, forcing it even to sell the Stinol factory for \$120 million. Rumelko hopes that TUB could be used as a means to build up the economic and political weight of the company. Rather than disappear from the political scene, TUB is likely to return with new leaders and interests, both regional and federal. Tver's close proximity to Moscow makes its present poor situation very attractive for different financial-industrial groups that are trying to assert their influence in the Central regions. It is probably for this very reason that NLMK felt it was important to take over TUB's unfinished office in Tver's center, symbolically marking its presence in the region.

The presence of five representatives from NLMK on TUB's board of directors will be far from symbolic. One of these representatives will be Vyacheslav Fedorov, who, according to the Tver press, is the brother of Valerii Fedorov, chairman of the Accounting Chamber of the Tver Oblast Legislative Assembly and recently named deputy governor (see *EWI Russian Regional Report*, 3 May). Tver's representation in the new board of directors will be limited to two names, TUB president Aleksandra Kozyreva and general director of the trade company ANTEK, Nikolai Karpov. TUB is returning to big business and taking on a new political role. - Boris Goubman in Tver

**THE POLITICS BEHIND IRKUTSKENERGO.** The significance of the elections for the Irkutsk Oblast Legislative Assembly increases from day to day, as does the importance of the disputed 40 percent ownership stake in Irkutskenergo. Of particular importance is Unified Energy System (EES) head Anatolii Chubais' interest in Irkutskenergo. The Ministry of State Property has been trying to bring the oblast's 40 percent stake in Irkutskenergo under its control. The most recent attack on Irkutskenergo coincided with a transition period as Chubais tried to bring the company into EES during the interval between Boris Yeltsin and Vladimir Putin. A hearing on the disputed stake is set for 28 June.

For Chubais, capturing Irkutskenergo is vitally important. The energy enterprise offers additional chances to gain control over the new "aluminum barons." After the union of Boris Berezovskii, Roman Abramovich, and Oleg Deripaska the aluminum group is becoming menacingly influential and under its pressure Chubais could lose his political weight. It is possible that Chubais has constructed a new plan to improve his position regarding Irkutskenergo.

The first step in this plan concerns the oblast дума campaign. The second will be in summer 2001 when elections are held for the governor of Irkutsk Oblast. Irkutskenergo is Chubais' political instrument in the oblast. For a long time the company was the oblast's "sacred cow" and was above suspicion. However, now an investigative group is conducting an examination of the company, which is driving a wedge between Irkutskenergo's management

and the oblast authorities.

In such circumstances the energy complex will become the basis for forming a political opposition. The first goal of the "energy opposition" would be to seize a majority in the oblast parliament and control of the chairmanship of the assembly. A strong opposition faction within the Legislative Assembly would be likely to put forth a candidate in the gubernatorial election. This candidate could gain the support of EES on the condition that he or she transfer Irkutskenergo over to Chubais.

On 9 June Irkutsk Governor Boris Govorin spoke about the Irkutskenergo dispute at a press conference, noting that the Ministry of State Property's arguments regarding the stake are weak. Govorin further stated that he had met with former First Deputy Minister of State Property and current Minister of Economics German Gref, who promised to look into the situation and propose a solution to the government. Considering that Irkutsk Oblast has already transferred 20 percent of the disputed stake over to the federal government, the suit against the oblast comes off as more of a political gesture aimed at infringing upon the oblast's interests rather than an attempt to have the property returned. - Teleinform in Irkutsk

**KRASNOYARSK ALUMINUM LEADS TO DEMISE OF LOCAL BANK.** The recent changes in the managing body of Krasnoyarsk Aluminum Factory (KrAZ) (see *EWI Russian Regional Report*, 10 May) brought along a disaster to the region's leading banks. The first bank to suffer was Bank Metaleks which has been KrAZ's official bank for many years. Through the bank KrAZ directed all its payments, the employees received their salaries with Metaleks' bank cards, and over one hundred thousand depositors kept their money in Metaleks. After the August 1998 crisis, Metaleks took the responsibility for deposits in another then-leading bank, Bank Yenisei, and since then has been regularly paying the money off to Yenisei's depositors. The president of Metaleks was former chairman of the KrAZ Board of Directors Anatolii Bykov.

About a year ago when Krasnoyarsk Governor Aleksandr Lebed had his falling out with Bykov, searches began at the TANAKO Corporation, which was created on Bykov's initiative to oversee KrAZ. Lebed stated, "I am going to reduce these banks into particles." After that many enterprises were advised that they terminate their accounts in Metaleks. When a week ago KrAZ finally did the same, the bank ceased to exist.

Former KrAZ General Director Aleksei Barantsev announced formally at a press conference that he had agreed to become general director of the Bratsk Aluminum Factory (BrAZ) (see *EWI Russian Regional Report*, 24 May). Regarding Metaleks, Barantsev reassured the KrAZ workers reminding them that KrAZ had founded the bank and would not leave its workers in a difficult situation. "The factory will support the bank, as it did before in difficult times," Barantsev said. In the meantime, it is rumored that Metaleks will be acquired by the Moscow MDM Bank, which already serves as a financial instrument for Siberian Aluminum

Another regional bank which has encountered difficulties is Bank Kedr. Kedr has been in the leading position among other regional banks for a long time, occupying 26% of the krai's financial market. Kedr's founder is Krasnoyarsk Railways. Recently, there has been discussion that Krasnoyarsk Railways has received a directive to transfer its accounts into one of the Moscow banks. This action is supposed to have created the difficult situation in Kedr.

However, these became stronger after Metaleks' collapse. - Pavel Avramov in Krasnoyarsk.

## **PATTERNS OF REGIONAL DEVELOPMENT**

**MARI EL AMENDS REPUBLICAN ELECTION LAWS.** On its 2 June session the State Assembly of Marii El adopted laws on amendments to the republican constitution and on making changes to republican electoral law. The adoption of these laws is a serious event for the republic on the eve of the upcoming elections for the republic's State Assembly and president, since over the past several years deputies have not wanted to bring the republican constitution in to accordance with the constitution of the Russian Federation. According to the old formula, deputies were elected from 67 districts, 50 districts elected deputies via majority vote and 17 seats were administrative-territorial, allowing all 17 raion heads to enter the State Assembly. It was these 17 raion chiefs that hindered the amendments from being adopted. One proposal was to do away with these 17 administrative-territorial districts and keep the 50 majority districts, but the deputies rejected this possibility. It was decided to keep 67 districts, but now the heads of the raions must compete in the general election to win a spot in the State Assembly. Regarding the law on republican elections, elections to the State Assembly will be held on 8 October.

Another issue on the 2 June agenda concerned the possible early termination of Legislative Assembly Chairman Mikhail Zhukov's term since Zhukov is also the general director of the Teplichnoe firm, and simultaneously holding this post and the chairmanship of the State Assembly is forbidden by law. However, Zhukov was not present at the session since he had traveled to Moscow with Marii El President Vyacheslav Kislitsyn where presidential representative to the Volga federal district, Sergei Kirienco, was officially presented to the members of the Federation Council. Therefore, for ethical reasons the issue was postponed until Zhukov's return. Technically, Zhukov is on leave even though he is working. There are rumors that once Zhukov returns from his vacation, he plans to resign from the chairmanship but remain as a deputy. One likely candidate to fill the speaker post is deputy chairman Vasilii Kapisov, who presided over the 2 June session in Zhukov's absence. - Svetlana Zasloukina in Ioshkar-Ola

**LEBED'S DEPUTY LIKELY CANDIDATE IN EVENKIYA.** Rumors are circulating in Krasnoyarsk Krai Governor Aleksandr Lebed's administration that Deputy Governor Yevgenii Vasiliev is likely to resign and run in the upcoming elections in the Evenk Autonomous Okrug. It seems that Lebed has become tired of unruly Evenkiya Governor Aleksandr Bokovikov and plans to put the loyal Vasiliev in his place.

Vasiliev is well known in Krasnoyarsk Krai. He served for a long time as a deputy governor under former governor Valerii Zubov, and has been Lebed's deputy for about a year. His leadership and organizing abilities and excellent knowledge of the krai and its people are among his merits. His personal friendship with Minister of Emergency Situations Sergei Shoigu can come to a strong advantage in Vasiliev's running in the gubernatorial elections in Evenkiya. Over the last few years the ministry has been supporting Tura, Evenkiya's administrative center, during long cold winters.

Another reason for Vasiliev's running for the Evenkiya governor's post is the recent changes in the Krai administration. With the arrival of a new deputy to Lebed, one TV-Tsentr's top managers Selivanova, Vasiliev's authority over mass media and social organizations has been reduced. - Pavel Avramov in Krasnoyarsk

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## **BREAKING NEWS**

### **POLITICS**

**CONFLICT BETWEEN TV-TSENTR AND PRESS MINISTRY RESOLVED.** On 15 June Moscow Mayor Yurii Luzhkov's TV-Tsentr called off its legal action against the Press Ministry. The action was terminated a day before the hearings on the case were supposed to take place. After a court hearing in May, the Press Ministry won the right to tender the station's broadcasting license instead of automatically renewing it when the license expired. When TV-Tsentr took legal action the Press Ministry then announced that it would suspend the planned tender until the court reached a decision on whether the ministry was justified in issuing the warning it gave TV-Tsentr (see *EWI Russian Regional Report*, 10 May).

The informal negotiations between Lesin and Luzhkov resulted in TV-Tsentr's decision to call off the court petition. The Press Ministry responded to this decision by extending TV-Tsentr's broadcasting license temporarily on 16 June. However, the Press Ministry still intends to hold the tender for the broadcasting license, which will take place on 6 July. According to a 15 June broadcast on TV-Tsentr, the action was terminated in order to take the conflict out of a legal dead end, allowing the Press Ministry to either extend the license or hold the tender. (Polit.ru, 21 June, *Nezavisimaya gazeta*, 20 June, *Vremya MN*, 16 June)

**ROSTOV OBLAST AMENDS REGIONAL LAWS.** On 15 June, the Rostov Oblast legislature started the process of bringing regional laws into accordance with the federal legislation. Among the 30 amendments accepted at the assembly was the oblast law on registering visitors to the oblast. After the 1999 terrorist act in Volgograd (see *EWI Russian Regional Report*, 7 October 1999), the oblast legislature hurried to issue a law enforcing the registration of persons coming in to the oblast. Instead of the 10 days required by federal standards, the law obliged incoming persons to register within 3 days. At the 15 June session the Rostov legislature brought the law in accordance with the federal legislation. (*Izvestiya*, 17 June)

**DRACHEVSKII MEETS KRASNOYARSK GOVERNOR LEBED.** Presidential representative for the Siberian Federal Okrug Leonid Drachevskii made his first trip to Krasnoyarsk Krai. At his meeting with Krasnoyarsk Governor Aleksandr Lebed, Drachevskii talked about his intentions to cooperate closely with the heads of the Siberian regions. This won the sympathies of the Krasnoyarsk governor, who plans to establish friendly relations with the presidential representative and also try to return the Evenk Autonomous Okrug to Krasnoyarsk Krai.

Lebed has long dreamed about having Evenkiya's rich mineral resources back under Krasnoyarsk power. He has bargained with Evenkiya authorities offering Krasnoyarsk's help to the region with supplies and resources if Evenkiya revokes its status as a federation subject. Drachevskii was rather ambiguous about Lebed's plans, which the Krasnoyarsk governor hurried to interpret as a good sign. (*Kommersant Daily*, 20 June)

## **ECONOMICS**

**MOSCOW MAYOR OFFICES PROTEST CITY DUMA NEW SALES TAX LAW.**

On 14 June the Moscow City Duma voted for lifting the 4 percent city sales tax off certain goods. The mayor's office did not agree with this move. According to the new federal tax reform, starting in 2001 Moscow City will lose its right to keep part of the tax revenue in the city budget. Moscow Mayor Yurii Luzhkov is concerned about the 25,000 million rubles the budget will lack after the reform goes into effect.

The amending process has been going on since March 2000, when the mayor's office agreed with the City Duma to lift the sales tax off a number of goods. In the second reading, 35 out of 39 new amendments to the sales tax law introduced by the City Duma were overturned in the mayor's office. The City Duma did not give up and voted for the rejected amendments, thus directing them to the mayor's office for another hearing. The mayor's office has not yet responded. (*Kommersant Daily*, 15 June)

**WIMM-BILL-DANN EXPANDS AND GOES ABROAD.**

Wimm-Bill-Dann, Russia's leading dairy products manufacturer, plans on expanding its business in Russia and producing for the foreign markets. While Wimm-Bill-Dann's competitors, dairy manufacturers Danone, Campina, and Ehrmann, are opening their factories in Russia, Wimm-Bill-Dann is making its technology more competitive and is setting up factories in the competitors' home countries - France, Holland, and Germany. On 14 June Wimm-Bill-Dann's management announced a \$25 million new investment project which is directed at increasing the production output of Wimm-Bill-Dann's factories in Central Russia and establishing factories in Novosibirsk, Nizhnii Novgorod, and Vladivostok. The company also plans to send its products to the European market. (*Vedomosti*, 15 June)

**SPAR TO OPEN 30 LOCAL SUPERMARKETS.**

The Netherlands' Spar, the largest supermarket chain in the world, plans to open 30 stores in Russia and Lithuania over the next three years with regional partner Rusmed. Although analysts agree that Russian consumers will welcome the low prices that Spar offers, historically franchise systems have not been successful in Russia due to problems maintaining management hierarchy. Spar has previously tried and failed to bring its chain to St. Petersburg, but representatives of Spar say that their past failure was due to criminal problems in the city. Spar is now fully licensed, and the company is confident that Russian consumers will welcome the convenience and discounts that Spar offers them. The first store is scheduled to open in Moscow this summer. (*The Moscow Times*, 16 June)

**GAZPROM AND INTERROS JOIN TOGETHER TO DEVELOP PERM**

**INDUSTRY.** Gazprom and Interros have decided to combine forces in developing Perm's industry. They plan to focus on projects involving the Perm Motors Plant (PMZ) and other metallurgical enterprises controlled by Gazprom and Interros. Only three months ago the industry giants were fighting for control over PMZ. Gazprom was interested in using the plant to produce gas pumping devices for its pipe lines. Interros tried to set up PMZ for constructing aviation engines. The conflict was resolved by Gazprom and Interros forming a joint investment project. In the course of the project, Gazprom and Interros will invest in the development of the Perm complex and also pay off its debts to budgetary and other funds. (*Vedomosti*, 15 June)

## **BRIEFLY NOTED**

-- In the run-up to the 2 July gubernatorial elections in Samara, local voters were surprised to find out that former Governor Konstantin Titov's 25-year-old son reported an annual income of 33 million rubles (more than \$1 million). (*Argumenti i Fakti*, no. 24)

-- At a 21 June meeting, the ARKO board of directors elected Deputy Prime Minister and Minister of Finance Aleksei Kudrin its chairman.

## **ON THE ROAD: YEKATERINBURG 15-17 JUNE 2000**

As part of the Carnegie Corporation's Russia Initiative, George Washington University Professor Peter Reddaway and I are traveling around the Russian regions to get an on-the-ground look at the changes currently taking place in center-periphery relations. One journalist we interviewed summed up the Putin era best when he said, "We feel the different atmosphere, but we don't understand what it means." Another said of Putin's proposals to strengthen federal authority essentially that everyone is scared, no one understands what is happening, and that everyone is talking about them. While the ultimate impact of Putin's reforms remains unclear, there are plenty of interesting details to be gleaned from the current situation. Here is a special section containing impressions from our trip. - Robert Orttung

## **CENTER-PERIPHERY RELATIONS**

### **ROSSEL'S EVOLVING RELATIONSHIP WITH THE FEDERAL**

**GOVERNMENT.** Sverdlovsk Oblast Governor Eduard Rossel's relationship with the federal government has evolved considerably since then-President Boris Yeltsin first appointed him governor on 18 October 1991, according to Ilya Gorfinkel, a prominent political observer in Yekaterinburg and a consultant in the Sverdlovsk Oblast government's Department of Public Relations and Analysis. In the early years of Yeltsin's presidency, Sverdlovsk Oblast had an enormous advantage since the region was Yeltsin's hometown. The Russian president brought many people from the region to staff his administration.

In mid-1993, these relations began to change. The regional elite tried to play on differences within the federal administration to its own advantage. On 27 October the Regional Soviet adopted the Constitution of the Urals Republic. Rossel angered many federal leaders by acting too independently and avoiding, where possible, subordination to the federal government. At that time, many of the team from Sverdlovsk Oblast began to leave the president's staff. Ultimately, on 10 November 1993, Yeltsin removed Rossel as governor and replaced him with Aleksei Strakhov.

However, Rossel eventually made a comeback by winning the August 1995 gubernatorial elections, one of the first gubernatorial elections to be held in Russia. Although Yeltsin had earlier removed him from office, Rossel essentially served as a strategic ally to the president, supporting his reelection, for example. However, under this arrangement, Rossel gave himself a great deal of autonomy. Gorfinkel compared the

relationship between Yeltsin and Rossel to that of the United States and France. Despite their alliance, the two sides had many differences.

Rossel became the first oblast governor to sign a power-sharing treaty with the federal government on 12 January 1996. Yeltsin was very weak at this point in his career while he faced elections in June, his popularity ratings were in the single digits. He was anxious to curry favor with the regional elite and was willing to pay a high cost to secure their support. The treaty gave the governor the right to approve all federal appointments in the region (where approximately 30 federal agencies operate). Rossel used this right actively, effectively appointing all federal officials in the region, including the presidential representative. The treaty has no basis in Russian law, so the federal and/or regional authorities can implement it if they want to, or ignore it if they decide it no longer serves their interests.

Toward the end of 1996, the Moscow authorities again began to criticize Rossel. As a result of this opposition, Rossel had difficulty solving regional problems in the capital. In particular, he faced key enemies in the n-Prime Minister Viktor Chernomyrdin and successive heads of the presidential administration, Anatolii Chubais and Valentin Yumashev. The culmination of the attack on Rossel came with the transfer of the trilateral Russian, French, and German summit from Yekaterinburg to Moscow. The federal leaders' main complaint against Rossel was that he did not behave as if he were subordinate to the federal government.

However, when Yeltsin began to change prime ministers, Rossel was among the first to support Sergei Kirienko. Also following the 1998 financial crisis and the dismissal of Kirienko, Rossel surprisingly backed the reappointment of Chernomyrdin. This action surprised Chernomyrdin, but won Rossel a powerful friend at Gazprom when the State Duma ultimately refused to confirm Chernomyrdin for a second term. Rossel was then one of the first governors to support the nomination of Yevgenii Primakov and sought to build a strong relationship with him, vocally backing Primakov's idea of including the leaders of Russia's eight interregional associations in the government presidium. As a result of these various maneuvers, the federal government did not put up a united front against Rossel when he sought reelection in August 1999.

During the summer of 1999, according to Gorfinkel, Rossel intuitively sensed that Moscow Mayor Yurii Luzhkov would not be elected president, and did not join any of the regionally organized parties (Vsya Rossiya, Otechestvo, and Golos Rossii) that sprang up in anticipation of the December 1999 State Duma elections. Thus, he earned credentials as a governor "loyal" to the federal government and could ultimately work in support of the pro-Putin Yedinstvo "with a clean conscience" when it became apparent that this party would win. Rossel's distance from the gubernatorial parties and his support of Yedinstvo helps him considerably now.

Putin has paid off Rossel's loyalty in two concrete ways. First, shortly after his election as president, he signed a \$1 billion credit guarantee to help the Nizhnii Tagil Metallurgical Combine (NTMK) build pipes for the oil and gas industry. This new project is expected to be a major growth engine for the oblast economy. Second, Putin named Yekaterinburg the capital of the Urals federal district. The governors of Perm and Chelyabinsk clearly did not support Rossel as the leader of the Greater Urals Interregional Association, but now their opposition has been neutralized and Rossel is the key Ural leader, Gorfinkel said.

Whereas Rossel had relatively strained relations with Yeltsin, his relationship with Putin is now no worse, Gorfinkel believes, than that of other governors. Rossel has not joined those governors who loudly denounced Putin's federal reforms at the national level. However, at a press conference held in Yekaterinburg at the end of May (or in early June), Rossel strongly criticized all of Putin's initiatives. Rossel even rejected the idea that governors should have the right to remove mayors, even though he had earlier asked for this right, and his conflict with Yekaterinburg Mayor Arkadii Chernetskii, who unsuccessfully sought the governor's seat in 1999, continues unabated. However, the national media did not publicize these statements.

The oblast's two main leaders seem skilled at maneuvering to get themselves reelected. Although fairly unpopular, according to an experienced analyst of public opinion, Rossel won re-election in August/September 1999, and the Yekaterinburg voters subsequently reelected Chernetskii in December 1999.

**GOVERNORS IGNORE ARRIVAL OF PRESIDENTIAL REPRESENTATIVE IN YEKATERINBURG.** Presidential Representative to the Urals Federal District Petr Latyshev made his first visit to Yekaterinburg since being appointed to this new post a month ago on 15 June but no governors were on hand to meet him. Sverdlovsk Oblast Governor Eduard Rossel pointedly scheduled a vacation in the Czech Republic to coincide with Latyshev's arrival and none of the other governors in the Urals Federal District came to see Latyshev, signaling that they do not intend to be overawed by him. Yekaterinburg Mayor Arkadii Chernetskii and the heads of the federal agencies in the oblast were the highest ranking officials to meet Latyshev at the airport.

So far, Rossel has essentially no relationship with Latyshev. In fact, Rossel had pushed for the appointment of State Duma Deputy Valerii Vorotnikov. In choosing Latyshev, Putin has caused some anxiety in Sverdlovsk since Latyshev is said to be non-corrupt and tough on crime, while Sverdlovsk has a reputation as a high crime region. Latyshev is also a native of neighboring Perm region, a rival of Sverdlovsk.

The first problem Latyshev faced was finding a building to house his office and staff. A commission from the presidential administration found several buildings, but all are currently occupied. Throwing one or another group out would immediately make the new federal bureaucrats unpopular (a problem faced by all the new governor-generals). According to the local media, Latyshev hoped to take over the local Pioneers' Palace, throwing the young persons' organizations now housed there into limbo. Several candidates in the 18 June City Council elections used the controversy in their efforts to win voter support. Mayor Chernetskii said that the city does not have an appropriate building it could give up, and does not particularly want to give up the Pioneers' Palace. Latyshev himself essentially passed the buck, saying that the decision was solely in the hands of the presidential administration.

While locals are happy that the arrival of Latyshev will raise the status of the city, there are drawbacks beyond the issue of office space. The price of the city's housing stock is also going up because of the sudden increase in demand. Official announcements say that Latyshev's staff in the region will number 40, but unofficial estimates suggest that it could be as high as 400.

During the course of his visit, Latyshev gave little indication of his future plans. In fact, he seemed mainly interested in preserving a stance of studied neutrality between



Governor Rossel and Mayor Chernetskii. He visited a defense plant now building public transportation associated with Chernetskii and the Rossel-backed UralExpoArms 2000 exhibit, which will soon open in Nizhnii Tagil.

## **ECONOMIC DEVELOPMENT INITIATIVES**

**SVERDLOVSK OBLAST PURSUES THREE DIRECTIONS FOR ECONOMIC GROWTH.** While there are numerous plans floating around aimed at promoting economic growth in Sverdlovsk Oblast, there are currently three key elements to the governor's strategy. First is the effort to produce pipes for the oil and gas industry in Nizhnii Tagil, the second largest city in the oblast after Yekaterinburg. With support from a decree signed by Russian President Vladimir Putin (see article elsewhere in this issue), the plan is apparently moving ahead, and will potentially give a major boost to the region's current economic output of 120 billion rubles. The plan was initially opposed by Gazprom, but Putin's support seems to have overcome these objections. Additionally, the director of the Magnitogorsk factory (Chelyabinsk Oblast) has called the decision to invest so heavily in Nizhnii Tagil a mistake. Because of the opposition in various quarters, officials at the huge machine-building plant Uralmash in Yekaterinburg, which has put in a bid to supply needed equipment, were not optimistic that the project would start in the near future.

In apparently winning this large and lucrative order, the Nizhnii Tagil plant defeated Russia's big three steel mills and other competitors. Locals believe that Nizhnii Tagil won through a combination of the influence of second-tier Moscow oligarch Iskander Makhmudov, Putin's need to pay back Rossel for election support, and general confidence in Sergei Nosov, the energetic 38-year-old director of the Nizhnii Tagil plant. Nosov's father and grandfather had both been directors of the giant Magnitogorsk factory, so the conflict with that Chelyabinsk plant is particularly intense.

The second front in stimulating economic growth is a plan to develop alumina deposits in Komi Republic and ship the raw material to Sverdlovsk Oblast for processing into aluminum. These are the plans of Rossiiskii Aluminum (not to be confused with the giant Russian (Russkii) Aluminum of Roman Abramovich and Oleg Deripaska) headed by Viktor Vekselberg and Vasili Anisimov. While Rossiiskii Aluminum controls about 30 percent of the Russian aluminum market, with the development of the Komi alumina, it would have the largest supply of raw materials.

The third front is an effort to increase exports of weapons produced in the region. Rossel took a large step in this direction by holding the UralExpoArms trade show last summer (see *EWI Russian Regional Investor*, 8 July 1999). The condition of the defense industry in the region is improving. A major example of success is the recent signing of a contract with India for the export of tanks that cost \$2 million to \$3 million each. The overall deal calls for the export of 280 tanks, but the actual number in the contract remains unknown because the contract is not public information. Mostly likely, India will not pay cash for the tanks, but trade Indian products in a barter exchange. Pakistan is buying similar tanks in Kharkov (Ukraine).

## **ENTERPRISE RESTRUCTURING**

### **URALMASH: HUMBLING GIANT ON THE UPSWING.** Uralmash

([www.uralmash.mplik.ru](http://www.uralmash.mplik.ru)) was once the giant industrial enterprise of the Sverdlovsk region and even United States Vice President Richard Nixon stopped by to visit it in 1959. While it is still the largest machine-building factory in Russia, it is now a minor player on the regional stage and of little political interest to the oblast elite. Sverdlovsk's aluminum and copper industries now produce the key sources of tax revenue for the region, and are much more important players.

At the beginning of the 1990s, Uralmash employed as many as 60,000 employees. Now it has a staff of just 15,000. With the collapse of the old regime, the plant became obsolete and could find few customers for its products. As the major financial interests battled to gain control of Russia's lucrative energy and metal resources, Uralmash was overlooked. As a result, Kakha Bendukidze bought what amounted to a controlling stake in the factory in 1994. In the mid-1990s, Bendukidze's strategy was to buy up plants that no one else was interested in and hope that he would be able to turn them around to ultimately make a profit. In about 1997 Bendukidze created the holding company OAO Uralmash - Zavody, which includes Uralmash, Izhorskie Zavody near St Petersburg, and the ZSMK machine-building factory in Verkhnyaya Pyshma, Sverdlovsk Oblast.

Over the years of his ownership, Bendukidze has not invested significant capital in the Uralmash factory. There was a major overhaul in the 1980s, but little seems to have changed since then beyond the addition of a few pieces of foreign machinery. However, the plant has benefited enormously from the ruble devaluation in August 1998, and the equipment it manufactures for the mining, metals, and oil and gas industries is currently much in demand. Uralmash prices are one third to one half those of non-Russian suppliers. Russian energy companies that once bought equipment abroad are now turning to Uralmash because they can no longer afford imported equipment. According to a factory spokesman, the plant has many more orders than it can handle. Uralmash is in a strong position because it is essentially a monopolist on the Russian market for the kind of goods it produces, although the Volgograd Zavod Burevoi Tekhniki (Factory of Drilling Technology) is now entering the same market.

The most significant innovation during the last few years has been the establishment of more vigorous marketing units, which are aggressively seeking contracts with customers for the plant. The plant has also sought to improve its ability to monitor project completion, tracking its output from the signing of a contract to the final delivery of the product.

The key issue Uralmash now faces is a lack of qualified workers rather than a lack of investment capital. Because of the industrial stagnation during the past decade, the factory simply was not training the kind of employees that it is now in a position to employ. This year Uralmash expects output to increase by 70 percent.

The factory is also developing export markets in places like India, China, and Bulgaria, where its equipment is competitive. Today, it exports approximately 25 percent of its products. Attempts to set up a joint venture with Caterpillar and National Oil (USA) to produce bulldozers fell through because the output of Uralmash was not up to the technical standards of the western partners. Additionally, the project was not cost effective: it would have been necessary to import key components from the west because they simply were not available on the Russian market. Nevertheless, Uralmash managers are now planning to sell stocks on the New York and Western European exchanges, and

are hoping to make a public offering in the coming years. Flemings, an international banking group, is already a shareholder. Shareholders will meet on 29 June.

Uralmash has an evolving relationship with the federal government, national financial elite, and Sverdlovsk governor. In the Soviet era, the Moscow-based Gosplan and Gosstab theoretically controlled everything, telling the plant how much to produce and where to send it. Now most of Russia's finance capital is centered in Moscow, and this fact determines the atmosphere for regional enterprises. Today the Moscow-based Bendukidze sets the plant's strategic goals. Bendukidze visits the region occasionally but does not play a major role in local political life. Fearing that they would "swallow up everything," Sverdlovsk Governor Eduard Rossel has angered many Moscow-based banks by effectively preventing them from working in the region. However, he has a business-like relationship with Bendukidze. When Bendukidze decided to replace the Uralmash general director, he notified Rossel in advance. Bendukidze's Promyshlenno-Torgovyi Bank, approximately the 70th largest bank in Russia, has offices in Moscow, St. Petersburg, and Yekaterinburg. Many of the workers at the plant hold negative attitudes toward Bendukidze and are suspicious of his intentions. However, a plant spokesman noted that many of the workers themselves constantly steal from the plant. Now, Bendukidze and his Moscow-based team are setting up a new program to improve his image and general morale among the plant workers.

The factory has a strong interest in influencing federal legislation, since many of federal laws affect the state of production. Bendukidze has excellent contacts in the government and State Duma and has reportedly started to use them to lobby for Uralmash's interests. Within Sverdlovsk Oblast, the factory supported the election of State Duma Deputy Nikolai Ovchinnikov, not because the factory particularly liked him, but because they wanted to block the election of Aleksandr Khabarov, a leader of the Uralmash crime group (for more on this group, see below). While Ovchinnikov was elected and has promised to help the factory, he has so far offered no concrete aid. Plant officials are particularly concerned that the federal government wants to reestablish the GKO market, which crashed in 1998, thereby redirecting money that might have been invested in production enterprises toward financial speculation. Factory officials also expressed complaints about the existing tax system.

Interestingly, the Yekaterinburg-based Uralmash employees feel that national and regional political officials are not looking out for their interests. The plant has a 600 million ruble tax debt that started during the government of Prime Minister Viktor Chernomyrdin and has yet to be resolved. The plant has no intention of paying these back taxes and fines, which the managers believe to be unjust. Rossel rarely speaks out for the factory. The plant spokesman only cited one example, when Reuters reported that the plant was bankrupt because it could not pay its federal tax debts. Rossel denounced this assertion as incorrect.

## **ORGANIZED CRIME**

**URALMASH CRIME GROUP SEEKS TO LEGITIMIZE ITS ACTIVITIES.** The Uralmash organized crime group, which recently registered itself as the "Social-Political Union Uralmash" and reportedly has ties to Rossel, constantly claims that it has significant control over the Uralmash factory, hoping to win the election of its

representatives in legislatures at various levels. So far they have had little success in winning electoral support (Yekaterinburg held city council elections on 18 June, and these elections were not included in this analysis.) One of the group's leaders, Sergei Vorobiev, recently approached Uralmash primary shareholder Kakha Bendukidze to buy shares in the factory, but was turned down. It is unclear how much stock, if any, the group owns in the factory. Plant officials strenuously insist that the crime group owns no shares since such ownership would damage the reputation of the factory.

According to local journalists, the Uralmash group is the sole remaining organized crime group in the city that is both big and very active. The Central group and the Dark Blues ("Sinie"), which were once serious rivals, now operate at lower levels of activity. The Uralmash group, which reportedly also operates in Moscow, Bulgaria, and Hungary, has several thousand members and tens of thousands of supporters, and is now trying to legalize its activities. In particular, the group is very active in mobilizing voters during local, regional, and national elections. While gangland-style assassinations were commonplace in the early 1990s, they are now much less frequent. The latest leader of Uralmash to die - in an apparent assassination - was a man called Kruk, who was recently found dead in Bulgaria.

## **MEDIA ISSUES**

**LOCAL RTR STATION NOW UNDER FEDERAL CONTROL, SORT OF.** The Sverdlovsk State Television and Radio Company (SGTRK) is now completely subordinate to the federal government, following a Yeltsin-ordered campaign (carried out by then RTR head Mikhail Shvydkoi) last year to impose greater federal control over the regional branches that make up the Russian Television (RTR) network, according to station anchorman Pavel Blik. Before the federal government asserted greater control, it had shared power 50:50 with the oblast government. Sverdlovsk Governor Eduard Rossel did not fight the transfer of power because he had already set up Oblast Television (OTV), a broadcaster funded largely from the oblast budget. The Sverdlovsk media market is unusually competitive, with about one dozen national and local broadcasters.

Blik openly admits that his station works for the government, both at the federal and regional levels. In practice, his station works closely with the oblast administration, publicizes many of its activities, and emphasizes the oblast's key priorities. Moscow is now trying to tighten its control of the station still further, often summoning station General Director Natalya Kirillova for consultation. While Moscow sets the strategic line, the station tries to take into account regional interests. However, Blik claimed, with a smile, that the station feels no pressure from Moscow because the federal and oblast governments are in complete agreement. When disagreements do arise, such as where to locate the offices of the new presidential representative, Blik said that the station would broadcast both sides of the story.

Rossel is trying to develop his Oblast TV. Currently SGTRK has a much larger audience because its transmitters are capable of reaching the entire territory of the oblast. Rossel is currently trying to improve the technical capabilities of OTV, but it claims to already reach 80 percent of the oblast audience.

SGTRK airs about five hours of content a day for broadcast when the national network is not on the air, although it actually produces only one and a half hours of this time itself.

**COMMERCIAL STATION DOES MORE WITH LESS.** The leaders of the Studio 41 and RTK broadcasters in Sverdlovsk proudly point out that they broadcast 18 hours a day with a staff of 150, while SGTRK employs nearly 500 to produce their one and a half hours. Within the crowded Sverdlovsk media market, this station has its closest ties to Yekaterinburg Mayor Arkadii Chernetskii, who provided two floors in a building for the station staff and holds a little less than 15 percent of the station's stock. The other owners are all local companies, and no one owner holds more than 15 percent of the shares.

The only intersection between the station and the federal government is through the federal licensing commission. The station license is automatically renewed every five years unless the station has received a warning that it is violating the law. In that case, the license is put up for auction. Station directors Vladimir Zlokazov and Ilya Udachin also say that they have no problems with the oblast administration. Their main issue is finding advertisers to buy airtime. Here they have been relatively successful, filling about 25 percent of each hour with ads. The station stays competitive by charging about a third of the price of oblast ratings leader Channel 4, which is part of Vladimir Gusinskii's Media MOST holding company.

The mayor's PR team usually organizes two events a day and tries to attract media attention to them. However, the station leaders say that they generally only broadcast one of these stories a week, because they are not interesting to viewers. Chernetskii rarely intervenes directly. One example came on the day after the financial crisis of 17 August 1998, when Chernetskii called the station to ask it not to give credence to rumors that many regional banks were on the verge of bankruptcy.

The station in general feels no threats from organized crime groups, though some individual journalists have had problems. The station employs a private security agency to handle these issues. For example, when some candidates with criminal records were seeking elective office, they made clear to the journalists that they did not want reports on their background.

On the arrest of Media MOST head Gusinskii in Moscow, the station managers said that the main issue for them was not the guilt or innocence of Gusinskii, but certain ominous procedures used in the arrest. The techniques used against Gusinskii represent the old KGB methods of the past. The episode also shows that the authorities were acting without taking into account what the social reaction would be. One of the station's anchors said that if Gusinskii could be arrested, it meant that any journalist could be thrown in jail.

The company's main goal is now to expand its broadcasts outside of the oblast's major cities into the more rural areas. Since the company started broadcasting, its ruble revenue has consistently increased, with only a slight decline right after the crisis began. Most ad buyers are trading companies, tourist firms, and computer retailers. Assuming no major changes occur in the economy, the managers predict continued growth.

## **LEGISLATIVE REFORM**

**TATARSTAN PLANS TO ABOLISH INSIGNIFICANT LAWS.** Until recently, the Tatarstan leadership, particularly the chairman of the State Council, made sharp announcements that Tatarstan will rush to bring its laws into the accordance with federal legislation. They said these changes must be a two-way process, and that it was first and foremost the federal laws that needed to be changed. It was suggested that a bilateral committee be created to conduct an analysis of both the Russian and Tatarstan legislation.

Now the situation is changing. Two State Council committees have been created and have already started their work on revealing conflicts between Russian and Tatarstan legislation. At the upcoming session, the State Council plans to comply with the procurator's protest against the licensing of advertising activities--a law existing in Tatarstan, but not in federal legislation. A Tatarstan law on taxing enterprises for tearing down decaying buildings, contradicting federal legislation, is likely to be abolished. The Tatarstan law on the immunity of local deputies does not comply with federal legislation and, according to the local media, will be abolished (*Vecherniaia Kazan*, 17 June).

Meanwhile, there are forces in Tatarstan that act against the pressure on the republic from the federal government. Rafael Khakimov, Tatarstan President Mintimer Shaimiev's advisor on political issues, who has never strayed from his boss' policies, came up with another idea. After he became acquainted with Putin's decrees, he said in a private conversation with *Zvezda Povolzhya's* editor-in-chief that he supported the idea of holding a referendum in the Republic about Tatarstan joining the US as the 51st state. One hundred thousand signatures are needed for such a referendum to take place, and Khakimov is sure that many Tatarstan citizens will support this initiative. Khakimov predicts that 80 percent of the republic's electorate would vote for the referendum. (*Zvezda Povolzhya*, 15-21 June)

The Naberezhnye Chelny branch of the All-Tatar Public Center (TOTs) had an interesting reaction to Putin's initiative. They organized a demonstration and adopted a resolution criticizing Putin's decrees. The resolution said, "In violation of the basic principles of the Constitution of the Russian Federation and without discussion in the State Duma and the Federation Council, Putin issued a decree on a new territorial-administrative division of Russia, upsetting the borders of the existing territories, which have historically existed in Russia and are affixed in the Constitution of the RF. Neither the constitution nor the agreements between the federal center and subjects of the federation provide for another subordinating layer over the subjects of the federation, but rather they legalize a direct subordination of the subjects of the federation to the federal center and a division of power. The decree is aimed first of all against ethnic groups as an attempt to assimilate numerous nationalities into the Russian nation." (*Zvezda Povolzhya*, 15-21 June) - Midkhat Faroukshin in Kazan.

**KOMI CONSTITUTION DEMANDS SERIOUS REVISIONS.** It is no secret that legislation in the majority of Russia's regions in many cases contradicts federal legislation. Therefore, Russian President Vladimir Putin's decision to bring such regional laws in line with federal legislation seems only logical.

In Komi Republic there are many serious discrepancies with federal law. With this in mind, Komi President Yurii Spiridonov recently ordered that local legislation be brought into accordance with federal law within 15 days. A special session of the

republican State Council has been scheduled for 30 June, at which time all such changes in the republic's legislation are to be approved and confirmed.

At the beginning of June, Komi Republic Procurator General Viktor Kovalevskii lodged a protest against the Constitution of the Komi Republic. He also suggested that this protest be urgently discussed during the upcoming session of the State Council. In Kovalevskii's opinion, deputies should amend 24 articles of the republican constitution. Additionally, Aleksandr Yudin, procurator of legal supervision, maintains that several of the articles in question threaten Russia's integrity. For example, Article 7, Section 1 declares that the Constitution of the Komi Republic has supreme judicial authority. Article 73 gives the republic's State Council the right, on Komi territory, to overturn federal laws and other normative acts that are against the republic's interests.

Among other articles of the Komi Constitution that require correction, laws on citizenship and on rights of the titular ethnic group (Komi) demand special attention. The republic's constitution guarantees special rights and conditions only to those citizens who are ethnic Komi. The head of the republic, as well as its legislative deputies, must be citizens of Komi Republic. It is also important to note that several articles that contradict the Constitution of the Russian Federation and federal law apply only to the head of the republic. For example, according to the Komi Constitution, the head of the republic reserves the right, in the interests of security, to issue a state of emergency in the republic or any of its districts, without being subject to any criminal or administrative repercussions for this action. (*Molodezh Severa*, 15 June).

Many similar discrepancies between regional and federal legislation exist in the constitutions of other republics, such as Udmurtiya, Marii El, and others. These discrepancies have already led to clashes with the federal center. But if all the necessary legislative changes are implemented, it will signify that these republics have lost some of the sovereign rights they were able to acquire during Boris Yeltsin's presidency. Will they immediately agree to this? Chances are, they will not. Members of the Komi parliament do not believe that changes need to be made simultaneously to all 24 articles of the constitution, as the procurator general has demanded. Each change will most likely be accompanied by a battle between the federal center and the regions. This became particularly apparent when the governors organized a united front in the struggle against the limiting of their powers. - Yuri Shabaev in Syktyvkar

**SMOLENSK COMPLIES WITH PUTIN DECREE ON AUTOMOBILE LAW.** In accordance with Russian President Vladimir Putin's 15 May decree, Smolensk Governor Aleksandr Prokhorov repealed his 26 June 1998 decision on fining foreigners for automobile emissions (*EWI Russian Regional Report*, 17, 24 May). Prokhorov repealed the decree reluctantly, as he feels that legislation permitted him to introduce such laws on his territory (*Vse*, 9 June). Three raions in the oblast have been deprived of a very serious source of financing: Smolenskii raion will lose 800,000 rubles per month, Rudnyaskii--300,000 rubles, and Krasnenskii--100,000 rubles. During the period that this law was in force, heavyweight automobiles would make their way into Russia's depths through other regions. Now, a full stream of heavy trucks will travel along the M1 route from Minsk to Moscow. The governor has already run into a slough of automobiles when returning from Moscow along this road. - Arsentii Ledovskii in Smolensk

## ENERGY AND THE REGIONS

**BLACK EARTH ASSOCIATION AGAINST EES RESTRUCTURING.** On 14 June, a coordinating council of the fuel energy complex in the oblasts belonging to the Black Earth Association (Belgorod, Orel, Kursk, Lipetsk, Voronezh, Tula, Smolensk, and Tambov) met in Kursk. The purpose of the session was to discuss the program the board of directors of Unified Energy System (EES) has proposed for restructuring the holding. The EES board, headed by Anatolii Chubais, approved the program for the reorganization of Russia's electricity provider back in April (see *EWI Russian Regional Report*, 5 April). The program calls for liquidating regional energy systems ("energos") and turning EES into a company that provides electricity lines connecting producers and consumers. EES power stations will then become independent joint stock companies.

The interregional associations in Siberia, the Urals, and Central Russia have held similar sessions to discuss the restructuring (see *EWI Russian Regional Report*, 24 February). As acknowledged in the report EES representatives presented in Kursk, the restructuring program met sharp criticism in all three associations. The unifying criticism among the associations is that the program leaves too much unclear regarding the economic basis of the restructuring plan. Representatives of the regions in the Black Earth Association also expressed multiple objections to the provisions of the restructuring program. Chairman of the coordinating council, Kursk Deputy Governor Vladimir Yerokhin, who chaired the session, as well as representatives from regional administrations and the energy structure (Kurskenergo, Belgorodenergo, etc.) bombarded the EES representatives from Moscow with dozens of questions. They argued that there was no need to rush the restructuring the way that privatization, which was also conducted by Chubais, had been rushed. They stated that it is necessary to work through the program, "sound out" every point in the document, and listen to the opinion of specialists who know the problem from the inside. These suggestions, of course, expressed hostility towards Chubais.

Yerokhin stated that one cannot allow the mistakes from the period of rushed privatization to be repeated. After a heated debate, the session's participants adopted a decision stating that the reorganization program correctly defines the fundamental problems of Russia's current electricity suppliers: the collapse of the system's effectiveness and development, the high tariff burden for consumers, chronic non-payments, and insufficient investment for restoring fundamental production funds. The primary goals of the proposed reorganization, according to the initiators, are to form a financially stable holding company, increase the company's capital, ensure conditions for attracting investment, and provide reliable energy supplies to paying customers.

The decision also stated that the reorganization program does not give proper attention to the preparation period, such as adopting the necessary laws and standard acts on energy, and taking into account both the interests of socially defenseless strata of the population and tariff policies, which ensure the continuing activity of and investment in energy. The federal Ministry of Energy supported the position of the Black Earth regions. In particular, Deputy Minister of Energy Vladimir Kudryavyi, in enumerating the arguments against the program, stated, "How is it possible to restructure the system this way?!" Clearly even the two leading bodies in this issue, the Ministry of Energy and EES, have been unable to reach a mutual understanding.



The EES Moscow representatives promised to study all of the proposals offered by participants in the coordinating session and bring them to the working committee on the restructuring proposal. - Sergei Sarychev in Kursk

**MIDDLE CLASS SUFFERS MOST FROM RISING ELECTRICITY PRICES IN MORDOVIYA.** As a rule, energy prices rise in two stages. The first stage occurs when the Federal Energy Commission sets new wholesale prices. Local power companies (in Mordoviya, this is Mordovenergo) purchase gas and electric energy at these prices. However, when and how to raise retail prices for consumers, who include both the population at large and enterprises on the regional payroll, is the prerogative of regional energy commissions, which are controlled by local authorities.

The Federal Energy Commission repeatedly raised energy prices during the end of 1999 and the beginning of this year. For example, as of 1 October, gas prices rose from 29.5 to 38.7 rubles per thousand cubic meters. Gas prices rose an additional 16.5 percent in November. During the same period, prices on electricity rose by 16 percent. On 11 April the Federal Energy Commission raised basic utility rates on electricity by 76 percent. As a result, Mordovenergo's expenditures immediately increased by 21 million rubles per year. On 1 May, prices were raised once again. Electricity prices climbed 35 percent, while gas prices increased 18.9 percent.

During this period, the Regional Energy Commission of the Republic of Mordoviya was able to keep prices at previous levels (25 kopecks per kilowatt-hour). Neighboring regions, however, raised their prices back in December. For example, in Penza and Samara, the population has been paying 38 kopecks per kilowatt-hour for several months now. In May, the Regional Energy Commission of Mordoviya was finally required to raise energy prices to 35 kopecks per kilowatt-hour. At the same time, real electricity costs have more than doubled this price. For all practical purposes, the population is receiving free electricity; what they pay covers only the cost of supplying electricity to Mordoviya's power stations.

These losses are being compensated by a rise in prices in the industrial sphere. When consumer prices were at 25 kopecks per kilowatt-hour, industrial enterprises were paying 52 kopecks. The Mordoviya government is certain that the current system of shifting the price burden from the population at large onto the industrial sphere is willfully destructive and can lead to no good. By lowering consumer prices, the state is actually helping the rich, who use the lion's share of electricity, and who pay mere kopecks for it. The poorer strata of the population do not enjoy multi-story private mansions filled with energy-consuming televisions, refrigerators, VCRs, and stereo systems. As a result, these artificially low prices allow the rich to save several hundred rubles per month, while the poor will save a mere 5-10 rubles under the best of circumstances. In addition, high energy prices for industries will nonetheless affect the poor, as they will be absorbed into the cost of a loaf of bread, carton of milk, etc. As a result, "cheap" prices will nonetheless cost poor people twice or three times as much as they used to.

The most recent increase in energy prices was by no means the last. Prices will continue to rise: In accordance with the federal government's resolution, energy prices for the population must equal their real cost by the end of the first half of 2000. However, in the words of Mordoviya First Deputy Prime Minister Viktor Akishev, who is directly

responsible for the region's power industry, this will most likely occur closer to autumn. Currently, the real cost of one kilowatt-hour has already exceeded 70 kopecks.

One consolation is the authorities' promise that prices will continue to be differentiated, i.e. that certain social groups will continue to enjoy reduced rates. In addition, the planned measures should put utility payments in order, and as a result, normalize the situation within the power industry at large. Nonetheless, a rise in prices is just that--a rise in prices. The poor have nothing left to lose. The rich will not be made much poorer. It is the middle class that will suffer the largest material losses. After all, everyone will have to pay the new prices. Let the rich empty out their pockets a bit. Their doing so will be a small consolation to those people who, as a result of the new rise in prices, will have to spend the majority of their family budget on utilities. - Igor Telin in Saransk

**ENERGY DEBT HALTS PUBLIC TRANSPORT IN ULYANOVSK.** On 19 June, virtually all the main tram lines in Ulyanovsk were at a standstill for almost the whole day. Public transport was shut down around 9 am, as electricity to them was cut off. The main electricity supplier, Ulyanovskenergo, reduced the city's electricity supply by 20 percent since the municipal enterprise UIGES, the retail energy supplier, owed them over 150 million rubles. UIGES, in its turn, turned off the electricity supply to the tram network. At 32 million rubles, the city tram-trolleybus administration is UIGES's largest debtor.

At 4 pm the trams once again began to run, but the city government has received no guarantee that they will not come grinding to a halt again at any moment. City public transport has to cope with the fact that half of its passengers (veterans, pensioners, invalids) are allowed to travel for free. Their use of public transport has in no way been financially compensated. To further complicate matters, the price of a ticket for one trip on an Ulyanovsk tram is 1.5 rubles, while the real cost of the trip is 2.27 rubles. The city government continues to keep this price down as much as possible, as this is an issue of great sociopolitical significance. As a result, trams are running at a loss, and the debts incurred by the city tram-trolleybus administration over recent years require a cash infusion of 180 million rubles. All the impoverished city budget can offer in the way of supporting electric public transportation is 27 million rubles. - Sergei Gogin in Ulyanovsk

## **LOCAL AND REGIONAL ELECTIONS**

**KOPYLOV WINS IN CONTROVERSIAL VLADIVOSTOK ELECTION.** On 18 June mayoral and local дума elections were held in Vladivostok. According to preliminary results the winner is Acting Mayor Yurii Kopylov, who took 53 percent of the vote. Opposition leader and former Vladivostok Mayor Viktor Cherepkov took second place with 24 percent. About 38 percent of the city's residents participated in the elections, a turnout which can be considered quite high given that the date of the elections was during the peak of dacha season when the majority of people work in their country garden plots. Given such a high turnout for the mayoral ballot, it is quite strange that the turnout for the city дума polling was considerably less than the necessary 25 percent, and the elections were declared invalid for the 18<sup>th</sup> time.

It is well known that local government has had a turbulent history in Vladivostok. The opposition is declaring that it has conclusive evidence of flagrant violations in the preparation and conducting of the 18 June mayoral elections and falsification in ballot counting. The elections were set by Kopylov himself (by law this should be done by the regional electoral commission), the territorial commissions contained officials from the city and raion administrations, and representatives from opposition parties and movements were not included in their work. One of the primary concerns is the massive early voting, in which city public sector employees were encouraged to participate as if it were compulsory. The amount of early voting was high even by official numbers--8 percent--but the opposition believes it was actually much higher.

The uproar about the early voting was raised long before 18 June. NTV displayed before the whole country buses bringing workers' collectives from schools, hospitals, and communal services to the polls for early voting. The whole country witnessed the incident involving candidate Nikolai Beletskii, who, having shown up for early voting, ran off with his ballot to demonstrate before television cameras that the envelope in which the ballot is sealed could be unsealed without any problem, and it was visible through the envelope whom the voter chose on the ballot. Much of the mass media noted that there were so many violations it was as if the authorities did not want the elections to happen at all. However, the central electoral commission and law enforcement organs have not offered their reaction.

Kopylov's supporters state that the acting mayor won because the city's residents approve of the governor's team and that the people of Vladivostok have had enough of the never ending scandals linked with Cherepkov. They point out that in the St. Petersburg gubernatorial elections, 15 percent of the voters participated in early polling and no one considered this a violation.

Kopylov is a former party functionary. After Cherepkov won his case against Russian President Boris Yeltsin in 1996 and returned to the mayoral seat, Kopylov worked as his deputy, energetically criticizing Primorskii Krai Governor Yevgenii Nazdratenko. After Kopylov was fired from the mayor's office in 1997, he unexpectedly turned into a confirmed supporter of the governor and an irreconcilable enemy of Cherepkov. When Yeltsin removed Cherepkov from power in December 1998 (see *EWI Russian Regional Report*, 17 December 1998), Nazdratenko appointed Kopylov acting mayor of Vladivostok. Kopylov's primary campaign point was that he did not bother with massive projects like the sort of grandiose construction that occurred under Cherepkov, but rather guaranteed a normal, functioning city economy.

Cherepkov stated that Moscow's reaction to the manner in which the Vladivostok elections were conducted should demonstrate whether or not Russian President Vladimir Putin intends to carry out his declared dictatorship of the law or continue Yeltsin's course. Analysts believe it is unlikely that the Kremlin will interfere in this typical Primorskii Krai scandal. Presidential Representative in the Far East Konstantin Pulikovskii announced that he intends to deal with economics, not politics. However, in Vladivostok these spheres are interconnected in the most dramatic manner: immediately after the elections the trolleybuses and trams stopped running. Dalenergo cut off municipal electric transport since the city administration has not paid the company a single kopeck of its electricity debt. - Dmitrii Motovilov in Vladivostok

### **LEGISLATIVE ELECTIONS FAIL TO GATHER ENOUGH VOTES IN**

**ULYANOVSK...** On 18 June repeat elections for deputies to the Ulyanovsk Oblast Legislative Assembly failed to reach minimum voter turnout in six of the oblast's electoral districts. In these areas, only 8-14 percent of registered voters showed up at polling stations.

Critics had long predicted this failure, pointing out the expediency of holding local and presidential elections on the same day. Voter turnout on March 26 was high, and had local elections been held simultaneously, not only would the election of six deputies to the Legislative Assembly have been a foregone conclusion, but much-needed budgetary funds would not have been squandered on Sunday's failed elections. The oblast electoral commission, however, refused to schedule the second round of elections to the Legislative Assembly for 26 March, a decision ostensibly motivated by the fact that, as the old commission's term had run out, they lacked the authority to make this scheduling decision. Specialists, however, say that the old commission could certainly have scheduled the local election, and the new commission could have subsequently taken responsibility for its execution. In light of this information, the failure of Sunday's elections appears to be intentional. As a result of low voter turnout, the largely homogenous Legislative Assembly, which lacks the legally required 25 deputies, remains loyal to the administration of Ulyanovsk Governor Yuri Goryachev.

There are two reasons for this low turnout. First, as had been predicted, many people left for their dachas, located beyond the city limits, on Friday evening, and did not return in time to vote on Sunday. Second, and more importantly, people have expressed their exhaustion with a seemingly endless chain of elections, as well as irritation that these elections are not accompanied by an improvement in living conditions. People say they are sick and tired of it all, they don't know who to vote for, and they fail to see the point in participating in elections...

On this note, candidate Valentina Popova said that the low voter turnout was not a result of apathy, but rather a form of protest against the power structures (local, regional, federal) that seem incapable of working together but nonetheless lay down the law (which they have yet to fully formulate) to the people. "This is a healthy reflex," says Popova. "It shows that the ways we're currently interacting with the voters need to change." - Sergei Gogin in Ulyanovsk

**...AND ARKHANGELSK.** On 18 June, Arkhangelsk Oblast held elections for the Oblast Assembly. In 23 of 39 voting districts: less than 25 percent of the voting population participated in the elections. Due to the low turnout, the oblast elections were considered invalid. The repeat Oblast Assembly elections will be held in December 2000, which means that for half a year Arkhangelsk Oblast will have no legislative organ.

In the 18 June elections, the political bloc Solidarity performed well, winning 10 seats. The pro-government bloc is composed of the political parties Yedinstvo, Novaya Sila, Otechestvo, and the Pensioners' Party. Analysts predict that Solidarity will be successful in the December elections and win a majority of seats. The Solidarity deputies elected in the 18 June elections said they will start working on legislative acts and initiatives before the December elections. – Tatyana Barandova in Arkhangelsk.

**YEKATERINBURG CITY DUMA ELECTIONS CAUSE DISPUTE OVER LOCAL LAW.** The 18 June Yekaterinburg city дума elections were declared invalid, since fewer than the necessary 25 percent of the voters participated in the election in most of the voting districts. Voter turnout was sufficient in only 5 of the 27 districts. Eighteen deputies are needed for the new дума to operate. The city will now need to spend another 4.5 million rubles to hold repeat elections in December.

According to Igor Vydrin, Chairman of the Yekaterinburg City Electoral Commission, summer is a bad time to hold elections. Even though elections have been held at this time of year in the past, this was done to coincide with the Russian presidential elections. However, the time of year was only one of the reasons the 18 June elections were a failure. Specialists maintain that the summer weather was not the only factor keeping voters from the polls. This is the fifth time elections to the city дума have been held in the past year, their status and scale are not very high, and city residents often simply do not understand the purpose of electing city legislators. Moreover, the more than 200 candidates running for election were not particularly visible, thus the election lacked any real intrigue.

Nevertheless, lack of understanding about the role of the local elections could lead to a political crisis in the city's legislative branch. Chairman of the oblast electoral commission Vladimir Mostovshchikov stated that in accordance with the constitution Yekaterinburg would be without a city дума until the December elections. According to Mostovshchikov, from the point of view of the law, including the constitution and the Sverdlovsk Oblast Charter, the term of the deputies elected in 1996 expired on 16 June. With the current дума's term expired and the lack of the 18 newly elected deputies necessary to constitute a дума assembly, there cannot be a city дума until the December elections at the earliest. Until then, all decisions adopted by the city authorities that demand approval from the legislature will be invalid.

However, head of the city electoral commission, Ivor Vykrin, has a different opinion. He stated that in order to maintain the succession of power in accordance with the federal law on local government and the Yekaterinburg Charter, the present дума should work until a new city дума is elected in full. Yekaterinburg Mayor Arkadii Chernetskii supports this position as he feels that the city cannot be left without legislative power and that until the new дума can be elected in its entirety, the old дума should continue to serve in this capacity, which is in accordance with the city charter.

It remains unclear which interpretation will prevail. This situation could be the first requiring intervention from the new presidential representative of the Urals Federal District, Petr Latyshev. - Natalia Mints in Yekaterinburg

## **INTERVIEW**

### **UST-ORDA BURYATIYA GOVERNOR MALEEV: FEDERAL AGREEMENTS HAVE NOT BROUGHT CONCRETE RESULTS**

*On 19 April RRR correspondents Vasilii Filippov and Dmitrii Grushkin interviewed Ust-Orda Buryatiya Governor Valerii Maleev in Moscow.*

**RRR:** What has the 1992 Federation Treaty introduced into regional politics? How has it affected the status and real situation of your okrug?

**Maleev:** I am unable to and do not want to speak today for my colleagues representing other federation subjects. I am only able to evaluate the political and socio-economic consequences of this event for our autonomous okrug. In 1992 our okrug signed the Federation Treaty and a three-part agreement with the federal center and Irkutsk Oblast [in 1996], but to tell the truth, we have not yet seen any concrete results from this political act. On the contrary, since the trilateral agreement was signed, the situation in our region has gotten more difficult.

Irkutsk looks at the relationship between our okrug and the federal center with a sort of jealousy. This, of course, causes problems regarding a whole series of issues. For example, our relations with the oblast center concerning healthcare. Today, ill persons from the okrug are refused care in regional medical centers in Irkutsk Oblast because, since the moment the Federation Treaty was signed, the oblast has been charging us for treating patients. You yourselves know how this affects people's mood under the current difficult economic situation. The okrug cannot solve this problem by itself since it has very limited financial potential.

Over the past few years the Russian Federation budget has taken into account our wishes only in part. Judge for yourselves: at present the expenditure side of our budget is 900 million rubles, but in reality we receive all of 442 million rubles in transfers. This, of course, is not conducive to solving the severe social problems. There is not a single institution of higher education in the okrug. Therefore, signing the Federation Treaty and the trilateral agreement with Irkutsk Oblast has not given us opportunities to solve the most acute problems of social security. Unfortunately, when it comes down to a concrete person, then no one has won anything from this political act...except, perhaps, regional executive and legislative organs.

**RRR:** How do you form your relations with the oblast? What is the level of their power and to what degree can they interfere in the process of your decisions?

**Maleev:** According to the Federation Treaty, we have full authority. Practically all federal structures are established in the okrug, which, in part, doubles the oblast structures. Really, Ust-Orda Buryat Autonomous Okrug is located in the center of Irkutsk Oblast! The situation that has formed has one legal sphere placed within another legal sphere, but in both instances they are directly subordinate to Moscow. In addition to this, we have our own regional legislature. Our okrug дума adopts its laws, which, whether or not we want them to be, are often in contradiction to oblast legislation, and sometimes to federal legislation.

**RRR:** Why do such contradictions arise?

**Maleev:** Because in our work our primary goal is to consider the demands of our inhabitants. Our okrug, unlike the industrialized Irkutsk Oblast, is an agricultural region. The social development of the rural area is not sufficiently accounted for in the oblast budget. We do not enter into a whole series of oblast programs, including energy development, the development of roads...

**RRR:** Have you no real use for being a part of the oblast?

**Maleev:** That question cannot be answered simply. What is a "real" or a "not real" use? We are a common economic space, which is currently divided by pre-arranged

boundaries. Today, the majority of the okrug population is in favor of uniting with Irkutsk Oblast.

**RRR:** If you were given the choice of full independence or to be part of Irkutsk Oblast, what would you chose?

**Maleev:** To adopt such a decision a referendum would need to be held in both federation subjects. I am certain that in such a referendum our population would vote in favor of uniting with Irkutsk Oblast. However, there is one "but": with this union would we receive the income and transfers that we are guaranteed from the federal budget? Who could guarantee this?

Moreover, it must be taken into consideration that we are an ethnic territory--this is the primary conflict. If there is no single state nationality policy, then serious tension might arise in federal relations. Today the majority of the population, and the majority of our population in ethnic terms is Russian, is in favor of a unified budget with Irkutsk Oblast. But in the event that such a decision is adopted, the interests of the national minorities (Buryats in the okrug are a minority constituting 30 percent) would be infringed upon. If we unite with Irkutsk Oblast, the point of existing as a national autonomy is lost, it disappears.

If the federal government and the president follow the constitution and fight for the preservation of all the subjects of the federation, then all should be given equal economic rights and opportunities. But currently Irkutsk Oblast's economic possibilities, for example, are vast, but we are feeding ourselves only on transfers from the federal budget. And if the sum of these transfers does not answer our demands, then a black hole appears in Irkutsk Oblast's economic space.

**RRR:** Does the Buryat intelligentsia have a sense of wanting the okrug to unite with Buryatiya?

**Maleev:** Before, in the early years of perestroika such questions arose. Now the economic factor prevails and there is no sense of this. Now, no one even raises this issue because people understand that, in a difficult social and political situation, there is only one way out--Irkutsk Oblast.

**RRR:** How are your relations with President of Buryatiya Leonid Potapov?

**Maleev:** Normal. We participate in all cultural events in Buryatiya, and the republic participates in ours. Children from the okrug study in republican universities, we have long term cooperation agreements with many of them. Buryatiya helps us with teachers of the Buryat language. The okrug has one state language--Russian, but in all of the rural raions, where the Buryat population lives, we try to ensure that the Buryat language is taught. There is a demand for this.

**RRR:** Do you sense any interethnic tension--is there any friction between Buryats and Russians?

**Maleev:** I don't think so. In general, no. At certain moments some tension springs up, but it does not prevail and, if it exists, it is not on the official level.

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## **BREAKING NEWS**

### **POLITICS**

#### **FEDERATION COUNCIL REJECTS BILL ON REFORMING UPPER**

**CHAMBER.** On 28 June, the Federation Council rejected President Vladimir Putin's bill to reform the way the members of the upper house are chosen by a vote of 13-129, demonstrating that the governors were strongly united in favor of preserving the collective powers. The governors took a clearly confrontational approach toward the State Duma, which had supported the president. Rejecting the idea of a conciliatory committee to work out a compromise, they instead sought a constitutional convention, by a vote of 99-3, with 7 abstentions. According to Nizhnii Novgorod Governor Ivan Sklyarov, the members of the upper chamber were unhappy that the State Duma did not take into account any of their amendments to the bill.

The Duma approved the bill on 23 June. Since 308 deputies supported the bill in its third and final reading, the State Duma presumably has the required two-thirds majority to override the upper house's veto, although if 9 deputies defect from the current coalition, then the lower house would not be able to override the Federation Council veto. If the bill is ultimately enacted in its current form over the governors' protests, the governors and regional legislative chairmen who currently sit in the upper house would lose their federal positions and the immunity from prosecution these positions provide.

According to the bill as approved by the Duma, each region sends two representatives to the Federation Council. The governor nominates a representative for a term that coincides with his own, and who must be approved by the regional legislature. The regional legislature likewise elects a representative whose term coincides with its own, choosing among candidates nominated by the chairman of the regional legislature or a group of deputies comprising one third of the body. There are specific rules for legislatures that elect deputies in batches rather than all at once, and for bicameral institutions. The legislatures must use secret balloting in choosing the representatives. When they are nominated, the candidates for the Federation Council must make public their income, the main sources of this income, and their property holdings. The bill requires that the new Federation Council be formed by 1 February 2001.

In approving the text, the lower house rejected amendments offered by the governors giving them the ability to recall their representatives to the Federation Council. The governors wanted this power to exercise firm control over their representatives in the upper house and guarantee that they voted in line with gubernatorial wishes. Under the version approved by the Duma, the members of the Federation Council would be completely independent of their regional sponsors once they are elected to office. Neither the governor nor the regional legislature could recall its representative. The State Duma

went even farther than Putin in this regard because Putin's proposal had given the regional legislatures the right to remove Federation Council members from their regions with a simple majority vote (see *EWI Russian Regional Report*, 31 May). Under Putin's plan, the law would have come into effect on 1 April 2001, but the State Duma moved this date up two months.

Putin's proposals won particularly strong support from the State Duma members elected from single-member districts. In most cases, these deputies had been elected with the backing of their governors. However, the Putin administration threatened the deputies with disbanding the Duma, forcing them to switch their allegiance from the governors to the president. The Kremlin also sought to exert heavy pressure on the governors, about 40 percent of whom face reelection in the fall and are eager for Kremlin support to strengthen their positions in their home regions.

Now that the Federation Council has rejected Putin's proposal, it remains unclear what will happen next. Perhaps the governors and Kremlin will reach a political solution. Sklyarov, for example, said that he was not opposed to having a representative in the Federation Council rather than serving as a member himself, but he insisted that he as governor have more control over this representative. For example, he rejected the idea that the regional legislature should approve his choice. He also saw no reason why chairmen of regional legislatures should not sit in the Federation Council. He stressed that the Duma was "artificially rushing" the adoption of the bill. Sklyarov also threatened that if Russia reorganized the upper house, it also made sense to reorganize the lower house, perhaps electing all deputies from single-member districts rather than using the current system by which half are elected on party lists. Clearly this bill has sharply divided the upper and lower houses of the national legislature.

On the question of the governors' immunity, Sklyarov suggested that the governors could gain immunity through their oblast charters and did not necessarily need to be members of the Federation Council to have this immunity. He also suggested that immunity should be a function of how many people elected a specific official. For example, in Nizhnii Novgorod and Tatarstan, there are five State Duma districts, so the governors of these regions would therefore have five times the immunity of Duma members because they were elected by a much larger number of people. Tatarstan President Mintimer Shaimiev suggested holding a national referendum on the idea of giving the governors immunity.

The Kremlin's reaction to the governors' rebellion was calm, according to Polit.ru. Administration officials believe that the Duma will be willing to override the Federation Council veto. Since the Duma vote was so close to the two-thirds majority necessary for an override, the Kremlin and Duma will now be battling intensely for every vote they can get. The Duma is likely to take a vote on 30 June. If the Duma overrides the veto and Putin signs the bill, the members of the Federation Council are planning to appeal to the Constitutional Court.

It remains unclear whether Putin's reform, if adopted in the form the Duma approved, will actually lower the status of the Federation Council as the president clearly wishes. Most likely, the new members of the Federation Council would be the current deputy governors who head up regional representations based in Moscow (for a discussion of these representations, see *EWI Russian Regional Report*, 14 October 1999). These people generally started their careers in the regions, but later held significant

positions in Moscow, often climbing the leadership ranks of the former Communist Party of the Soviet Union, which made a policy of bringing the most talented people to Moscow. These people are essentially lobbyists who know how to work the federal system to win benefits for the people at home. Membership in the new Federation Council will dramatically increase their status in the capital.

### **CONSTITUTIONAL COURT OVERTURNS SOVREIGNTY OF REPUBLICS.**

The Russian Constitutional Court declared unconstitutional the sovereignty declarations adopted by most of the republics within the Russian Federation in a decision adopted on 7 June and published in the official newspaper *Rossiiskaya gazeta* on 21 June. The ruling came in the case of the Gorno-Altai Republic, but clearly has wider implications for other republics of the Russian Federation as well. These declarations were generally made in 1990, during the so-called "parade of sovereignties."

The case of Gorno-Altai is unusual because Republican President Semen Zubakin himself asked the Russian court to examine the constitutionality of the republic's sovereignty declaration and the republic's right to own the natural resources located on its territory (see *EWI Russian Regional Report*, 19 April).

The Constitutional Court ruling was strongly in favor of the federal government. It clearly states that the "Constitution of the Russian Federation does not allow any kind of state sovereignty beyond the sovereignty of the Russian Federation." It also declared that "the subjects of the Russian Federation do not have sovereignty, which from the start belongs to the Russian Federation in general." In case the regional leaders did not get the point, the court ruled that the republics could not claim sovereignty "even under the condition that they declared their sovereignty limited." Some regional leaders we interviewed in Tatarstan sought to give a softer interpretation of the ruling before it had actually been published (see trip report elsewhere in this issue). The court ruled that allowing the republics to be sovereign would give them unfair advantages over other regions in the federation. The ruling also asserts that only the federal government has the right to sign international treaties (*dogovory*).

On property rights, the Gorno-Altai constitution declares that the republic's land, minerals, forests, wildlife, water, and other resources are republican property. The Court overturned this declaration, pointing out that the Russian constitution defines joint federal and regional ownership of natural resources. The Court declared that republics cannot limit the use of natural resources on their territory at the expense of other peoples in Russia, because such restrictions violate Russian sovereignty. The Court asserted that the Russian constitution takes precedence over the Federation Treaty which had given the republics more rights.

In a further ruling, the Court asserted that only the federal government has the right to set up courts and determine criminal law procedures. The Court does not recognize the right of the regions to set up their own courts or to write rules for the way the courts operate.

In general, the Constitutional Court has not played a constructive role in the development of Russian federalism, according to St. Petersburg European University Professor Vladimir Gelman. The Court generally rules in favor of the federal government over the regions and to the benefit of the executive branch over the legislative branch, he said. The result is Constitutional Court support for the centralization of power.

## **ECONOMICS**

**INTELLECT MANEUVERS LUCRATIVE PATENT CLAIM.** Intellect, a company specializing in legal advice on industrial property rights, has secured a patent on all glass, plastic, and aluminum containers produced in Russia from the state agency Rospatent. Intellect has sent letters to breweries offering a license for brewers to continue to use bottles and cans, and demanding that breweries pay 0.5 percent royalties on every bottle or can sold, which would cost breweries two hundred million rubles (\$7 million). Observers say that the patent pertains to a feature inherent to all containers, and that the language is so complicated that Rospatent clearly did not realize the broad extent to which Intellect was seeking to interpret the patent.

Brewers in Moscow met this week to plan the best way to fight Intellect's claim. They intend to file an appeal with Rospatent challenging Intellect's demand of royalty payments. Representatives say that the claim will be difficult to overturn because of the way it is written, but that they are sure that it will be annulled.

As *The Moscow Times* noted on 24 June, the brewing industry has just finished battling another patent case regarding the Zhigulevskoe brand of beer. The Zhigulevskoe brew was produced at numerous breweries, but was never patented. Many breweries continue to produce Zhigulevskoe in post-Soviet Russia. However, the Samara brewer Zhigulevskoe Pivo (the city of Zhigulevsk is located in Samara Oblast) obtained a patent for the brand (*EWI Russian Regional Investor*, 15 March). It won a series of court cases validating its exclusive right to produce Zhigulevskoe, but ultimately Rospatent repealed Zhigulevskoe Pivo's patent. (*The Moscow Times*, 24 June)

## **PROPERTY MINISTRY CONTINUES TO PUSH FOR OIL PRIVATIZATION.**

The Ministry of Property Relations (formerly the Ministry of State Property) has once again requested that the federal government sell the state's 19.68 percent stake in Slavneft, Polit.ru reported on 27 June. The Ministry of State Property first announced its intention to sell the Slavneft stake along with state stakes in Rosneft, ONAKO, and LUKoil in May, but the Fuel and Energy Ministry was against their sale as it hoped to establish a state oil company, Gosneft. The Fuel and Energy Ministry removed the final barrier to the privatization of these stakes last week, recommending that the government discard the Gosneft idea.

Having overcome this final hurdle, the auctions for Slavneft and ONAKO could take place in July and August respectively. Tyumen Oil Company (TNK) and Sibneft will likely fight for the Slavneft stake, which is estimated at \$100 million. Meanwhile, to prevent TNK from taking control of its subsidiaries, Slavneft continues to remove TNK representatives from its managing boards. Slavneft managed to reduce the number of seats on the Yaroslavnefteorgsintez (YANOS) board, preventing TNK from obtaining a seat following TNK's move to block an additional share emission (see *EWI Russian Regional Investor*, 14 June). Slavneft management plans to exclude TNK representatives from the 30 June Megionneftegaz board of directors meeting. TNK owns a 27.4 percent stake in Slavneft's Megionneftegaz.



**INTEL OPENS SOFTWARE PLANT IN NIZHNII NOVGOROD.** Last week the giant chipmaker Intel opened its first subsidiary in Russia, the Nizhnii Novgorod-based Microcomputer Softwar Lab (MSL). MSL's 100 employees will write software for Internet businesses. Starting a software lab is much cheaper than building a chip-producing facility, so the move is a small first step for the firm. At the same time, Intel is investing \$2 billion to expand its production facilities in Ireland. Over the next three years, Intel hopes to expand the number of workers at the plant to 500. (*Vremya novosti*, 26 June)

### **ON THE ROAD: KAZAN 18-20 JUNE**

RRR Editor-in-Chief Robert Orttung and George Washington University Professor Peter Reddaway continue their travels throughout Russia's regions as part of the Carnegie Corporation's Russia Initiative. The following is a field report from their visit to Kazan last week.

### **KEY QUESTIONS IN DETERMINING TATARSTAN'S FUTURE**

**WHO COULD REPLACE SHAIMIEV?** Tatarstan President Mintimer Shaimiev faces elections for a potential third term in March 2001. So far he has not announced that he is running, but he has also pointedly declined to say that he is ready to step aside. In any case, announcing a reelection bid now would be a tactical mistake, since it would be better to wait and organize a popular demand "from below" asking Shaimiev to return for another term. Those close to him think that he wants a third term and that, even though popular support for him is currently low, he would have no problem collecting enough votes to win, even if Putin clearly opposed him. However, observers in Kazan believe that there are a number of potential candidates to replace Shaimiev, notably among the "Group of 23," somewhat oppositionist Tatar figures who currently live in Moscow. Referring to information received from Soyuz pravyykh sil (Union of Right-Wing Forces, SPS) sources in Moscow, some say that current Russian Property Relations Minister Farit Gazizullin would be the most logical candidate, although he may not be willing to leave Moscow to return to Kazan. A second potential candidate is Russian Deputy Agriculture Minister Rafgat Altynbaev, but it is not clear what his chances would be. Another name often mentioned is Tatarstan State Council Speaker Farid Mukhametshin. He would be a weak president and probably would enjoy Putin's support. However, critics point out that his temperament is more suited to legislative than executive work, and he is not considered to have any real power within the current system.

**WHAT IS THE LIKELY IMPACT OF KIRIENKO AS THE PRESIDENT'S REPRESENTATIVE?** After Tatarstan President Minitimer Shaimiev turned down Putin's offer to serve as the head of the Volga Federal District, the president turned to Sergei Kirienko. Kirienko differs from all but one of the six other federal district leaders because he is a politician rather than a former member of the security forces or the military. Residents of Kazan are already coming to Andrei Tatyanchikov, the leader of the local SPS and a potential assistant to Kirienko, with complaints about the actions of the 47 federal agencies that operate in the republic. The supplicants complain that the

republican authorities monopolize the economy and that the procurator does not take appropriate action to block these moves. Tatyanchikov said that Putin could appoint a politician rather than a general in the Volga region, because unlike all the other federal districts, it is not located on a border. Tatyanchikov described Kirienko as a decisive person, citing his decision to devalue the ruble in August 1998. However, he warned that he could be fired after carrying out much of the dirty work to bring order to the regions in his district.

Georgii Isaev, advisor to the State Council Chairman Farid Mukhametshin, was more skeptical about Kirienko's ability to act effectively. Isaev suggested that Kirienko would try to control some of the responsibilities now performed by the federal ministries, particularly the Ministry of Finance, which distributes money to the regions. If Kirienko does not control the money, then he will have no power. However, the Ministry of Finance will hardly be enthusiastic about delegating power to him. Thus, for example, Kirienko could discover that one third of the combines in the Volga federal district are not working, but then could do nothing about it since he would not have access to the necessary funds. Isaev warned that Kirienko would essentially duplicate many of the government functions that are already being performed.

Isaev noted that Kirienko had claimed that one of his functions would be to equalize the standard of living in all regions. However, Tatarstan is relatively rich because of its oil resources, while nearby Marii El is extremely poor. Isaev did not see much hope for making these areas more equal.

Isaev suggested that Shaimiev would travel to Nizhnii Novgorod to meet with Kirienko if he thought that the meeting would be useful. However, he expected that Kirienko would more often travel to the region than vice versa.

## **THE PERSPECTIVE OF SHAIMIEV'S OPPOSITION**

### **SHAIMIEV TO PUTIN: TAKE AS MUCH SOVEREIGNTY AS YOU WANT.**

When Yeltsin visited Kazan on 5 August 1990, he told the republican leaders to "Take as much independence as you can hold on to." Now, according to a joke published in the mildly oppositionist newspaper *Vechernyaya Kazan*, Tatarstan President Mintimer Shaimiev has told President Vladimir Putin to "take back as much sovereignty as you want," so long as Putin allows him to run for a third term.

The republican president who once led the opposition to the federal leaders in Russia is now desperate to stay in office and is willing to make any concessions to hold on to his personal power, according to members of the local opposition. In contrast to Sverdlovsk Governor Eduard Rossel, Shaimiev made a colossal political mistake in the summer of 1999 when he joined forces with Moscow Mayor Yurii Luzhkov, St. Petersburg Governor Vladimir Yakovlev, and former Prime Minister Yevgenii Primakov in supporting the Otechestvo-Vsya Rossiya bloc against the Kremlin. Now Shaimiev is paying for that mistake.

Where Tatarstan was once able to demand significant concessions from the federal government, Putin is now in a much stronger position vis-a-vis Shaimiev. Putin first came to Kazan in June of 1999 when he was the director of the Federal Security Service (FSB). In a performance that characterizes the relationship between Putin and Shaimiev, Putin reportedly said that times had changed. At a meeting of the collegian of

the Tatarstan Republican Committee on State Security (KGB - the name of the republican branch of the Federal Security Service remains unchanged from the Soviet era), with Shaimiev present, Putin said that whereas in the past the security agency had only observed events, now it would both observe and influence them. Putin reportedly also said that the KGB should be headed by a Russian, not a Tatar. Shortly after, a Russian Republican KGB Deputy head, Colonel Aleksandr Gusev, replaced a Shaimiev-loyalist and ethnic Tatar, according to *Zvezda Povolzhya* Editor Rashit Akhmetov, who has close links to the Yabloko party.

At the meeting, Putin also reportedly warned the Tatar leadership that there were too many ethnic Tatars among the republican leadership and not enough ethnic Russians. Since May 1998, the president, speaker of the regional legislature, and republican prime minister have been ethnic Tatars, even though more than 40 percent of the population is Russian. Also, following the December 1999 elections, 80 percent of the members of the republican legislators have been ethnic Tatars. Now, Shaimiev is reportedly getting ready to replace Prime Minister Rustam Minnekhanov with an ethnic Russian, most likely the pro-Putin KGB head Gusev. Finally, Putin reportedly told the KGB that henceforth it must obey Moscow's orders and only inform the Tatarstan leadership of the actions it takes.

The federal government is also taking back many of the taxation concessions that the Yeltsin government had granted to Tatarstan. As of 1 January, the republic must pay 50 percent of the value-added tax to the federal government and all excises on oil, gasoline, and vodka. In the past this money had stayed in the republic to support federal programs. Moscow is thus taking control of \$150 million a year, which amounts to 20 percent of the republican budget (not counting off-budget funds). The change in the taxation system is a direct result of Shaimiev's loss in the December State Duma elections, according to Akhmetov. In addition to the tax revenue, Moscow is redirecting funds that once went into the regional Road Fund to the federal government. These funds amount to 3 billion rubles (\$107 million), a significant share of which were once under the control of the republican leadership and used for their needs.

Akhmetov estimated that non-budgetary funds in Tatarstan are as large as the money officially listed in the budget. Additionally, the republican authorities have access to a third source of income: money that state companies generate in sales abroad. For example, officials could order companies like Tatneft to take western credits, and then take control of the money themselves. Before the August 1998 crisis, the state authorities invested these funds in the GKO market. However, the default of the Russian state had a powerful effect on the republican leadership, because it lost about \$2 billion, probably including some personal funds, that had been unwisely invested. The loss of these funds weakened Shaimiev in his relationship with the federal center because he had fewer resources at his disposal.

The Tatarstan regional leadership faces another powerful enemy in Moscow: the so-called Group of 23 mentioned above, a group of Moscow-based Tatars in opposition to Shaimiev. Chairman of the Property Relations Ministry Farit Gazizullin, who is closely identified with Unified Energy System head Anatolii Chubais, and Deputy Agriculture Minister Rafgat Altynbaev are the most powerful members of this group. They have detailed knowledge of how the political system works on the ground in Kazan, and can provide the federal government with valuable insider knowledge. According to

Akhmetov, they have quietly told Shaimiev that if he steps aside without seeking a third term in 2001, he will be assured a peaceful and prosperous retirement.

Like Rossel, Shaimiev blocks many Russian businesses from working in the region. The local elite believes that the Tatarstan branch of Sberbank sends 4 billion rubles of money collected in Tatarstan a year to Moscow. They would like to set up a regional bank that would attract the savings accounts of local citizens and then reinvest the money in the republic. As with all things here, the situation is far from black and white. Shaimiev and the head of the republic's Sberbank branch are good friends, and the banker tries to keep some of the money on the local market. Because Shaimiev has blocked many of the oligarchs' activities in Tatarstan, they are putting pressure on Putin to find a way to make it possible for them to work on the local market.

In the opinion of observers like Akhmetov, the federal authorities see Shaimiev as a splinter that they must remove or fully coopt. The alliance of Putin-oligarchs-power ministries against Shaimiev means that the republican president is up against a powerful coalition. Additionally, many of the local elite would be happy to see him go. Shaimiev currently appoints and removes city and raion leaders (a blatant violation of federal norms). These men are relatively well off now, but completely dependent on Shaimiev. They would like to extract themselves from under his thumb so that they could be more independent. Many local businessmen also oppose Shaimiev because they resent his giving the best business opportunities to his relatives.

According to the Shaimiev opposition, the republican president's first line of defense against the federal attack is to express his loyalty to Putin. A second potential move would be an attempt to mobilize the nationalist opposition. However, the nationalist movement is currently very weak in Tatarstan. Many members feel that they have been deceived by Shaimiev's half-hearted nationalism over the last ten years. Meanwhile, most ordinary Tatars now place personal economic gain above sovereignty concerns. Additionally, many believe that the emphasis on sovereignty effectively cut Tatarstan off from the rest of Russia, imposing a kind of isolation on the republic. For example, students from many regions used to come to study in the regional universities, but that is no longer the case. In the past, the regional leadership was able to denounce Russia as going the wrong way; now, most Tatarstan residents want to be part of the larger country. Recent nationalist protest demonstrations gathered only 30 people in Kazan and 200 in Naberezhnye Chelny, where the nationalist movement is the strongest.

Ultimately, Putin may have to compromise with Shaimiev because he may not be able to find an alternative candidate, as happened in the case of St. Petersburg, where Putin tried to replace Governor Vladimir Yakovlev but failed to come up with a viable competitor. If Shaimiev is elected for a third term, he would be the first to be so elected and could set an example for other republican leaders now coming to the end of their second terms. (In October 1999 the federal government adopted a law limiting governors to two 5-year terms, but the law has a grandfather clause and does not come into effect until October 2001, allowing many long time regional leaders the chance to win a third term.)

Additionally, many governors now see that some media sources are heavily criticizing Putin for the arrest of Vladimir Gusinskii. If Putin decides to continue his battle against Gusinskii and other selected oligarchs, he may need to recruit the governors as allies. Shaimiev still holds some popular authority and could be useful in this regard.

**WEAK OPPOSITION DEPENDS ON PUTIN FOR CHANGE.** The opposition has no power to change the situation on the ground in Tatarstan, so it must rely on reforms initiated by Putin to influence the Shaimiev administration, according to Vladimir Belyaev, a professor at Kazan State Technical University and a member of Ravnopravie i zakonnost (Equal rights and rule of law), a loose coalition of democratic groups. Belyaev noted that the local democratic opposition is suspicious of Putin's ultimate intentions, but they view him differently than the Moscow intelligentsia because they hope he will make Tatarstan live up to international standards. Their main wish is that Putin scare the republican elite into bringing republican law into conformity with Russian standards and create more democracy in the region.

Belyaev described the political system of Tatarstan as a three-party system, albeit one that is largely controlled by the party of power. The ruling nomenklatura has essentially set up an undemocratic system whereby there is no division of power, no free elections, no popularly-elected local governments, no free press, and no organized parties. The opposition can be divided into two groups: the anti-systemic and the constructive.

The anti-systemic opposition is grouped under the umbrella National Patriotic Union, whose disparate members seek to change the current system. However, each has different goals. This coalition contains the nationalist party Ittifak, the Communist Party, and the Russian National Sobor. Ittifak, the Party of Tatar National Independence, is strongest in Naberezhnye Chelny, where KamAZ is located. The construction of the giant truck factory brought a lot of ethnic Russians to an area which until then had been populated by Tatars. This migration resulted in intense conflict.

Belyaev described the Tatarstani system as having, in the late Soviet period, developed along a very different path than that taken by the Baltic republics of Latvia, Lithuania, and Estonia. In the Baltics, advocates of national and democratic goals were united in the battle against Gorbachev. In Tatarstan, the Communists and nationalists were united because they had a common enemy in Yeltsin rather than in Gorbachev. The Communists wanted to preserve the system of party power, which Yeltsin sought to destroy, while the nationalists fought against Yeltsin because he represented Russia. The pro-democracy groups supported Yeltsin and therefore adopted his internationalist position. The power-sharing treaty adopted in 1994 served Yeltsin's and Shaimiev's interests because it preserved the federation but gave Shaimiev a free hand within the framework of his republic.

Although Belyaev expressed considerable hope that Putin would be able to bring Tatarstan's laws in line with federal laws, he strongly doubted that Sergei Kirienko would prove effective as the head of the new Volga Federal District. He thought that Putin's letter to the Bashkortostani leaders would be much more important (see *EWI Russian Regional Report*, 17 May). In particular, he believes it is crucial to remove the clauses in republican legislation that require presidential candidates to have lived in the region for 10 years and speak both Russian and the local language. In Tatarstan, only 20 percent of the population speaks both Russian and Tatar. According to the 1989 census, the republican population is 48 percent Tatar and 43 percent Russian (more recent figures are not publicly available). In the capital city of Kazan, Russians in 1989 made up more than

50 percent of the population, while Tatars were only 37 percent. Most of the ethnic Tatars live in the countryside.

**RIGHTIST DEPUTY PLACES HOPES IN THE COURTS.** Tatarstan State Council Deputy Aleksandr Shtanin, a member of Russia's Democratic Choice who works in opposition to Shaimiev, noted that until Putin came to power, the republican authorities had been effectively able to do whatever they wanted. Tatarstan had no branch of the federal treasury, no Accounting Chamber (*Schetnaya palata*), and no presidential representative. He argued that the best approach for the Russian president would be to strengthen the judiciary and make it more independent so it could exert a more powerful influence on the executive authorities. He noted that in 1995 the courts had not been willing to accept cases that went against executive interests, but that now it was possible to file such cases and at least get a hearing. In this regard, Shtanin suggested that Kirienko would be better off working to change the overall system rather than just attacking specific individuals in it.

Conversations with Shtanin also revealed some of the divisions within the opposition. He sought to distance himself from SPS regional party leader Andrei Tatyanchikov, pointing out that he was a businessman who had little direct experience in politics. He also referred to *Zvezda Povolzhya* Editor Rashit Akhmetov as the "yellow press."

## **THE OFFICIAL POINT OF VIEW**

**KHAKIMOV: PUTIN CREATING A TRIANGLE RATHER THAN A DIRECT HIERARCHY.** Tatarstan President Mintimer Shaimiev had described Putin's decision to create seven federal districts to replace the eighty-plus presidential representatives as "not serious," and rejected Putin's offer to head up the Volga district, according to Rafail Khakimov, state adviser to the president on political affairs. Rather than creating a vertical, Khakimov stressed, Putin has set up a new triangle relationship linking Moscow, Nizhnii Novgorod (the capital of the Volga federal district), and Kazan. The main conflict in this triangle will be between Moscow and Nizhnii Novgorod as Volga Federal District head Sergei Kirienko tries to exercise some of the powers that currently belong to the Moscow ministries so that he can effectively control his district.

Although Khakimov stressed that it was too soon to say what the significance of the federal okrugs would be, he noted some positive aspects. In terms of ethnic issues, he pointed out that 25 percent of Russia's Tatars live in Tatarstan. However, 75 percent of Russia's Tatars live within the boundaries of the Volga federal district. He noted that while Tatars comprise 12.5 percent of the federal district population and Russians make up 60 percent, Tatars tend to be more politically active than the passive Russians, meaning that the disparity in numbers would have less of an impact than it seemed. He noted, for example, that Tatars are particularly influential in Saratov, even though there are only 50,000 of them in the republic. Economically, the Volga Federal District is well off, as it has large deposits of oil and gas, boasts significant oil processing plants, produces almost all of Russia's automobiles and airplanes, and supplies many agricultural products. Many of the regions in the Volga District donate more to the federal budget than they consume. He shared the opinion of some other analysts who suggested that

Putin's division of the country into seven districts could ultimately turn Russia into a confederation rather than increasing federal control.

Khakimov described Tatarstan as being in a relatively good position vis-a-vis Putin, arguing that the Russian president will be extremely careful in his relations with the republic. Putin lacks a strong political base to support his initiatives, he believed. Khakimov argued that Otechestvo-Vsya Rossiya was a relatively strong party, with strong leaders and a functioning faction in the State Duma. Also, he stressed that it would be impossible for the president to politically divide Tatarstan and Bashkortostan. Additionally, he stressed that Putin is not opposed to a process of negotiations in coordinating regional and federal legislation. He claimed that Putin would not touch the republic's power-sharing agreement (the 1994 treaty and related agreements) and that the republic would stand by it.

Khakimov claimed that Tatarstan is in a much different position than other regions because, while other regions have adopted dozens of laws that contradict federal norms, Tatarstan has adopted hundreds. Many of the laws, such as Tatarstan's laws on land ownership, would be hard to change. Tatarstani law allows for the free buying and selling of all land in the republic, and 62 percent of republican land is now in private hands. Khakimov stressed that it would be extremely difficult to undo this ownership. In this regard, Khakimov found General Procurator Vladimir Ustinov's demand that the regions bring their laws into conformity with federal legislation in one month less than severe.

Khakimov said that the Constitutional Court's decision on the sovereignty of the Gorno Altai Republic raised many questions (see article on the decision elsewhere in this issue). While citing the need to support the courts and procurator, he noted that these institutions are politicized. He said that the court's decision was based on one part of the constitution, but pointed out that it was possible to find other passages of that text which say that center-periphery relations can be based on agreements and therefore do not exclude the idea of sovereignty. The constitution is contradictory, allowing for more than one interpretation.

In examining the resources that Putin and Tatarstan have at their disposal, Putin's strength is clearly the power ministries. However, even here he faces many problems, according to Khakimov. The Russian army is currently tied down in Chechnya fighting a partisan war and will be stuck in this difficult position for a long time. The Ministry of Internal Affairs is under joint control and the republic provides half of the financing for its operations in the region. The head of the republican MVD is a Shaimiev ally. Putin has more control over the republican KGB, but Khakimov argued that that organization will not work against Shaimiev. In Bashkortostan, President Murtaza Rakhimov was able to completely isolate the pro-Moscow head of the republican KGB. Law enforcement agencies will have little impact on solving political questions. The lack of political resources is Putin's main weakness, Khakimov believes.

Against Putin's resources, Khakimov claimed that Shaimiev has full political support in the republic, with the Communists providing the only real opposition. The leader of the Communists, State Duma Member Aleksandr Sali, always opposed Tatarstani sovereignty and therefore would have trouble winning mass support, Khakimov argued. He noted that while the economic situation is not outstanding, it was improving. Oil output has increased to 26 million tons and Tatneft is aggressively

building gas stations in Moscow, Ukraine, and Great Britain. Additionally, the company is investing in diamond deposits in other parts of the country. He also claimed that the giant truck manufacturer KamAZ was slowly coming back to life and paying its debts.

In October-November 1999, the Tatarstani leadership began to form a new political party called Tatarstan - Novyi vek (New century). State Council Chairman Farid Mukhametshin is the chairman of the party, and there are now branches in every city and raion of the republic. Although Shaimev does not need this party to win a third term, the new organization is aimed at countering the strength of the Communist Party. Now, whenever republican leaders travel to outlying parts of the republic, they encounter Communist protests and want to use their own organization to counter the Communists.

On the natural monopolies, Khakimov noted that Tatenergo is not part of the national Unified Energy System utility. Rather, the republican government owns a majority stake and Tatarstan has control of the firm. He also said that Transneft could not cut off Tatarstan's access to the country's oil pipelines because it would cause too many logistical problems for the overall pipeline system. He also suggested that Moscow could not cut off Tatarstan's export quotas, because then it would have to pay the firm's debts. He also pointed out that if Russia cut off Tatarstan's natural gas supplies, it would have enough fuel-oil (*mazut*) to get by. For example, the republic switched to fuel-oil the last time that Gazprom President Rem Vyakhirev threatened the republic with a cut-off in its supplies.

#### **LEGISLATIVE ADVISOR ISAEV: TOO SOON TO SAY WHAT WILL HAPPEN.**

Georgii Isaev, an assistant to State Council Chairman Farid Mukhametshin stressed in a meeting on 20 June that it is too soon to draw conclusions about Putin's initiatives. He argued that so far Putin has demonstrated a certain amount of "flexibility." In contrast to the opposition, he did not see Putin's letter to the Bashkortostanis as particularly threatening. He accused many journalists of not reading it and therefore not realizing that the text calls for agreement between Moscow and Bashkortostan. Thus, Isaev stressed, Putin does not seek to abandon power-sharing agreements signed with the regions. Isaev also noted that Putin had said that bringing federal and regional laws into accordance should be a process of meeting each other. Isaev interpreted these comments to mean that Putin was willing to change some federal laws to take into account regional initiatives.

Isaev noted the same flexibility regarding the Constitutional Court's recent decision on the sovereignty declaration of the Gorno Altai Republic. The court ruled that the concept of "sovereignty" should be removed from its constitution. However, two days later Presidential Representative to the Constitutional Court Mikhail Mityukov commented in *Rossiiskaya gazeta* (10 June) that sovereignty can not be unlimited. Whereas the court had abolished the concept, Mityukov only thought that limits should be imposed while accepting the basic idea of sovereignty.

For the last ten years the federal and republican authorities have jointly appointed the republican minister of finance, chief of the MVD, KGB, and head of the local statistical agency. The usual practice is that Shaimiev and the prime minister propose a list and then a compromise is reached with Moscow. Usually the two sides reach consensus, Isaev said. He asserted that Shaimiev had initiated the appointment of the current head of the republican KGB (however, this man was clearly identified to us by the opposition as pro-Putin).



Isaev noted that in the past, both the republican and federal governments had provided money for the MVD. Now, with the federal government taking over direct control of some functions such as combating organized crime, the rank-and-file police officers who would be paid out of the federal budget are not optimistic that they will actually see the money.

Isaev downplayed the role of the Group of 23, the Moscow-based Tatars who oppose the Shaimiev regime. He accused the opposition of making up stories about men like Gazizullin running for the job of republican president. Isaev said that Shaimiev maintains continual contact with Gazizullin. Isaev noted, however, that the situation is not simple and that Gazizullin has ambitions. Isaev noted that Altimbayev's speeches lacked intellectual depth but that he was a good organizer. He also questioned Altimbayev's independence, pointing out that when Shaimiev had offered him the post of republican prime minister, he had initially accepted, but then publicly retracted his acceptance about a half hour later, evidently in response to the demands of people who exercise much influence over him.

Isaev called Shaimiev's successful efforts to block the influx of Moscow banks into Tatarstan a mistake.

#### **TAGIROV: PUTIN'S REACTION A REBELLION OF THE RUSSIAN**

**MENTALITY.** World Congress of Tatars President Indus Tagirov described Putin's efforts to reorganize Russian federalism as a "rebellion by the Russian mentality" against what he called "the rapid, democratic changes taking place in the regions." Tagirov warned that Putin could not stop these changes. As an example, he pointed out that it was normal for Russian regions to conduct relations with foreign countries, pointing to the recent trip of Moscow Oblast Governor Boris Gromov to Belarus as only the latest evidence of how widespread this kind of activity is. He also noted that Saratov Governor Dmitrii Ayatskov is very actively developing relations with Azerbaijan and Ukraine.

Tagirov participated in Tatarstan's negotiations with the Soviet government in 1990. Then, Tatarstan wanted to sign the Union Treaty and enjoy the same rights as the 15 union republics of the Soviet Union and as an entity separate from Russia. In 1990 the republican leadership sent a request for permission to do so, but the federal government did not answer for a year. Finally, in August 1991, just before the Union Treaty was to be signed and before the coup which destroyed the Soviet Union, the Soviet leaders rejected the idea of Tatarstan signing the Union Treaty. The Russian leadership and the leaders of the other union republics also opposed this idea.

In 1992 Presidential Advisor Gennadii Burbulis said that Russia should develop a system of asymmetrical federalism that included elements of confederalism, according to Tagirov. Tatarstan declared its sovereignty on 30 August 1990 and ratified this sovereignty in a referendum held on 21 March 1992. The vote declared Tatarstan a subject of international law and claimed that its laws took precedence over Russian laws. Before the vote, the Russian Constitutional Court had ruled the referendum illegal. Nevertheless, Tagirov claimed that Constitutional Court Chairman Valerii Zorkin had declared that the referendum had given legal standing to the sovereignty declaration. Tagirov said that Yeltsin then signed the 1994 power-sharing treaty in order to preserve Russia's unity, and that today there are no objective reasons to undo what Yeltsin did. He stressed that it was impossible to return to an era of what he called Russian imperialism.

Tagirov stressed that federal activities in the regions are completely uncoordinated but that the creation of the seven federal districts was a mistake. He described them as an unnecessary "fifth wheel." He predicted that there would be conflict between Nizhnii Novgorod and Moscow and between Nizhnii Novgorod and Kazan. Furthermore, he said that the experiment with the federal districts would only last a year or two. He said that the federal district would have no real power since there would not be a legislature at that level.

Rather than ordering Shaimiev to come to Kazan, Kirienko most likely would spend much of his time traveling throughout the federal district. He noted that Shaimiev and Kirienko have a good relationship, since after Kirienko was fired Shaimiev publicly said that people like him would eventually come back to power in Russia.

## **ECONOMIC ISSUES**

**TATARSTAN'S SMALL BUSINESS POORLY DEVELOPED.** On the topic of small business, Presidential Advisor Rafail Khakimov conceded that the level of entrepreneurship in the region was much lower than in most other Russian regions. He pointed to the bureaucracy at the republican level as the main roadblock to the development of this sector. Cities in the republic tend to repeat republican practices at the local level, creating further impediments to change. Other presidential administration staff members stressed the large number of inspection agencies, the difficulty of securing bank credits, organized crime, and an overall lack of infrastructure as contributing factors to the low level of entrepreneurial development in the republic. Khakimov has developed a plan to reduce the role of the state in this field of activity and hopes to implement it soon. However, he pointed out that a consulting group in Boston had helped develop a plan for the republic's overall economic development in 1996 and it had not led to real changes, although it did force some of the ministries to stop and think about what they were doing.

## **TATARSTAN'S FOREIGN POLICY**

**MORE THAN ECONOMICS DRIVE TATARSTANI FOREIGN RELATIONS.** Tatarstan engages in a wide range of foreign activities that include economic, cultural, scientific, educational, and humanitarian issues, according to Timur Akulov, the director of the republican presidential administration's Department of Foreign Affairs and an advisor to the president on international affairs. There is little conflict between the republic and the Ministry of Foreign Affairs in Moscow, he said.

The republic has twenty representations abroad, which vary in status. The republic pays for full-time offices in Baku, Uzbekistan, Kiev, Turkey, France, and the USA. These offices are representatives to international regions rather than single countries, so the Baku office deals with the entire Caucasus and the Uzbekistan office deals with Central Asia. These activities cost the republic 20 million rubles a year. Besides seeking foreign contracts, these offices try to collect money from customers of Tatarstani enterprises that do not pay their bills, and provide services to members of the Tatar Diaspora. The republic also maintains a number of trade offices, but these

representations receive no money from the republican budget and must support themselves on a commercial basis.

Until recently, the republic suffered from the low international price for oil, although, more recently, higher prices have been a boon. The devaluation of the ruble in August 1998 also hit the republic hard because it had taken out many loans in hard currency. It is now working on restructuring debts to Pioneer (USA), Thompson (France), and ING Barings (Netherlands). The republic has also poured considerable sums into reviving the giant truck-maker KamAZ, which is now working at no loss, Akulov claimed. The factory is even trying to establish markets in Latin America and plans to set up a truck assembly plant in Ecuador in the near future. Akulov also boasted of the recent successes of the local helicopter factory.

According to Akulov, his office maintains partnership relations with the Russian Ministry of Foreign Affairs in Moscow and is not subordinate to it. The Tatarstani offices take the initiative in deciding what they are going to do in terms of setting up foreign ties. Akulov said that his office does not engage in political activities, and if it decides to sign any agreements, it consults with Moscow before doing so. The Russian ministry works to ensure that Tatarstan's deals do not violate any treaties that have been signed at the national level. So far the republic has signed 56 agreements with various foreign entities.

Akulov said that it was more difficult for his office to work under Foreign Minister Andrei Kozyrev. However, his successors Yevgenii Primakov and Igor Ivanov, have been much more understanding and supportive. Akulov anticipated problems under Putin only if the Russian president sought to impose a centralized state and overturn Russia's existing federalism. He expected Moscow to have the sense to avoid such changes since the "world is already used to the fact that we solve many international problems independently."

Eduard Khabibullin, head of the department on the Americas, Australia, and Oceania, described a process of trying to find the best way of working with the Russian foreign ministry. There is no particular process for informing the Moscow ministry about what the republican department is doing. However, in important cases, such as when President Shaimiev travels abroad, Kazan always informs Moscow. The ministry, he said, was particularly helpful in organizing meetings through the Russian embassies. The Tatarstani constitutional declaration that the republic is subordinate to international law is not really true, but the Russian ministry has effectively delegated considerable responsibility to the republic, Khabiboullin noted.

**FEW WESTERN BUSINESSMEN ON THE GROUND IN KAZAN.** There are few American businessmen living and working in Kazan. When US Ambassador to Russia James Collins recently visited the city, he asked to meet with American businessmen living in the area, but the Tatarstani Department of Foreign Affairs could not find any. One of the key foreign ventures in the republic is the partnership between General Motors and the Yelabuga Automobile Factory. The Department of Foreign Affairs saw good prospects for this initiative because Yelabuga has been declared a tax free zone. However, the staff admitted that the project had yet to achieve its potential and less than 2,000 vehicles have actually been produced (see *EWI Russian Regional Report*, 6 May 1999).

McDonald's (Canada) has opened a restaurant on the downtown pedestrian mall and plans to open two more in the Kazan area. In the telecommunications field, Tatincom (www.tatincom.ru), a joint venture with Hughes, is proving successful. It offers mobile phone and Internet connections and is turning a profit. Additionally, the republic boasts one private television channel. Numerous western oil companies are working in the region. Although much of the easily-extractable oil has already been drawn from the ground, the republic predicts that its oil supplies will last another 50 years.

## **LAST-MINUTE UPDATE**

**IN KAZAN, PUTIN APPARENTLY CORRECTS FEDERAL POLICY TOWARD REGIONS.** [After we left Kazan, President Vladimir Putin made a quick trip to the republic. Here is a report from RRR Correspondent Midkhat Faroukshin.] It remains difficult to determine exactly why Putin made a quick visit to Kazan over the weekend. He arrived late in the evening on 23 June and left on the afternoon of the 24th, staying in the republic less than 24 hours. Tatarstan President Mintimer Shaimiev invited the Russian president to participate in the Sabantui festival, which is held every year after the spring work in the fields is complete. But other regions also celebrate this festival, so Putin obviously did not come just for the holiday. Another potential reason for the visit was to discuss the consequences of a savage thunderstorm that hit the republic on 19 June. But Russia has witnessed far more serious natural disasters, and the president has not always arrived on the scene to deal with the results.

A more likely explanation for the visit is that Putin needs and is counting on the support of influential regional leaders to conduct his reform of Russian political institutions, particularly the Federation Council. Perhaps this is why Putin announced during his visit that, while bringing regional laws into line with federal norms, it was also necessary to analyze Russian laws and change them if it turns out that regional laws are better. Such a statement might mark a significant correction in Putin's public position. Until now the federal authorities have talked only of bringing regional laws in line with Russian constitutional and legal norms. The position that Putin took in Kazan is completely in accord with the position of the Tatarstani leadership, which has long called for bringing both Russian and republican law into accordance with each other. The republican leadership believes that this is a two-way process requiring changes in Tatarstani and Russian legislation, including the Russian constitution. - Midkhat Faroukshin in Kazan

## **PATTERNS OF REGIONAL DEVELOPMENT**

**STRUCTURAL CHANGES IN ST. PETERSBURG GOVERNMENT.** On 22 June, St. Petersburg Governor Vladimir Yakovlev endorsed a law changing the structure of the St. Petersburg government (*Novosti AK&M*, 23 June). In early June, at the same time as the election of Sergei Tarasov as Legislative Assembly speaker, the city parliament agreed to changes in the structure of the city government suggested by the governor. According to the new law, the city's cabinet will continue to have 15 people -- one first deputy governor, 12 deputy governors, head of the St. Petersburg and Leningrad Oblast Department of Internal Affairs, and the governor.

Deputy governors Yurii Antonov and Valerii Malyshev are expected to command significant power. Antonov was first to be confirmed in his post as deputy governor. Malyshev will be in charge of transportation and communications. He is currently a member of the State Duma, having won election from the Otechtestvo-Vsya Rossiya party list. Following former gubernatorial Chief-of-Staff Viktor Yatsuba's dismissal last year, Malyshev has become one of Yakovlev's closest advisors, charged with the most delicate assignments. It was Malyshev who was responsible for pushing early gubernatorial elections through the city Legislative Assembly last fall (*EWI Russian Regional Report*, 14 October 1999, 14 December 1999). He was personally responsible for finding investors and conducting the founding congress for Vsya Rossiya, of which Yakovlev was one of the organizers. Since then, Malyshev's name has often been connected to a criminal case concerning a fake company, VMTs, through which all the congress money was handled. Then-Deputy Minister of Internal Affairs Petr Latyshev, who was supervising the investigation, said that Malyshev had signed many of VMTs' documents. Those close to Yakovlev link Malyshev's appointment to the good relations he has established with Russian President Vladimir Putin since the time they worked together in former St. Petersburg Mayor Anatolii Sobchak's office. Yakovlev desperately needs an informal channel to the president in order to balance the Presidential Representative for the North-West district Viktor Cherkessov, whose influence in the region is growing from day to day (*Kommersant*, 8 June).

Local analysts are actively debating the conditions under which Putin "allowed" Yakovlev to be reelected. The most recent version of events suggests that within the government Yakovlev will have a free hand for at least the next six months. Before the appointment of the city cabinet, rumors had circulated that Putin would appoint his own Petersburg prime minister to run the city's affairs, leaving Yakovlev essentially as a figure-head. That has not happened. However, Cherkessov and deputy head of the presidential administration Dmitrii Kozak, who will supervise the work of all presidential representatives, will watch Yakovlev's every move. In the near future, observers believe that a number of Governor Yakovlev's decrees will be annulled, while Latyshev's commission (though no longer headed by Latyshev, who is now the presidential representative to the Urals federal district) continues to investigate abuses by Yakovlev's administration. In early June, Deputy Head of the Sports Committee Yevgenii Chernikov was caught red-handed taking bribes and was arrested.

If Putin's plan for federal reform proceeds as the president hopes, one can predict that Yakovlev (along with the rest of Russia's governors) will gradually lose his influence on local alcohol and fuel companies, as well as control over the city's financial flows. Without these economic levers, the governor's power would be considerably weakened. -- Daniel Tsygankov in St. Petersburg.

### **LOCAL FSB CHIEF THREATENS SHABANOV'S FUTURE IN VORONEZH.**

Two weeks ago the appearance of a new contender for the Voronezh governor's seat caused an uproar in the region. The scandal began when 219 Voronezh Oblast industrial leaders published an open letter in local newspapers calling on General Vladimir Kulakov, the chief of the oblast's FSB, to participate in the December 2000 gubernatorial elections. Directors of the largest enterprises in Voronezh and Voronezh Oblast were among the signatories.

For obvious reasons, Voronezh Governor Ivan Shabanov had a strong negative reaction to the unexpected letter. He referred to it as the "Stockholm appeal" and declared that its appearance was a great humiliation for both those who signed the letter and those officials in the oblast administration who did not set them on the "path to truth." Shabanov emotionally denounced the signatories, many of whom are influential in the region, as "some industrialists whom we've dragged from the mud." He demanded that the signatories revise their positions and gave them week to do so. If they fail to comply, Shabanov said that he would consider making a personal appeal to the workers at the enterprises headed by the "disloyal" directors. (*Voronezhskie Vesti*, 14 June)

Analysts note that, on one hand, Shabanov is probably right in his attempts to oppose the merger of "the financial-industrial oligarchy with the FSB administration." Such a coalition of regional business and the security services could only have negative consequences for the development of democracy. On the other hand, Shabanov's threats are nothing but attacks against the right to personal freedom. Nevertheless, the governor promised that after a week more than half of the signatories would remove their names from the letter. It is no secret how Shabanov plans to make the signatories comply and he has not hidden his intention to use the federal authorities to put pressure on the signatories. He made it known that as chairman of the Federation Council Committee for Defense and Security he had had a conversation with Security Council Secretary Sergei Ivanov about the matter, and that Ivanov presumably supported Shabanov's actions. (*Voronezhskii Kurier*, 15 June)

Shabanov clearly sees Kulikov as his most dangerous rival in the upcoming elections (*Voronezhskie vesti*, 16 June). Local observers believe that Kulikov enjoys powerful support in the so-called "Petersburg group" among Putin's advisors. If this is true, then Kulikov's candidacy logically fits into President Putin's general policies to strengthen the executive branch's hierarchical control of the regions, further economic reforms, and prepare the ground for appointing governors. Thus, the main task for the governors working under Putin is to bring the regional situation under control and execute the center's policies. - Yulia Fedorinova in Voronezh

**IRKUTSK ELECTS NEW OBLAST LEGISLATURE.** On 25 June Irkutsk Oblast held elections for the oblast Legislative Assembly, the Irkutsk City Duma, and several heads of raion administrations. The Legislative Assembly managed to elect only 28 candidates in the 44 total electoral districts. In the 16 additional electoral districts the elections were considered invalid due to insufficient voter turnout. Repeat elections in these districts are scheduled for September 2000.

Top businesses in the region used the 25 June Legislative Assembly elections as an opportunity to introduce their representatives into the regional government. The newly elected Irkutsk Oblast Legislative Assembly includes 10 representatives from the region's largest businesses. Irkutskenergo, for example, managed to get two representatives in to the Legislative Assembly: director of Irkutskenergo subsidiary Bratsk Thermal Network Aleskandr Bondarenko and Irkutskenergo deputy general director Valentin Mezhevich. There is no minimum turnout requirement for the City Duma, so its elections were all valid. - Teleinform in Irkutsk.

**KOMI PRESIDENT CONFIRMS INTENTION TO RUN FOR THIRD TERM.** On 15 June at the economic forum in St. Petersburg, Komi Republic President Yuri Spiridonov announced his intention to seek reelection in the region's upcoming presidential race. It was Spiridonov's first unambiguous announcement regarding his participation in the elections. Spiridonov's situation is noteworthy because if he wins he will secure a third term in office, contradicting the intent of recently adopted federal legislation. At a 19 June press conference, Spiridonov responded to a question regarding how his decision corresponds with federal law by saying that the press was misinterpreting the federal legislation.

In October 1999 the federal government adopted a law limiting governors to two 5-year terms, but the law will not go into effect until October 2001, making it possible for Spiridonov to win a third term if elections, which should take place in autumn 2001, are held ahead of schedule. The republican legislature will most likely support Spiridonov's decision to move up the elections to this fall (*Molodezh severa*, 22 June). - Yuri Shabaev in Syktyvkar

**KALININGRAD CONSIDERS OFF SHORE WIND POWER.** Due to its exclave status, the economy of Kaliningrad Oblast is highly dependent on the policies of neighboring states. Since up to 80 percent of the raw materials and partially finished products used in local production are imported, transportation difficulties and price changes have an instantaneous impact on the oblast economy. Since the collapse of the Soviet Union, Kaliningrad must import more than 80 percent of its electricity from outside the region. Originally Lithuania's Ignalinsk Nuclear Power Station was the oblast's energy provider, but now the Leningrad Nuclear Power Station has taken on this function. The oblast could meet its energy needs if it completed the construction of a local thermal electricity power station. However, work stopped at the end of the 1980s, and now there is no money to proceed. Therefore, local authorities and heads of energy companies are ready to consider the most exotic of projects.

In the beginning of the 1990s, a proposal to use a reactor from a decommissioned nuclear submarine was discussed. Due to the high level of danger involved in such a project, the plant would have been built underground. Because of technical problems, the plan was ultimately scrapped, but the energy problem remained.

In the mid-1990's, a campaign began to restore the system of small hydro-electric power stations build by the Germans on the oblast's small rivers. Fifty of these stations were abandoned during the Soviet era. Now, with technical assistance from the Federal Republic of Germany, three hydro-electric power stations have been restored. But even a full reconstruction of these stations would meet no more than 5 percent of the oblast's needs.

Another project began in 1998, when Danish partners donated wind power stations to Kaliningrad. Three such stations are functioning along the shore. By 2001 the number of wind power stations should reach 21. They will produce one percent of the region's electric ity. Danish and Kaliningrad specialists are currently discussing the possibility of establishing an off-shore zone of sea-wind power stations. The stations would be placed in the Baltic Sea along the Kaliningrad shore, which stretches 127 km. Giving these stations the status of an off-shore zone ensures that the project will be profitable. Obviously, this plan raises serious concerns.

First, even if the project is realized in full, Kaliningrad Oblast would not solve its energy problem. Second, setting up wind power stations on concrete foundations in coastal waters could damage the local ecology. Additionally, the oblast shore is a resort area that attracts visitors from across Russia. Its development is held back by weak infrastructure, but the wind power stations will hardly help bring more tourists to the area. Third, the Danes are donating used wind power stations to Kaliningrad. As is well known, because of the low efficiency of electricity, the energy produced in wind power stations is extremely expensive. In Denmark there are laws obliging companies to buy energy from wind power stations. Kaliningrad is entirely dependent on its Danish partners for obtaining the wind power stations and their repair and maintenance. Such services could hardly be organized within the confines of "humanitarian aid," as the donation of the wind power stations was. Therefore, most observers in the region now believe that it makes more sense to finish the thermal electricity power station rather than develop non-traditional projects. - Vladimir Abramov in Kaliningrad

## **CENTER-PERIPHERY RELATIONS**

**BASHKORTOSTAN PROPOSES AMENDMENTS TO FEDERAL LAW.** The Bashkortostan authorities are against the implementation of a one-sided approach requiring the republic to bring its laws into accordance with the Russian constitution and federal law. Chairman of the Bashkortostan State Assembly Konstantin Tolkachev claims that the federal constitution is not sacred and that it needs to be amended to respond to current demands.

According to Tolkachev, the Russian constitution has not clearly defined the status of Russia's regions. Many problems arise due to the lack of a clear delimitation of powers between the regions and the federal center. Regarding the inconsistencies between the Bashkortostan and Russian constitutions, Tolkachev feels that there are no major discrepancies. However, there are contradictions and inconsistencies within the Russian constitution. The most severe problem concerns the sphere of joint authority of the federation and its subjects. The ambiguity of the sphere of authority is the primary reason for inconsistencies between federal and regional laws. It is for this reason that Tolkachev believes that powers need to be clearly defined along federal, regional, and local lines.

Bashkortostan Legislative Chamber Deputy Zufar Yenikeev, who is also the Russian Federation representative to the European Chamber of Regions, claims that the Bashkortostan constitution corresponds more to the standards of European law than does the Russian constitution, but Russia goes against European tendencies and is building a "unitary enclave state." However, Yenikeev believes that sooner or later Russia, as a member of the Council of Europe, will need to bring the federal constitution into accordance with European standards.

The leaders of Bashkortostan propose that legislative reform would be much simpler if federal laws were created primarily on the basis of already existing regional legislation rather than by altering dozens of regional laws. Meanwhile, according to Tolkachev, the center has not only refrained from making any serious attempts to meet regional laws halfway, but conversely, federal legislation nullifies laws adopted by



federation subjects, interfering in areas of their legal competence and violating the delimitation of powers.

To improve this situation, Bashkortostan is prepared to introduce amendments to the Russian constitution. During a 13 June meeting with Russian Presidential Chief of Staff Aleksandr Voloshin, Tolkachev proposed that a mechanism be formed for the joint participation of the federal center and the regions in the process of legal reform. Tolkachev also proposed that a clause be introduced into the Russian constitution clarifying that the regions have absolute and exclusive jurisdiction.

Deputy chairman of the State Law Administration in the Bashkortostan presidential administration, Flarit Muratshin, stated at a recent conference in Ufa that Bashkortostan has been dealing with the problem of bringing regional laws in line with federal norms for a year. He noted that agreements between the republic and the federal center have been the primary form of relations between them, emphasizing that this is the civilized form of existence for federal states. Thus, the republican authorities categorically reject accusations of separatism. - Igor Rabinovich in Ufa

### **MORDOVIYA BUDGETARY SUCCESS GAINS NATIONAL, INTERNATIONAL ATTENTION.**

A two-day international conference entitled "Issues of Budgetary Federalism in Russia during a Period of Transition: International Experience" was held on 19-20 June in Saransk, Mordoviya. Organizers of the forum included the Council of Europe, the Ministry of Federal Affairs, the government of the Republic of Mordoviya, and the TACIS project "Regional Policy for Resolving Socioeconomic and Legal Asymmetry."

This event, despite its academic name, was of key practical significance for Mordoviya, as it was devoted to the very concrete problems of interbudgetary relations. The republic's leaders have devoted painstaking attention to these issues, while developing their own system of interbudgetary relations--one so effective that it has achieved national, and now international recognition.

However, as Mordoviya President Nikolai Merkushkin noted at the forum's press conference, the republican leadership "never set the goal of sharing its experience in this field on a federal level." Moreover, a behind-the-scenes order of sorts existed to the effect that this knowledge, developed in and by Mordoviya, not be shared with other regions. The republican leader did not deny that Russian regions are often in fierce competition with each other, and that the wealth of knowledge gleaned by the republic in this field should benefit Mordoviya first and foremost. Only some time after a successful strategy has been adopted should other regions become aware of the success and the methodology behind it. Because of this, Merkushkin stated, "the most important aspect of this conference, for us, is interaction with foreign experts, scientists, and experts on interbudgetary relations from other regions."

The Mordovian experience was discussed thoroughly over the course of the conference. The local system of interbudgetary relations is based on maximum budget support for those regions and city administrations that actively fill their treasuries with their own income and revenue. Enterprising, initiative-taking leaders are encouraged: they are allotted the lion's share of budget resources. Conversely, those who are unable to generate income are not fully supported by the republican budget. In the opinion of Aleksandr Sukharev, director of the Institute of Regional Studies of Mordoviya State

University, "In the long run, the most important thing in this system is to develop initiative, eradicate dependence, and learn first to earn money, then to properly and effectively distribute it. The system is definitely fierce, but experience demonstrates that there is no other way to operate in our time of troubles, when everyone is required to work beyond their capabilities."

Year after year, the republic is seeing its industry, agricultural production, and tax base grow, and as a result is watching its income and revenue increase. However, says Merkushev, regional economic success, in particular that of Mordoviya, has yet to be encouraged by the federal government: "If your income exceeds projected figures, that surplus is automatically taken out of the budget funds allotted to you." The president stressed that this inappropriate policy will lead to nothing good.

This is the second international conference to take place in Saransk under the aegis of the Council of Europe and TACIS. The first conference took place this past spring, and was devoted to the activity of the Russian Federation representative to the International Court of Human Rights in Strasbourg. The next conference, which like its two predecessors will be financed by the Council of Europe, will take place in Saransk in the autumn. It will be devoted to international relations and the international economic activity of Russia's regions. - Igor Telin in Saransk

## **LOCAL GOVERNMENT**

**ULYANOVSK CITY DUMA DISSOLVED.** After months of uncertainty, Ulyanovsk Governor Yurii Goryachev has succeeded in winning the dissolution of the Ulyanovsk City Duma. On 16 June eight city duma deputies appealed to Ulyanovsk Mayor Vitalii Marusin to terminate the duma's authority and set a date for early elections. Marusin announced elections for 10 December, the latest date possible under federal law.

After the City Duma deputies' long resistance to the oblast administration's attempts to disband the legislature (see *EWI Russian Regional Report*, 7 June and 10 May), their 16 June decision raises many questions. On one hand, the decision was forced, but on the other hand, it was the only move that makes tactical sense.

Legal pressure on the City Duma has increased recently as two activists, apparently working on orders from oblast officials, have filed similar court cases against city officials. Yurii Tupikin, a member of the leftist patriotic party *ROS*, accused the mayor of inactivity and demanded through the court that the mayor set early City Duma elections. The City Duma has essentially been inactive since six deputies resigned under pressure from oblast authorities in late April. Tupikin referred to an oblast law according to which new Duma elections are to be held no later than 120 days after the decision to hold elections is made. This would have been to the advantage of the oblast government, which sought to disband the City Duma. Elections would need to be held in the fall, freeing up December exclusively for mayoral and gubernatorial elections. If elections were in the fall they would probably have low turnout, making it easier for the governor to control them and win the election of his allies. Moreover, according to Duma Chairman Aleksandr Balandin, the Leninskii district court in Ulyanovsk has been bombarded by petitions from individuals protesting against the duma's decision to accelerate privatization in the city. He said that the petitions were very similar, as if they

were written using carbon paper. These privatization activities are likely what sparked the governor's anger toward the City Duma.

Due to the increasing court pressure, the procurator's office suppressed petitions from three Duma deputies appealing the actions taken by the Ulyanovsk Oblast administration and oblast legislative officials who tried to block the City Duma's activity. These deputies were prepared to appear in court and confirm that they were pressured to resign by the oblast officials.

Considering that Ulyanovsk courts are usually loyal to the oblast government, the "Tupikin vs. the mayor" case would not likely end in the city's favor. Thus, as a preventive action the mayor accepted the City Duma members' resignations and set the date for new elections in December, which is in accordance with federal law. The federal law provides a 180 day deadline for the new elections to be held, instead of the 120 days prescribed in regional law. The federal legislation takes precedence over oblast law (at least in the current political environment in which Putin is seeking to bring regional laws into line with federal norms) and, thus, the elections are to be held in December. Tupikin immediately appealed the mayor's resolution in court and has received the support of the oblast Electoral Commission. - Sergei Gogin in Ulyanovsk.

**MARI EL EXECUTIVE SEEKS GREATER CONTROL OVER LOCAL GOVERNMENT.** The Marii El State Assembly has approved amendments to the republic's constitution allowing the republican president to appoint local government heads in the first of three readings. Although the bill has not become republican law and violates federal norms, Marii El President Vyacheslav Kislitsyn has already begun making appointments, installing A.G. Maryshev, head of the Orshanskii Raion, on 3 March. This appointment violated both federal and regional laws, which state that such officials must either be popularly elected or else chosen by the regional assembly from among its members. Maryshev was neither elected by the residents of his raion nor a member of the raion assembly, and therefore was not qualified to serve as the head of a local government.

Marii El State Assembly Deputy Paidoverov lodged a complaint over this matter with the Orshanskii court. This case is only the latest in a series, since Maryshev's predecessor was also illegally appointed. However, just as it had before, the raion court rejected the case and failed to declare the appointment illegal. However, in the most recent episode, the republican Supreme Court overturned the lower court's decision and ordered a further investigation of the matter. It is likely that Maryshev, like his predecessor, will somehow manage to be elected into the ranks of the raion assembly, then legally re-appointed head of Orshanskii Raion.

This situation leaves one to wonder why is it necessary to make changes to the constitution if everyone, down to "independent" judges, follows the orders of the republican president? Why make changes to bring the regional constitution in line with the federal constitution, when the reins of power in the republic are nevertheless controlled by one person?

Shortly after Kislitsyn appointed Maryshev to his post in March, several city and raion heads appealed to then-Acting Russian President Vladimir Putin to introduce direct presidential rule in the republic since Kislitsyn's flagrant violation of federal and local

laws was leading the republic to ruin (see *EWI Russian Regional Report*, 28 March, 19 April). - Svetlana Zasloukina in Ioshkar-Ola

**ST. PETERSBURG ELECTS LOCAL GOVERNMENT IN SECOND TRY.** On 25 June St. Petersburg held elections for municipal soviets. The previous local elections held on 26 March were deemed invalid in 70 percent of the districts because most people simply voted "against all" candidates (*EWI Russian Regional Report*, 28 March). This time around the protest vote was below 5 percent with a 6-13 percent turnout. Since there is no required minimum turnout, the elections were declared valid.

St. Petersburg local soviet elections have been chronically unsuccessful. The first elections were set for April 1997 and later cancelled by the Supreme Court. The September 1997 elections were declared invalid due to insufficient voter turnout of less than 25 percent. In February 1998 the minimum turnout clause was lifted and elections were successful. However, in March 2000 elections the votes "against all" were too numerous, leaving St. Petersburg without local level government for three months.

Candidates from Yabloko and Yedinstvo were the most successful in the 25 June polling. A number of new deputies entered the government by using the names of popular federal politicians: Oksana Dmitrieva's bloc and Konstantin Severnard's bloc. More than half of the deputies from the first soviets elected in 1997-2000 were reelected. However, as previous experience has shown, political party affiliation is used more as a ticket to secure public office than as a governing principle to guide everyday economic-administrative work. - Daniel Tsygankov in St. Petersburg.

## **MEDIA ISSUES**

**UNIFIED STATE TELEVISION BROADCASTING IN NORTH CAUCUSES FEDERAL DISTRICT.** Viktor Kazantsev, presidential representative to the recently renamed Southern Russia (formerly North Caucasus) Federal District, has begun to form a common information space in the North Caucasus. Following the visit of All-Russian State Television and Radio Company (VGTRK) head Oleg Dobrodeev to Rostov, it became clear that the regional state television and radio company Don-TR would serve as the main coordinator of government-owned television broadcasting in the Southern Russia federal district.

Just after taking office, Kazantsev announced at his first press conference that the North Caucasus needed a better-coordinated media policy. The general director of Don-TR, Nikolai Chebotarev, immediately offered the services of his television company.

In mid-June, Dobrodeev held a conference in Rostov with heads of the North Caucasus' regional state television and radio companies. Kazantsev took part in the meeting. It was decided that the Rostov-based state television and radio company Don-TR would serve as the coordinator and producer of programs to be broadcast throughout the entire Southern Russia Federal District. Naturally, other television and radio companies will play a role as well. Dobrodeev is planning to visit all seven federal district capitals, and determine which company should serve as the district's base in each federal district.

The idea of coordinating state television and radio broadcasts in the North Caucasus is not a new one. For a year now, the North Caucasus interregional association

has maintained a coordinating council to encourage cooperation and collaboration among regional television and radio companies. The head of the committee is none other than Chebotarev, the head of Don-TR and the man responsible for turning this idea into reality.

That this project has gotten off the ground is largely due to the interest of the federal government. Lessons learned during the two wars with Chechnya have played a role here. Some say that the first war (1994-96) was lost due to critical media coverage.

It is likely that the offices of the presidential representative in Rostov will soon create a special department devoted to coordinating state television and radio broadcasts in the district. This will be the first post-Soviet governmental department to officially carry out state policy via the state-controlled media. What form this department will take is not yet clear. However, the department might very well serve as a mechanism for bringing regional state television and radio companies under federal control. It is also unclear whether a unified broadcasting structure will be developed, not to mention whether the budget will include resources for it. Don-TR already produces and broadcasts a North Caucasus news program, which is transmitted by other state television companies in the region. According to Chebotarev, Don-TR possesses the technical capacity to transmit this program directly to the entire district, using a satellite transmission to other regional television stations, which could rebroadcast it.

At meetings to discuss the new media policy in Southern Russia, debate revolved around the idea of setting aside an entire channel for state-controlled regional broadcasting, allowing for a full day of broadcasting rather than just two hours. Implementation of this idea remains remote, however. Nevertheless, Rostov Governor Vladimir Chub, as well as Kazantsev and Chebotarev, believe that since VGTRK came up with the idea of a unified district-wide broadcast, Dobrodeev will provide Don-TR with the necessary financial and material resources to realize this plan. Funding will have to come from the federal level.

On a related note, all evidence points to the fact that the North Caucasus news program, produced by Don-TR, will soon have its name changed to South Russia. This name change is necessary because the federal district, in addition to Northern Caucasus regions, also includes Kalmykiya, Astrakhan, and Volgograd. It was Kazantsev's idea to change the name of the federal district from the Northern Caucasus Federal District to the Southern Russian Federal District. The benefits of this change for the region (especially for Rostov) are difficult to overestimate. After all, the region is better served by being identified as a part of Russia than as a part of the Caucasus. - Andrei Miroshnichenko in Rostov-Na-Donu

**RUTSKOI LOSES CASE AGAINST KURSK NEWSPAPER.** A Kursk newspaper has recently won a court case that local journalists interpret as a victory by the media over regional officials (*Khoroshie novosti*, 17 June). The courts are now playing a greater role in determining the relationship between mass media and regional government. Moscow Mayor Yurii Luzhkov's case defending his honor and dignity against television journalist Sergei Dorenko is widely known, and many other governors have won similar suits in the courts, including Kursk Governor Aleksandr Rutskoi's case against Kursk newspaper *Khoroshie novosti*. The media is nearly always the defendant in Kursk cases.

However, the editors of the newspaper *Kurskii vestnik* recently became the first oblast newspaper to file a suit against the governor and win. The paper's complaints focused on Rutskoi's actions during the December 1999 State Duma elections. The elections were a victory for Rutskoi's team because the local Yedinstvo organization managed to get two candidates into the Duma, the communists won in only one of the two single-seat races, and Rutskoi's chief critic, Internal Affairs Department Chief Aleksei Volkov, lost.

Rutskoi's victory, however, depended heavily on the publication of unsubstantiated compromising material in the press. The court ruled inappropriate the publication of a letter written by Rutskoi and published in *Kurskaya pravda* accusing *Kurskii vestnik* of publishing false compromising material, incompetence, corruption, nepotism, and inappropriate connections with the Internal Affairs Department used to promote Volkov's candidacy. The court also ruled that Rutskoi's letter defamed the honor, dignity, and reputation of Volkov and the Internal Affairs Department. - Sergei Sarychev in Kursk

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## **BREAKING NEWS**

### **POLITICS**

#### **PUTIN FORCED TO SEEK COMPROMISE OVER FEDERATION COUNCIL.**

Following the Federation Council's 13-129 veto of President Vladimir Putin's bill to reform the composition of the parliament's upper chamber on 28 June, the Council is reconsidering its earlier rejection of the idea of forming a conciliatory committee on

developing a compromise acceptable to both chambers. The Federation Council's leadership body voted unanimously on 4 July in favor of forming a conciliatory committee, and the entire Federation Council will vote on this issue on 7 July. The State Duma had supported the Kremlin-backed bill in its third and final reading on 23 June with slightly more than enough numbers to overturn a Federation Council veto if necessary (see *EWI Russian Regional Report*, 28 June). However, it is unlikely that the Duma could muster the same level of support for overriding a Federation Council veto since regional executives are putting pressure on the deputies from their regions to vote against the bill. The Federation Council vetoed the Duma-approved bill since the lower house refused to include any of the amendments the upper chamber suggested.

With deputies shifting their support on the issue from the Kremlin to the governors, Putin is being forced to recognize that he may have to make some concessions on his plans to reform the Federation Council. Federation Council Speaker Yegor Stroevev stated that Putin told him that he would prefer that the Federation Council and State Duma seek a compromise solution to the conflict (*Vedomosti, Vremya MN*, 5 July). According to Stroevev, if a conciliatory committee is formed, its purpose would be to discuss the concept of the three bills that Putin introduced to the Duma, not simply the specific grievance points (*Vedomosti*, 5 July). (For more on the other two bills, see separate article in this issue.)

The Duma should begin its summer break on 7 July, with one extra session on 19 July. It might be possible to vote on the law at that session if the Federation Council and the Duma reach a compromise. The Federation Council would then vote on the revised bill at its 26 July session. However, some observers believe that the governors are continuing to drag out the affair in order to maintain their Federation Council posts as long as possible (*The Moscow Times*, 5 July). After emotionally vetoing Putin's bill, the Federation Council began playing for time in order to ensure that the Duma did not override its veto. By law the Federation Council has five days to issue the official paperwork to the State Duma following a vote. After vetoing Putin's bill on 28 June, the Federation Council waited until 3 July to send the official papers to the lower house, giving the governors the necessary time to lobby their respective deputies against an override to the veto.

Putin's willingness to compromise on his plans for reforming the Federation Council is clearly related to his estimation of his influence in the legislature. Putin is facing increasing challenges. Yedinstvo faction member Vladimir Ryzhkov, who headed the Our Home is Russia faction of the previous Duma, was excluded from the pro-Kremlin faction on 4 July for failing to fully support the party's position on Putin's proposed Duma bills. Ryzhkov abstained from the vote on reforming the Federation Council and voted against the bill on local government. However, according to *The Moscow Times* on 5 July, Ryzhkov told NTV that Yedinstvo removed him because of his appearances with members of the political opposition in the press. He claimed that considerable differences exist between the faction's official positions on what deputies can and cannot do and what the leadership actually enforces.

**DUMA VOTES IN FAVOR OF STRENGTHENING VERTICAL POWER.** On 30 June the State Duma voted on the second and third bills Russian President Vladimir Putin proposed for strengthening the country's vertical power structure. The State Duma

provided overwhelming support for a bill allowing the president to remove regional executives who violate federal laws more than once, voting in favor of the measure 399-9. The bill grants the president permission to dismiss a governor who faces criminal charges or fails to bring regional laws in accordance with federal legislation. Regional legislatures that do not comply with their role in bringing laws up to federal standards are also subject to dismissal by the president.

Although the bill's current form will impose clear limits on governors' power, the original form of the draft law was harsher, granting the president the right to dismiss regional executives under criminal investigation even if formal charges had not been issued. If the Federation Council chooses to follow the same course of action as last week, when it vetoed the Duma-approved bill for restructuring the Federation Council, the Duma could succeed in overriding the veto if the current level of support for the bill remains firm. (A two-thirds majority vote of 300 is needed to override a Federation Council veto.)

The second bill the Duma voted on concerned local government and the right to dismiss mayors and heads of local administrations. The Duma passed this bill in its second reading with a vote of 243-125. While the original bill proposed by the Kremlin gave both the president and the governors the right to dismiss local mayors, in the version passed by the Duma only the president reserves this right. (*The Moscow Times*, *Nezavisimaya Gazeta*, 1 July)

**TITOV CLEARS REELECTION IN FIRST ROUND.** On 2 July Konstantin Titov was elected governor of Samara Oblast, having resigned from the post only three months ago on 4 April. Titov's official reason for resigning was his performance in the Russian presidential elections, in which the governor earned just over 20 percent of the vote in Samara. He claimed that this level of support suggested that the region no longer endorsed him as governor. However, the real motivation behind Titov's resignation was his desire to push up the gubernatorial elections, which were scheduled for December, in order to increase his chance of being reelected.

Titov's strategy was successful. His strongest potential competitors chose not run in the race as there was insufficient time to organize a strong campaign against the rather popular governor. There were five candidates in total, but the only contender to give Titov any real competition was Viktor Tarkhov, who had been chairman of the oblast Council of People's Deputies from 1990-92. Although no one doubted that Titov would win the election, fluctuations in his popularity rating suggested that the governor might not secure more than 50 percent of the vote in the first round. However, Titov managed to gather 53.22 percent to Tarkhov's 29.26 percent. Tarkhov, who is vice president of YUKOS, had the support of the Communists and Yabloko. Titov, a member of Soyuz pravyykh sil, was also supported by Otechestvo. Yedinstvo's candidate, Gennadii Zvyagin, came in third with only 9 percent of the vote.

Titov's new term in office will last five years, since the regional duma managed to lengthen the gubernatorial term only a few days before the election. (*Izvestiya*, 3, 4 June)

**DUMA ELECTION SCANDAL IN INGUSHETIYA.** Ingushetiya was set to hold elections for a vacant State Duma seat on 2 July, but the elections were called off at the last minute after the most probable victor, Alikhan Amirkhanov, was removed from the

ballot on 1 July by the republican Supreme Court. The Court ruled that Amirkhanov had bought votes. Ingushetiya President Ruslan Aushev, who supported Amirkhanov's candidacy, was taken aback by the court's decision. On the evening of 1 July Ingushetiya Prime Minister Akhmed Malsagov gave a televised address in which he first stated that the republican Supreme Court's decision was illegal and then essentially asked voters to boycott the polls on Sunday. On 2 July the republican electoral commission announced that it could not conduct elections and would change them to a later date. According to *Vremya MN* on 4 July, this instance marks the first time in Russia's history that regional leadership has essentially cancelled elections without the approval of the electoral commission.

The procurator general is investigating the situation and Central Electoral Commission head Aleksandr Veshnyakov and Russian President Vladimir Putin met on 3 July to discuss the situation. According to Veshnyakov, Putin feels that those guilty of canceling the elections should be brought to justice. Veshnyakov stated that the republican electoral commission was "formally" at fault, clearly suggesting that the commission acted under pressure from republican authorities. Ingushetiya and Aushev have been under Putin's watchful eye, and the region was one of the first the president singled out for maintaining regional laws that do not fully comply with federal legislation (*EWI Russian Regional Report*, 17 May). The election controversy will certainly lead to an increase in tensions between the Kremlin and this vocal republic.

The election was going to be held to fill the seat left vacant by Mikhail Gutseriev, who was elected to the State Duma in December 1999 but gave up his position shortly after in January 2000 to become president of Slavneft. (*Izvestiya*, 5 July, *Vremya MN*, 4 July)

**PUTIN REPEALS YELTSIN DECREE ON MOSCOW POLICE CHIEF.** On 4 July Russian President Vladimir Putin repealed former Russian President Boris Yeltsin's December 1999 decree removing Moscow police chief Nikolai Kulikov from power (*EWI Russian Regional Report*, 8 December 1999). Yeltsin's decree had angered Moscow Mayor Yurii Luzhkov, who felt that the president's decision to dismiss Kulikov was politically motivated and in violation of the Russian Constitution and the Moscow City charter, which require the mayor's approval on the appointment and dismissal of police chiefs. Luzhkov had appealed the decree in court, and in May the Russian Supreme Court ruled against the mayor. Luzhkov first met with Putin shortly after the latter's presidential victory, and the Kulikov situation was one of the key issues addressed in the interview (*EWI Russian Regional Report*, 12 April). Putin's decision to restore Kulikov to his position suggests that relations between the Kremlin and the Moscow mayor are improving. (*Polit.ru*, 5 July)

**TYVA AMENDS REGIONAL LAWS.** On 30 June the Tyva republican legislature brought 15 articles of the Tyva constitution in accordance with federal legislation. However, no changes were made to the law that gives the republic the right to leave the Russian Federation--a clear violation of the Russian constitution. An appropriate amendment can be made only after a referendum is held in the republic, which has been scheduled for 8 October. The republic's leadership has been quick to respond to President Vladimir Putin's order to bring regional legislation in accordance with the



federal laws. The republic hopes to benefit from Tyva-native Minister of Emergency Situations Sergei Shoigu's good relationship with the president. (*Izvestiya*, 1 July)

### **ECONOMICS**

**THREE GOVERNORS ELECTED TO UNIFIED ENERGY BOARD.** Unified Energy System (EES) elected its board of directors on 30 June in Konakovo, Tver Oblast. Novgorod Governor Mikhail Prusak, Tomsk Governor Viktor Kress, and Vologda Governor Vyacheslav Pozgalev were elected to the board. The board will elect its chair over the next few weeks. Presidential Chief of Staff Aleksandr Voloshin, Minister of Economics German Gref, and Minister of Finance Aleksei Kudrin are taking seats on the board as well. Voloshin was reelected chairman of the EES board and, according to *Izvestiya* on 1 July, is likely to protect Anatolii Chubais' position as EES chairman (Polit.ru, 1 July)

**PIZZA HUT AND KFC TO REOPEN IN MOSCOW.** Pizza Hut plans to re-open in Moscow this summer after closing its doors following the 1998 economic crisis. The first restaurant will open on Pyatnitskaya Ulitsa on 10 July and another cafe will open later this year in the Tchaikovsky Concert Hall, *The Moscow Times* reported on 1 July. Rusryba bought the franchise rights from the owner of the Pizza Hut chain, Tricon Global Restaurants, and plans to open two new Pizza Huts every two years. Pizza Hut announced their decision to reopen on 8 December 1999, but delayed the scheduled 15 March opening date until summer (see *EWI Russian Regional Investor*, 15 March). Pizza Hut is also staging a comeback in St. Petersburg with plans to open two new establishments, said the chain's local franchiser Pizza Nord on 30 June.

Kentucky Fried Chicken (KFC) plans a similar comeback, with plans to open its new restaurant in Moscow on 9 August this summer with its franchise owner Talisfood. Talisfood was the owner of the Moscow Pizza Hut franchise two years ago, but on 5 November 1998 was forced to close the restaurants in the face of the economic crisis (see *EWI Russian Regional Report*, 5 November 1998). Now, however, representatives from the Pizza Hut and KFC franchise holders are confident in their restaurants' ability to successfully find a niche in the Russian fast-food market.

### **ON THE ROAD: PSKOV AND ST. PETERSBURG**

RRR Editor-in-Chief Robert Orttung and George Washington University Professor Peter Reddaway have finally completed their travels throughout Russia's regions as part of the Carnegie Corporation's Russia Initiative. The following is a field report from their excursions to Pskov and St. Petersburg

#### **PSKOV: 22-23 JUNE**

**BATTLE FOR GOVERNOR'S SEAT WELL UNDERWAY.** Pskov will elect its governor in early November and incumbent Yevgenii Mikhailov is battling hard to hang on to his current position. His main opponent is Liberal Democratic Party of Russia Duma Deputy Mikhail Kuznetsov, who only a few months ago was a key Mikhailov ally

(see *EWI Russian Regional Report*, 7 June). According to the newly adopted electoral law, the new governor will be elected in one round if there is 25 percent turnout and no fewer than three candidates. According to recent polls, Mikhailov commands the support of 27 percent of the population.

Although he is governor and could perhaps win a second term, Mikhailov is not a commanding figure in the oblast. Sociofocus, a research institute supported by the Vozrozhdenie Center for Social Projects and the American National Endowment for Democracy, ranked him as only the seventh most influential person in the region in December 1998-January 1999. He also has little to show for his nearly four years in power, as little has changed beyond the imposition of a state monopoly on alcohol production. Mikhailov pushed through this decision shortly after taking power as a quick and easy way to increase revenue for the oblast budget. In doing so, the oblast administration basically set up its own firm that could work while benefiting from special treatment by the bureaucracy.

While the current oblast budget has a 50-70 percent deficit, Mikhailov is actively seeking bank credits to pay salaries, according to local observers. Among the financial institutions helping him are Baltiiskii Bank, Sberbank, and PromStroiBank. Kuznetsov is now criticizing Mikhailov for taking these credits and putting future generations into debt even though in the past he used these same policies while allied with Mikhailov. Likewise, Mikhailov similarly criticized then-Governor Vladimir Tumanov, prior to defeating him in the 1996 elections.

State Duma member Kuznetsov is a banker and businessman who uses his wealth and connections to finance two anti-Mikhailov papers in the region, *Panorama* and *Tak Nado!* Two weeks ago the local printing press failed to print *Panorama*, and the editors had to publish the paper in Novgorod Oblast. In 1999 Kuznetsov was elected to the Duma from Pskov's single-member district, but in 1995 he was elected on the LDPR list from Tatarstan. Kuznetsov, 31, began his career selling lottery tickets and then went into banking, using state resources to develop his financial institutions. He apparently made a lot of money in the 1998 crisis, operating on advance knowledge that the stock market would crash. He borrowed a large amount of rubles and then bought dollars before the value of the ruble dropped. His opponents often criticize him for hiding the true sources of his income. Mikhailov is now one of his most vocal opponents even though he and Kuznetsov were close only a few months ago.

Most of the local elite favor Mikhailov over Kuznetsov because they fear that if Kuznetsov came to power there would be a redivision of property in the oblast that would deprive them of some of their assets. Whereas Mikhailov generally used more or less legal means to gain control of local assets, local journalists fear that Kuznetsov would be willing to employ any means, including criminal. While the local elite are not particularly happy with Mikhailov, they view Kuznetsov as a representative of the Moscow mafia and an even greater threat.

The Communists are also strong in the region and can count on winning 22-23 percent of the vote. Communist leader Vladimir Nikitin could help determine who wins among the top candidates by throwing his support behind one of them. However, at this stage it is not clear what his intentions are.

Local observers believe that Mikhailov made a big mistake in bringing Kuznetsov to Pskov and that this mistake could potentially cost him his job. Journalists have accused

him of opening up the oblast to Kuznetsov and letting him use local resources to enrich himself further.

Political observers in Pskov also criticize Mikhailov for employing Mikhail Gavunas as one of his key deputies. They charge that Gavunas has criminal connections. However, as part of the Mikhailov administration he is the curator of the regional branches of the power ministries. He is also in charge of the alcohol, forestry, and fish industries, and oversees the tax agencies. Additionally, Gavunas is Pskov's representative in Moscow. His efforts in this capacity are clearly not very effective, but none of the local press writes about them. Earlier in Mikhailov's term, Gavunas led the battle against the local MVD and secured the appointment of a new police chief from then-Minister of Internal Affairs Sergei Stepashin. Locals believe that he is seeking to gain control of Pskov assets for outside interests. When the paper *Novosti Pskova* was, in the past, critical of Governor Mikhailov, Gavunas was one of its main targets. Observers suggest that if the governor fired Gavunas his popularity would rise.

Mikhailov also aroused suspicions when he set up his own security service, something that had not existed in Pskov before. Observers assume that the money comes from the oblast budget, but there is no line for these expenses in the document.

Other potential candidates in the race include the local businessman Viktor Bibikov (see separate article on him in this issue) and even State Duma member Andrei Nikolaev, the former head of Russia's border services. Nikolaev is very popular in the oblast because it is a border region whose residents include many border guards. However, he is unlikely to leave his important position in the State Duma.

Despite Pskov's poverty, candidates are willing to spend large sums of money to win elections in the oblast. In the December 1999 State Duma elections, there were 11 candidates, each of whom spent an average of 500,000 to 600,000 rubles--sums that represent large amounts of money by local standards. Oblast Duma member Savitskii spent more than 1 million rubles on the campaign. The winner, Kuznetsov, spent 900,000 rubles plus the money that he invested in his newspapers. The city of Pskov voted for Savitskii, and now the governor is seeking his support in the gubernatorial elections. Battles between political parties characterized previous elections in Pskov. Now the battles are exclusively over economic interests.

In the region overall, only a handful of enterprises are working at full capacity. The oblast suffered because many of its enterprises were defense plants and most produced semi-finished goods. When the economic ties of the Soviet Union collapsed, these factories were in trouble because they lost the customers for their goods. A common job in contemporary Pskov is traveling to Moscow to buy cheap goods and then resell them locally. Pskov journalists see one of the key jobs of the governor as getting the factories to produce finished products, such as TVs or refrigerators, but the authorities are too involved in political battles to address these issues.

### **BUSINESSMAN SEEKS TO REMOVE LDPR GROUP FROM OBLAST**

**LEADERSHIP.** Viktor Bibikov is an influential businessman in Pskov who heads the Andromeda holding company, which runs a local electro-technical factory, the Rizhskaya hotel, and a furniture plant, and has interests in local food processing enterprises. One of his products won a prize at a recent Moscow competition and he is now exporting food products to Israel, achievements that give him bragging rights to assert that he could

potentially lift Pskov's economy out of its current stagnation. In describing his activities on 24 June, he claimed in an interview that he had bought up idle factories and put them back to work.

Bibikov has no real political experience beyond financing the campaigns of others. His first major success was the election of Pskov Mayor Mikhail Khoronen earlier this year. Recently he has set up two new organizations, Soyuz vozrozhdeniya pskovskogo kraja (Union for the Revival of the Pskov Region) and Pskovskoe morskoe sobranie (Pskov Sailor's Association). Both of these groups give him a platform from which to meet with oblast elite and promote his business and political interests. He has not been involved in any oblast scandals.

Bibikov gives his money to candidates regardless of party affiliation. He has supported the Communists, paid for the publication of articles in *Novosti Pskova*, and appeared in papers controlled by Kuznetsov. He is a new type of entrepreneur, who seeks to enter politics at the level of governor. Businessmen like Savitskii have sought to work their way up the ladder by first winning seats in the city and oblast legislatures before seeking office in the State Duma or governorship.

In our conversation, Bibikov stated that although he will not formally announce it for some weeks, he plans to run for governor in November. Bibikov's main complaint against the Mikhailov leadership is that it does not support the oblast's productive enterprises. He argues that Mikhailov has no program and his only goal is to collect as much wealth from Pskov Oblast as he can. Bibikov said that he would create conditions that would allow businessmen to operate more effectively. He claimed that conditions were forcing him to enter politics "whether I want to or not." He said that his businesses are under constant pressure from the administration. In terms of specific examples, he cited undefined "issues" with the local MVD and instances in which the administration shut down some roads and then refused to give members of his firm permission to pass. He said that no violent threats or actions have been used against him.

Bibikov's hopes for his gubernatorial campaign were boosted by his success in getting Khoronen elected mayor. Mikhailov had wanted one of his own allies in the post. But, despite any initial differences, Khoronen is now fully cooperating with the governor.

If elected, Bibikov's key priorities would be to pay off the debts in the oblast budget and set up conditions to allow businessmen to work effectively. Pskov's debts are now equal to the size of the annual budget. He hopes to raise money by increasing domestic and foreign investment. One plan involves working with Massachusetts cranberry growers to produce cranberries in Pskov for export. However, the Americans are afraid to work in the region while Mikhailov, still strongly identified with Vladimir Zhirinovskiy's LDPR though no longer a member of it, is governor. Bibikov said that he will also raise money from banks based in Moscow. In particular, he is working with Moscow Bank to set up a factory to produce cable for the oil industry. The bank is buying equipment and raw materials for the project in exchange for a share of the firm. Bibikov believes that getting Moscow financial institutions to invest in such concrete projects will encourage them to maintain their interest in the region rather than make a quick profit and leave. He expects to produce the first cable in December. He is also trying to work with Sberbank.

Bibikov also hopes to develop Pskov's tourism industry, attracting more guests to his hotel. Finns are now completing a hotel complex that has been under construction in the city for 12 years, but from the looks of things, they still have a long way to go.

Bibikov stressed the need for the state to support local industry and only import technology and grain when necessary. He pointed out that onions from Kazakhstan were now being sold in the oblast even though local farmers also grew them. He claimed that someone had taken a bribe to let these onions on to the market. He also criticized public officials for purchasing foreign cars. Bibikov noted that if the consumption of locally produced goods increased, oblast tax revenue would also increase.

**PSKOV'S RELATIONS WITH MOSCOW CHANGE WITH GOVERNORS, ELECTIONS.** Relations between the Kremlin and Pskov were relatively good when Vladislav Tumanov served as governor. He was a "democrat" appointed by Yeltsin. In 1996, the region elected Yevgenii Mikhailov, a member of Vladimir Zhirinovskiy's Liberal Democratic Party of Russia, and relations with the Kremlin quickly deteriorated. Following the 1996 elections, pensions and public sector salaries were not paid and debts began to mount due to a lack of money. Now, thanks to the recent presidential elections the situation has changed. Public sector salaries are being paid and some school teachers are even receiving vacation pay.

The editors of the city-owned newspaper *Novosti Pskova*, once a paper strongly opposed to Mikhailov but now under new editorship and more neutral in its reporting, believe that the establishment of the seven federal districts will benefit Pskov, a poor region that depends on federal subsidies. When all 89 Russian governors appealed directly to the Economics Ministry and the Finance Ministry, it was easy for Moscow to overlook Pskov. However, the paper's staff believes that the head of the North-West Federal District will have a better picture of the needs of the oblast than could be obtained under the previous system and will therefore be able to supply money more quickly.

Viktor Cherkesov visited Pskov a few days before Putin appointed him head of the North-West Federal District and met in secret with the head of the local Federal Security Service (FSB), the governor, and the presidential representative. Afterwards, the officials involved in the meetings refused to answer journalists' questions about what they had discussed. The oblast administration had no idea who Cherkesov was and even misspelled his name in the short, formal announcements it issued about the meetings. While there is still no public information about the meeting, the local journalists think that Mikhailov asked for Putin's support.

In the fall of 1999, Mikhailov left the LDPR, and is currently the oblast leader of the pro-Putin Yedinstvo party. Many of the oblast bureaucrats now want to join the party, but the procedure is said to be like the old Communist Party of the Soviet Union. To join, one needs recommendations from existing party members among other qualifications. Party loyalty is clearly not one of Mikhailov's defining traits since he was originally a democrat and also played a role in setting up the local branch of Otechestvo last fall.

Viktor Bibikov expressed some hope that the Putin regime would improve the situation. He believes that the creation of the seven federal districts is temporary and that they will eventually disappear when federal and regional laws are better coordinated. He expressed some reservations about Putin's reliance on generals from the security forces as

presidential representatives since these men do not know how to make the economy work. Putin lacks an overall economic plan, he noted, and seems to be ignoring the need to deal with this basic issue in his quest to strengthen federal power.

Pskov Yabloko Party leader Lev Shlosberg sees Putin's attempts to place greater controls over the governors as a good development. However, he points out that Putin wants to replace the governors with people he can control. This is hardly a good development for Russian society.

Shlosberg also warned that the creation of seven federal districts posed a potentially large threat in that the seven curators will gain considerable power over the president, even though he formally has the right to remove them. Since the seven federal districts are based on Russia's military districts rather than its key economic units, the seven curators could gain operational control over the military, FSB, and MVD, giving them extensive control of the situation on the ground. Shlosberg described the creation of the seven districts as an extremely "dangerous game." If the president's public rating began to drop, he could become dependent on the seven curators. If the seven regional leaders work effectively during the next few years, they could develop enough power to have a significant influence over the election of the next Russian president. Shlosberg even suggested that if four of the seven regional curators jointly opposed the president and maintained good relations with the governors in their jurisdiction, they could sign a new accord splitting Russia the way that the Belovezha Accord split the Soviet Union. Shlosberg expressed the fear that there could be a crisis by 2004 that could lead to increased political and economic separatism, with each superregion expressing its desire to send less money to Moscow. It would be hard for any state set up on the basis of an imperial system to maintain control of the situation, he argued.

Shlosberg noted that 40 percent of Russia's governors will face elections this fall. Since the governors often depend on maintaining good relations with the federal government to ensure their local effectiveness, many of the governors could become increasingly dependent on the seven curators.

## **MEDIA ISSUES**

### ***NOVOSTI PSKOVA MOVES FROM OPPOSITION TO SUPPORT FOR MAYOR.***

With the election of Mikhail Khoronen as Pskov mayor in February, the political situation in the oblast has changed considerably. Khoronen's predecessor, Aleksandr Prokofiev, was a sharp critic of the governor and his political opponent. Khoronen served as Prokofiev's deputy, but was then able to take power for himself, defeating Prokofiev's reelection bid in a manner similar to the way St. Petersburg Governor Vladimir Yakovlev defeated his erstwhile boss, Anatolii Sobchak, in 1996. Khoronen is an ally of Governor Mikhailov and his campaign was financed by Viktor Bibikov. The era of conflict between the governor and mayor is now over.

Under the editorship of Vladlen Smirnov, *Novosti Pskova* was on the attack against Mikhailov. However, upon his election, Khoronen quickly removed Smirnov, who had helped found the paper in January 1991, and replaced him with V. Vasilev. When we met Vasilev on 22 June he was still the paper's acting editor because he had yet to be confirmed by the city дума. Besides appointing the editor, the city also provides

paper to support the publication. Despite the removal of the former editor, all of the reporters on the staff remained in place.

On 20 June Vasilev met with Governor Mikhailov to exchange views. Mikhailov requested that Vasilev not publish the kind of stinging criticism that had appeared in the paper during the previous four years. According to Vasilev, the basic agreement between the governor and the newspaper is that they will not attack each other.

While Vasilev is well respected in the region, independent observers point out that the newspaper is no longer interesting to read. Vasilev started his career as the editor of a raion newspaper, then moved on to *Pskovskaya pravda*. Later he became the spokesman for former Governor Vladimir Tumanov. When Tumanov lost his election in 1996, Vasilev went to work in the executive committee of the Our Home is Russia party, leaving this post when Khoronen invited him to become the *Novosti Pskova* editor.

## **THE POLITICAL OPPOSITION**

**LOCAL YABLOKO TO VOTE "AGAINST ALL" IN GUBERNATORIAL ELECTIONS.** Pskov Yabloko Party leader Lev Shlosberg was extremely critical of the Pskov political elite in a meeting on 23 June and said that the Yabloko party would advocate a vote "against all" in the upcoming elections, assuming no new candidates enter the race. He described the battle between Mikhailov and Kuznetsov as a fight within one clan, with both of the individuals trying to grab complete monopoly control of the assets at stake.

Shlosberg described Mikhailov as a weak leader who depends on others for support. The people who back him do so because they want a weak governor. Shlosberg suggested that Pskov politicians are now positioning themselves for the elections in 2004, when Mikhailov will likely have reached the end of his second term and have to retire from the governor's seat.

Mikhailov clearly used the financial and administrative resources at his disposal to convince the oblast legislature to adopt an electoral law that allows a candidate to become governor if he wins a plurality in a field of three candidates with a 25 percent turnout, Shlosberg noted. Some of the oblast members were probably paid off and some were probably promised support when they face reelection in the upcoming oblast legislative elections eighteen months from now. Mikhailov and the people who benefit from his governorship have no intention of giving up their current power. Mikhailov is not a political leader, Shlosberg asserted, but is working for those who use him to gain access to power.

Shlosberg also doubted that Viktor Bibikov would have much chance of winning even if he ultimately enters the race. He pointed out that Bibikov has been saying that he will run for public office for many years now, but has never actually thrown his hat into the ring because he fears losing. Shlosberg also painted Bibikov as a part of the current political elite rather than a likely opponent of the incumbent governor. Mikhailov and Bibikov are neighbors, with apartments that open onto the same landing, and use their proximity to coordinate their political activity. Mikhailov apparently approved Bibikov's support for Khoronen in the mayoral election. The new mayor does what Mikhailov tells him to do. Mikhailov can even summon him to his office, something was unthinkable with former Mayor Aleksandr Prokofiev.

According to Shlosberg, businessmen in Russian politics are extremely vulnerable because of the way that they initially built up their wealth. To find compromising material against a businessman is very easy. Generally politicians like to work with people they can control. Shlosberg asserted that Bibikov started his Andromeda company by acquiring a cable factory from the city on extremely good terms. Additionally, he said that Deputy Governor Mikhail Gavunus gave Bibikov control of the local fish business in exchange for giving the governor control of the local radio and television stations. Businessmen generally want to acquire political power in order to protect their commercial interests. They are naturally willing to share some of this power with others because they realize that otherwise they would not get anywhere.

Although former Mayor Prokofiev served as a point of opposition against Governor Mikhailov, he did not create a free media or establish long-lasting democratic institutions, Shlosberg commented. Thus, when Prokofiev lost the election, everything that he had built collapsed. The entire system of his power was based on one person. Although he had done a lot for the city in Shlosberg's view, he was unable to build up a rapport with the voters and therefore was vulnerable in the elections. Additionally, many of the people working with him had criminal connections and therefore discredited him in the eyes of the public.

Shlosberg pointed out that with the change of editors at *Novosti Pskova*, Pskov no longer has an even nominally free paper. Under Vladlen Smirnov's leadership, *Novosti Pskova* secured more than 70 percent of its revenue from advertising. Under its new editor, the paper no longer acts as a critic of the authorities. The papers controlled by State Duma member Kuznetsov (*Panorama* and *Tak nado!*) do not represent a form of civil society because they are simply tools of manipulation for a powerful politician, Shlosberg asserted.

## **ST. PETERSBURG: JUNE 21 AND 24**

**GELMAN: PUTIN REPLACING LOCAL LAWLESSNESS WITH FEDERAL LAWLESSNESS.** Putin's overall project is to attack state weakness and build additional state capacity, according to Vladimir Gelman, a professor at St. Petersburg's European University. The idea of imposing a "rule of law" does not enter into these plans. Rather Putin is seeking to place his own people in informal positions of power. In effect, Putin is replacing the current lawlessness (*proizvol*) at the regional level, with lawlessness at the level of the federal districts or national government. This kind of plan coming from the Kremlin is very dangerous since it basically amounts to arbitrary rule.

Putin's creation of the seven districts basically recreates what Yeltsin was doing, only with much larger districts. Gelman stressed that it is hard to imagine how the new heads of the federal districts will rule these large regions. The federal agencies do a very poor job of coordinating their activities. In the Soviet era, the first secretary of the regional Communist Party in the 15 union republics represented local interests, while the second secretary was appointed from Moscow and dealt with the center. This system led to better organization, Gelman asserted.

## **MEDIA ISSUES**



**PUTIN SEEKS TO CLAMP DOWN ON REGIONAL MEDIA.** The regional media play a considerable role in the relationship between the federal and regional governments. In particular, regional politicians use the regional media to blame regional problems on the federal government at election time, according to Robert Coalson, the director of the Media Business Development Service for the National Press Institute (NPI).

Coalson noted that there is no real free press at the regional level because all newspapers are politicized, being controlled either by the governor or the governor's opposition. Thus, none of the papers publish an overall analysis of the news. The only exceptions are papers like *Delovoi Peterburg*, which are financed by foreign sources and therefore operate independently of Russian politicians. Such cases are extremely rare and only occur in the big markets, like Moscow and St. , where foreigners are relatively well represented. In the vast majority of Russian papers, journalists naturally have to watch what they write to avoid offending their patron. The state also funnels information to its favored newspapers, leaving the opposition press to base its articles on speculation and rumors. In a market like St. Petersburg, there are several private printing presses, so the governor is less able to block access to publishers than is the governor of a less developed regions, such as Pskov. Overall, the press suffers from a lack of legislative support, poor backing from the courts, little public demand for better ana lysis, and low levels of professionalism among journalists, many of whom are happy taking money from the state.

Coalson sees problems for the media in the appointment of the seven curators of the new federal districts. Volga District Head Sergei Kirienko is an increasingly powerful media mogul in Nizhnii Novgorod (see *EWI Russian Regional Report*, 5 April), and local editors see which way the wind is blowing. Also, local papers have to account for what they have written about public figures who are now achieving powerful positions. A paper in Vologda that has been critical of North-West Federal District head Viktor Cherkesov in the past now reports that it is having problems with increased state inspections. Coalson is worried about the increased power of the seven curators because even Kirienko, the most "liberal" of the seven, has demonstrated by his acquisition of media interests that he will play by the existing rules of the game.

The federal government is currently in the process of increasing its capacity to regulate the regional media. Last July, the State Press Committee was upgraded to the status of a ministry. This federal institution has offices in every region. Now, federal media subsidies are passing through the ministry rather than the regional administrations, as they did in the past. Additionally, the Putin administration has announced that it will enforce existing laws requiring that publications obtain licenses. The federal authorities will likely try to scare publication editors by dragging out the process of defining the new rules. Coalson also described the Russian Union of Journalists as a "managed opposition." In the last six months it has become extremely well funded, presumably winning new access to state support. In the coming months , it will be important to watch how relations evolve between the central union and its regional branches. During the early 1990s these ties collapsed and many of the regional branches of the union became more progressive than the national office. Now it is likely that the central union will try to impose more control over regional branches.

Coalson suspects that there will be some coordination between the Russian Press Ministry and the Union of Journalists. The ministry will function as the official lever of

control, while the unions serve as a way to pass carrots to cooperative reporters who supply appropriate content. One possibility is that the union will help newspapers receive their licenses. Such aid would indicate that the ministry and union are working hand-in-hand.

The federal government formally owns many of the printing presses in the regions and could use this control to exert greater pressure on regional papers. These battles will likely be drawn-out and require the successful use of administrative means of pressure.

Additionally, the oligarchs could serve as Putin's partners in controlling the regional press. For example, Alfred Kokh was appointed head of Gazprom's media holdings this week at the strong urging of Russian Press Minister Mikhail Lesin. Gazprom apparently owns as many as 200 regional TV stations and 100 newspapers. In the past, the company has purchased media outlets and then turned control over to mayors in exchange for behind-the-scenes support. Now Gazprom may be ready to turn over control of this network to Putin in exchange for concessions to Gazprom's business interests.

Another problem for newspapers working in the regions is the poor distribution system. Generally the papers are sold through subscriptions delivered to readers by the post office or on the street through kiosks controlled by Rospechat. Many people who might subscribe to papers do not do so because they are afraid that the paper would simply be stolen from their mailbox. They resist putting up new mailboxes because it would identify them to potential robbers as being wealthy. On the other hand, Rospechat does not maintain enough kiosks to meet the potential demand for papers. Rospechat is not very market oriented in that it often does not increase its supplies of popular newspapers. It is also reluctant to stock new titles.

The governors will have a difficult time fighting Putin's initiatives in this area since they are not united. Putin will likely pursue a strategy of "divide and conquer," cutting deals with individual governors.

The Internet might be a potential outlet for news, but it is alarming that the Federal Security Service, rather than the press ministry, seems to be taking the lead in monitoring electronic information flows. The Internet will probably have its greatest impact in regions remote from Moscow, like Siberia and the Far East.

Another potential way to develop a freer press is for outside funders to provide independent printing presses. The US government has financed the establishment of one such press in Volgograd, giving it to the five newspapers. But the press did not solve all of the papers' problems, and their editors have had to make compromises. Now only one of the five is reasonably independent. While the press itself is making money by printing a variety of products, the profit margin is not high enough to attract western companies to the market. Such companies lack the kind of financial resources required to make the kind of up-front commitments required to succeed. Coalson suggested that to achieve real freedom of the press, the west would have to press the Russian government more consistently than it has done in the past. Coalson believes that Russia must abandon its press ministry and state support for the media cold turkey for the country to achieve real press freedom.

## **CENTER-PERIPHERY ISSUES**

**PUTIN OVERTURNS SEVERAL VORONEZH EXECUTIVE ORDERS ON GRAIN.** On 30 June President Vladimir Putin overturned several orders of the Voronezh Oblast administration because they violated Russian legislation (<http://press.maindir.gov.ru/press/messages.asp>). The decrees were mainly economic in nature and focused on the use of grain in 1999. That year the governor introduced quotas for the sale of grain to the state and limited its export beyond oblast borders. The governor's actions violate various passages of the Russian constitution, civil and tax codes, and Russian laws on local government, grain, and the buying and selling of agricultural products. Voronezh Governor Ivan Shabanov was unhappy with the president's action, but promised to take measures to reexamine the executive orders in question (*Nezavisimaya gazeta*, 1 July). - Yulia Fedorinova in Voronezh

**LOCAL YABLOKO LEADER SEEKS REVERSAL OF MORDOVIYA LAWS.** Mordoviya Yabloko Co-chairman Vladimir Gridin has called on the Mordovian Supreme Court to declare several of the republic's laws and executive orders in violation of federal norms and therefore no longer valid. In particular, Gridin has targeted a republican law by which the republic issues licenses for the sale of certain products in the region. In this way, the government both limited who could sell products in the region and secured a new source of income. Gridin charged that the licensing of alcoholic and non-alcoholic beverages and tobacco products was "nothing short of an additional tax, a violation of the rights of entrepreneurs, and a violation of the unified Russian market." According to the regional Yabloko, the administration's argument that the licensing law helped defend against low-quality products was baseless since such measures could not prevent entrepreneurs from realizing their economic rights or force them to pay expenses not defined by law. Gridin argued that the introduction of the licensing system significantly increased the price of goods in the region and therefore lowered the quality of life. - Igor Telin in Saransk

**LEGISLATIVE CHAIRMEN PREPARED TO SUPPORT PUTIN IF THEY STAY IN FEDERATION COUNCIL.** The chairmen of Russia's regional legislatures, who are currently members of the Federation Council, are prepared to support Putin's reforms if they are allowed to retain their membership in the upper chamber of the national legislature. This proposal was announced at a conference of the Russian Union of Legislatures held on 29 June in Saratov. The legislatures of 67 regions created this group at the beginning of 1999. Until now, the union had been essentially inactive and invisible. However, immediately after Putin began his reform of the federal system, the chairmen of the regional legislatures "remembered" their organization and called a meeting to discuss issues of state-building, center-periphery relations, and local government.

Initially, the organizers of the meeting felt that it would not be successful. The meeting fell on the day after the Federation Council vetoed Putin's plan to reform the legislature's upper chamber. Not surprisingly, Putin and Presidential Representative to the Volga Federal District Sergei Kirienko ignored an invitation to attend the conference. Taking into account the anti-Putin mood among the legislative chairmen, Saratov Governor Dmitrii Ayatskov, who tirelessly supports any presidential initiative, flew to Cuba as part of a Russian delegation. Only about half of the 67 union members actually came to Saratov.

The speeches at the meeting demonstrated the sly tactics of the legislative chairmen. Saratov Oblast Duma Chairman Aleksandr Kharitonov, for example, said, "I think that the members of the Federation Council acted wisely and supported the president by voting against his bill. I think the appropriate conclusions will be drawn from this." Nevertheless, each of the speakers variously supported the idea of renewing the hierarchy of power and resolving the most difficult social and economic problems.

Observers at the conference noted the lack of unity in the senators' relations to Putin's reforms. Kharitonov argued that treaties between Moscow and the regions were no longer useful and he called for maximally defining the rights and responsibilities of the center and regions in the constitution. In particular, he called for rewriting the articles that define the powers of the federation and the powers that the federal and regional governments share.

Tomsk Oblast Duma Chairman Boris Maltsev blamed the crisis on the State Duma deputies elected from the single-member districts. Tomsk Duma member Yegor Ligachev was one of the few who supported the governors. He called on the members of the Federation Council to spend more time working with these deputies.

Samara Guberniya Duma Chairman Leon Kovalskii proposed that the chairmen of the regional legislatures be allowed to stay in the Federation Council. He said that the chairmen were the most reliable members of the upper house, often voting for the governors when they were absent from the sessions. His willingness to remove the governors while saving seats for the regional chairmen demonstrates the existence of a split within the ranks of the upper chamber.

Additionally, the regional legislative chairmen in the union voted to put a moratorium on municipal elections currently set for the end of the year in order to "avoid unwarranted expenses." This argument seemed sufficient for them to advocate violating the law on local government. In the corridors, observers noted that local elections often take place at the same time as gubernatorial and regional legislative elections, making it difficult for the oblast authorities to control who gets elected to local government and often allowing the opposition to win. The regional legislative chairmen decided to skip a press conference, apparently to avoid any embarrassing questions. - Yuliya Yeliseeva in Saratov

## **BUDGET ISSUES**

**SIBERIAN ACCORD CRITICIZES 2001 BUDGET.** The Siberian Accord interregional association is planning to introduce amendments to the federal government's 2001 budget in the federal legislature. The members of the group are sharply critical of the current draft. "This budget not only forces us to our knees, but prostrates us in front of the problems that have piled up before us," Vladimir Ivankov, chairman of the association's Coordinating Council on Economic, Financial, and Investment Policy, said on 22 June.

The regional leaders are particularly angry about the increase of the federal share of budget income to two-thirds. Currently the federal government and the regions divide this income evenly. The federal gains would come from giving the federal government 100 percent of income from value-added tax (currently the federal government takes 75 percent of this tax, leaving 25 percent for the regions) and the elimination of the majority

of off-budget funds. At the same time, the federal government promises to take over expenditures in the social sphere. However, as a result, regions have lost a significant amount of their own income and become increasingly dependent on federal transfers and subsidies. Additionally, federal transfers for road construction are by no means equal to the money lost by the elimination of the road funds. Novosibirsk Deputy Governor Vasilii Kiselev believes that the regions will lose a minimum of 20 percent of their current income, threatening to leave many budget lines unfinanced.

Additionally, the Siberian Accord hopes to discuss possibilities for forming income for regional and local budgets and distributing the financing of social benefits among federal, regional, and local budgets. To achieve these goals, the members of the group are organizing meetings with the government and president, and organizing special hearings in the Federation Council. The group is working with the Siberian Accord deputies' group in the State Duma, which includes about 65 members from the Siberian regions. This Siberian faction in the State Duma could play a decisive role in discussing the priorities for the 2001 budget. With the reform of the Federation Council, the governors are starting to see the State Duma as the main arena for influencing federal legislation, including the budget. - Irina Maslennikova in Novosibirsk

### **THIRD SECTOR DEVELOPMENT**

**NGO FAIRS AN INSTRUMENT FOR SOCIAL PARTNERSHIP.** On June 12 Novosibirsk held its fifth Non-Governmental Organization (NGO) Fair in which 120 NGOs from Novosibirsk city and oblast participated and presented their projects.

The first NGO Fair was held in Novosibirsk in 1996 and organized by the Siberian Civic Initiative Support Center (SCISC). According to Natalya Kurichuk, a member of the organizing group, the first Fair was expected "to show that many organizations of a new type had emerged as an initiative from the 'bottom' rather than under a directive from the 'top'." The Fair 1996 included 40 organizations and more resembled a meeting where the participants could show their work and get a sense of themselves as a new sector in society. That quite matched the needs of the society at that time. An NGO Fair was a novelty in 1996. No one had done this before either in Novosibirsk or in Russia. A similar NGO fair was held in Omsk in 1996. In 1997 NGO fairs were held in 12 Siberian cities and other Russian regions such as Kaluga, Novgorod and other cities of European Russia.

In 1997 85 NGOs participated in the Novosibirsk NGO Fair, in 1998 -92, in 1999 --117, and in 2000 --120 organizations. It has become a tradition for NGOs working in the social sphere to present their work at the NGO fairs. Participants always include organizations working with veterans, persons with disabilities, and families with many children. NGOs working on ecological issues, education and legal rights are also widely represented.

Since 1998 grant contests for NGO projects have been held at the fairs. Novosibirsk Oblast was the first to hold such grant contests for consolidated budgets. Money for the grants were obtained from local resources including funds from oblast and local administrations and businesses. In 1998 in Novosibirsk Oblast 36,600 rubles (over \$6,000) were given to support 8 NGO projects, in 1999--84,600 rubles (\$3,300) for 9 projects, and in 2000--45,000 rubles (\$1,600) for 6 projects. In 1999 George Soros' Open

Society Institute supported a grant contest which was held in 9 of the 11 Siberian regions where SCISC has its representatives. In total 576,230 rubles (over \$23,000) was given to support 82 NGO projects in these regions.

After their 5 year existence, NGO fairs have become a standard tool for both NGOs and government officials. Thus, the Novosibirsk Oblast deputy governor, the Novosibirsk acting mayor, and officials from the governor's and mayor's administrations attended Novosibirsk Fair 2000. For NGOs, the fairs have become primarily an opportunity to showcase services they provide and socially significant projects they work on. Discussion groups and presentations have become an essential part of the NGO fairs. Today, not only NGO activists but also the mayor's office and oblast administrations' representatives work in the NGO fairs' organizing groups. For government officials it is a unique opportunity to stay up to date with events and developments in the third sector. The organizational groups have gained professional level—the work is considered finished only after the results of the Fair have been evaluated, a new budget approved and corrections and recommendations made.

Many new developments emerged at the Fair 2000. For the first time, the NGO Fair hosted organizations from all three sectors of the society: non-governmental/non-commercial, government, and business. Businesses provided financial support and established special monetary prizes. For example, the Novosibirsk River Transportation agency granted the Siberian Ecological Foundation a free trip along Ob River for conducting the festival "Help yourself and the river!" Several observers wandered in from off the street to check out the Fair as well.

The NGO Fairs have become significant for effective collaborative work between the third sector and government structures. After attending Novosibirsk NGO Fair 2000 Novosibirsk Acting Mayor Vladimir Gorodetskii ordered that 550,000 rubles be given for a grant contest to be held in the third quarter of the year. Novosibirsk Governor Viktor Tolokonskii signed a resolution on financial support to social associations. According to the resolution 5 NGOs-participants of the Fair 2000 are to receive 35,000 rubles for their active realization of socially significant projects. - Irina Maslennikova in Novosibirsk.

**SIBERIAN NGOS GROW AND BECOME PROFESSIONAL.** Over the past several years the Siberian third sector has grown considerably to comprise 2,100 non-governmental organizations (NGOs). The results of a survey regularly conducted by the Siberian Civic Initiative Support Center (SCISC) since 1996 show that the number of NGOs that emerged in 11 Siberian regions over the past 5 years has quadrupled. The 1996 survey reflected 483 NGOs registered with the department of justice. The regional distribution of the now existing NGOs is as follows: Chita Oblast - 97, Gorno-Altai Republic - 99, Buryatiya Republic - 105, Krasnoyarsk Krai - 149, Omsk Oblast - 160, Tyumen Oblast - 164, Tomsk Oblast - 177, Kemerovo Oblast - 189, Irkutsk Oblast - 199, Altai Krai - 208, Novosibirsk Oblast - 553. Traditionally, the primary spheres of the NGOs' activity have been education, social care, and culture. The target groups Siberian NGOs have traditionally addressed are the general population, youth, children, and persons with disabilities. The increase of NGO activity is spread across all spheres. Some spheres, such as educational and scientific research, have experienced fluctuations due to NGO redistribution among the spheres.

Most NGOs have registered with local departments of justice. Out of 2,100 NGOs reflected in the SCISC survey 1,613 are officially registered. However, there still exists a small percentage of organizations which continue to perform their activities without having registered. Among the reasons for not registering are inability to pay the registration fee, lack of understanding of the goals of the organization, and obstacles the NGOs meet in the justice department due to unclear wording in their charters.

Russian NGO experts also recognize the professional growth of the Siberian NGOs. Siberian NGOs no longer work isolated. Networking is becoming a regular tool for cooperation with colleagues in other regions. For example, in the fall of 1999 in Krasnoyarsk the Siberian Community School Association was created. The Association exchanges experience and information works collaboratively on projects. Many Siberian NGOs have developed web sites as an information exchange tool to make their new publications, project developments, and organization information available for other NGOs and the general public. Annual NGO fairs have become an established instrument for NGOs' communication with government officials and businesses (see article elsewhere in this issue).

Government officials are beginning to show greater understanding about the value of the third sector. NGOs are no longer viewed as a bunch of people who do nothing but beg for money. Mechanisms for social contracting on a competitive basis have developed. For example, as result of a grant contest held in Novosibirsk Oblast in June 2000, five oblast NGOs received a total of 35,500 rubles for their projects. Regional and local governments have shown interest in supporting NGOs by issuing laws on tax deduction for businesses financing NGO projects. The tax incentive have increased corporate giving. The growing professionalism of Siberian NGOs has, for the most part, eliminated the fear that money granted would not go towards its intended purposes. Corporate giving as a marketing tool is becoming known to many businesses. Mass media is another social institution that has changed its attitude towards NGOs. The press interest in covering NGO news has increased and become more accurate. NGOs on their part have learned the skills of promoting themselves through mass media. The attitude of the general public, or "people from the street", has become favorable. Common people's involvement has increased. Thus, in the interregional Volunteer Week--99 held in 9 Siberian regions in December 1999, 9,809 people, ranging in age from 7 to 85, participated. People have learned that they are first to benefit from cooperation with NGOs. (SCISC, Novosibirsk - <http://www.cip.nsk.su>, KCCP, Krasnoyarsk - <http://www.kccp.krsk.infotel.ru>) - Anastasia Mishina

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## **BREAKING NEWS**

### **POLITICS**

**FEDERATION COUNCIL REJECTS SECOND PUTIN BILL ON GOVERNORS, SETS UP CONCILIATORY COMMITTEE.** On 7 July the Federation Council rejected President Vladimir Putin's bill to give himself the power to remove governors by a vote of 83-16, with 9 abstentions (RFE/RL Newswire). The Duma had approved the measure earlier in the day. Putin now apparently believes that he does not have enough votes in the State Duma to override the Federation Council veto of his plan to change how members of the upper house are chosen, and the State Duma has not gone ahead with a vote attempting to override the Federation Council veto, as had seemed likely at the end of June.

On 7 July the Federation Council compromised on its earlier position and voted to set a conciliatory committee by a vote of 129-8, with three abstentions (for a list of the members of the commission, see *Kommersant Daily*, 8 July). On 28 June, the upper chamber had refused to set up such a commission to work out a deal with the members of the lower chamber (see *EWI Russian Regional Report*, 28 June). According to *Vremya MN* (11 July), the members of the Federation Council in the committee are mainly working to block progress on Putin's attempts to remove them from the upper chamber of the federal parliament. On 10 July, for example, the Federation Council sent its list of objections to the new legislation. Among other proposals, the governors suggested that, if the law is ultimately adopted, it should not go into effect until December 2003, rather than the current draft's 1 February 2001 deadline (*Segodnya*, 11 July). Nevertheless, the commission's first substantive meeting on 11 July went relatively smoothly, according to polit.ru.

The governors now apparently hope that Putin will agree to the formation of a State Council, which will have many of the powers that the Federation Council once had. After meeting with Putin on 8 July, Federation Council Chairman Yegor Stroev said that the president was ready for a "soft version" of reform for the Federation Council. Creating such a powerful State Council would require amending the constitution. Other sources suggest that the president will create a relatively weak body simply by issuing a decree (*Vremya MN*, 11 July). In this case, constitutional changes would not be required. According to sources in the presidential administration who are apparently purposefully leaking information to the press, such a body might not include all of the current regional leaders in the Federation Council, but just those from important regions. Despite his loyalty to the Kremlin, Novgorod Governor Mikhail Prusak criticized this idea, saying that all governors should be members of the body. Prusak's name was not on the list of potential members. Instead it included leaders from Tatarstan, Moscow city, Bashkortostan, St. Petersburg, Sverdlovsk, Irkutsk, Krasnoyarsk, Chelyabinsk, Khabarovsk, Vologda, and Khanty-Mansi.

**STATE DUMA PASSES PUTIN BILL ON LOCAL GOVERNMENT.** On 7 July, the State Duma passed Putin's proposed bill on local government in the second and third readings by a vote of 334-27. The lower house had adopted the bill in a second reading on 30 June in which it denied governors the right to remove mayors. The new version of the bill, adopted in the second reading for a second time, gives the governors the right to remove some mayors, but not the mayors of regional capitals and administrative centers. The governors are often in conflict with the mayors of the regional capitals (polit.ru, 7 July).

The Duma also took steps toward removing the regions' ability to take on foreign debts by passing in the second of three readings a bill on the country's budget code (*Vremya MN*, 8 July).

**STATE DUMA STRENGTHENS FEDERAL CONTROL OVER POLICE.** The State Duma on 7 July voted to give the federal government the right to remove regional police chiefs without winning the agreement of regional leaders. The vote followed the Federation Council's 28 June veto of the bill. Until now the federal authorities and the governors jointly appointed and fired police chiefs. The police chief is the only member of the law enforcement agencies whom the governors have a voice in removing. (www.duma.ru) (For an earlier discussion of this issue, see *EWI Russian Regional Report*, 10 May.)

**BEREZOVSKII SEEKS TO SET UP GOVERNORS' PARTY.** Boris Berezovskii announced on 7 July his intention to set up a governors' party. He said, "Experience shows that today, only the governors are able to consolidate the political elite," citing the example of Otechestvo-Vsya Rossiya and Yedinstvo (*Kommersant*, 8 July). Apparently the party will be aimed at preserving the governors' seats in the Federation Council and countering Putin's attempts to strengthen federal control over the regions. Berezovskii said that the governors were in great danger and therefore had the best chances of any group in Russia to set up a party. He criticized the State Duma for simply implementing the president's policies and called for the creation of a "new, powerful, self-sufficient faction." Berezovskii said that among the governors he was working with are Orel Governor and Federation Council Chairman Yegor Stroeve, Sverdlovsk Governor Eduard Rossel, Kursk Governor Aleksandr Rutskoii, Saratov Governor Dmitrii Ayatskov, and "several others". Berezovskii said that reform of the state structures would not happen quickly and that constitutional changes would be required.

**GOVERNORS' REACTIONS TO PUTIN ADDRESS.** Putin delivered his State of the Union address on 8 July. It contained no new substantive proposals on federal issues. Chuvashiya President Nikolai Fedorov was extremely critical of Putin's speech. He described it as "correct slogans" that were nothing more than "banal and obvious words." He characterized Putin's offer to help journalists "economically" as another attempt to exert control over the media. Additionally, he feared that Putin sought to take over the country's banking system. He said that the only decentralization that existed in Russia was a result of the "Kremlin's efforts as a result of political deals between the central authorities and specific regions" (polit.ru, 8 July). Most of the other governors gave vague support to the presentation.

**CONSTITUTIONAL COURT DECLARES PARTS OF SIX REPUBLICAN CONSTITUTIONS INVALID.** The Constitutional Court ruled on 27 July in a secret session that parts of the constitutions of Adygeya, Bashkortostan, Ingushetiya, Komi, North Osetiya, and Tatarstan violated the Russian constitution. These republican constitutions say that the people of the republic, rather than the Russian Federation, are the source of authority for the republics' political leadership. The Constitutional Court ruled that these clauses violate the clause in the Russian Constitution that claims that



political authority ultimately derives from the multi-national people of the Russian Federation. The Court also declared that the republics' assertions that their laws took precedence over federal laws, that they were subject to international law, and that they owned the natural resources on their territory were no longer in force.

On 7 July, the Court informed the republican constitutional courts of these decisions. There are currently 10 republican constitutional courts (including the newly created one in Tatarstan), a charter court in Sverdlovsk Oblast, and a Committee on Constitutional Oversight in North Osetiya. The constitutions or charters of 32 regions make provisions for such courts, meaning their number could increase from 12 to 32 in the foreseeable future (*Nezavisimaya gazeta*, 8 July).

Besides this statement on the six republican constitutions, in recent months the court has taken two actions that limit regional sovereignty. It gave the procurators the right to file cases against regional laws that violate federal legislation and ruled, in the case of Altai Republic (see *EWI Russian Regional Report*, 28 June), that regions could not declare sovereignty or claim ownership of the natural resources on their territory.

**NORTHWEST REPRESENTATIVE HOLDS NEWS CONFERENCE.** Presidential Representative to the NorthWest Federal District Viktor Cherkessov held his first press conference since taking the job on 7 July. He is taking over a building used to register weddings in St. Petersburg as his headquarters and plans to have a staff of 100. Governor Vladimir Yakovlev said that the city was forced to give up the building and that if he were the representative he would not take it over. Cherkessov blamed the decision on a joint agreement between the presidential administration and the city administration, claiming that he was not personally involved. Cherkessov said his first priority was to establish a "unified information space" in the region, using ITAR-TASS as its basis. He held his press conference in ITAR-TASS's offices and said that the regional branch of the agency should become part of his staff. He also said that the Petersburg TV channel Rossiya would be the television base for his information policy (*Kommersant Daily*, 8 July).

## **ECONOMICS**

**TAX MINISTRY SETS UP INSPECTORATES IN FEDERAL DISTRICTS.** The Tax Ministry will set up interregional inspectorates in each of the seven new federal districts, *Izvestiya* reported on 12 July. Tax Minister Gennadii Bukaev announced the decision with Presidential Representative to the Volga Federal District Sergei Kirienko. Deputy ministers in each district will monitor the regions' compliance with federal tax law, analyze the activities of the tax collecting agencies, and handle personnel issues. The minister made clear that none of the current heads of the regional tax departments would be named to the job at the federal district level since that would violate the essence of the reform, which will impose greater control over the regional branches of the ministry.

In the first half of the year, the ministry collected 303.6 billion rubles, one-third more than anticipated. Forty percent of taxes came from Gazprom, Unified Energy System, and 18 oil companies. However, Gazprom paid only 12 billion of 14 billion rubles owed, and EES paid only 65-70 percent of what it owed, according to the paper.

### **RUSSIANS SEEK TO OVERTURN STEEL AGREEMENT WITH U.S.**

Approximately one year ago Russia signed an agreement with the US to limit steel imports to the American market. Russian exporters had increased shipments to the US when the Asian market dried up following the 1998 financial crisis. However, the cheap steel hurt American producers, who in turn pressured Washington for strict barriers. Now Russian companies are seeking to renegotiate the limits that they accepted a year ago. The situation has changed since the agreements were made, *Vedomosti* reported on 7 July. The American government has determined that Russian imports were not hurting American companies. In addition, steel prices have dropped meaning the minimum prices that Russians can charge for their steel are now above market prices and making it hard for Russians even to sell their quotas. Russia's big three steel makers are in Chelyabinsk, Vologda, and Lipetsk oblasts.

**FOREIGN CARMAKERS FACE TROUBLES.** Since starting work in Kaliningrad Oblast on 22 October 1999, BMW has manufactured 1,000 cars, but sold only 500. Renault's figures for its Moscow assembly plant are not much better, with sales of only 1,045 cars in the first six months of a year in which the firm hoped to sell 4,000 cars. Of these, only 800 were assembled in Russia. Accordingly, Fiat and GM are moving cautiously before launching similar assembly ventures in Nizhnii Novgorod and Samara oblasts. Renault spent \$3.3 million on advertising, while BMW spent \$664,000 (*Vedomosti*, 7 July). The drop in the value of the ruble after the 1998 crisis made foreign cars prohibitively expensive for Russian consumers and provided a subsequent boost to producers of less expensive, domestic cars.

The GAZ-Fiat venture is facing its own problems. GAZ owes the EBRD \$65 million and has had to give some of its stock to Fiat for help in covering the debt. The EBRD has also transferred the vast majority of its shares to Fiat. The Italian automaker now owns a 73 percent share of the joint enterprise, while GAZ owns 26.9 percent. GAZ is apparently ready to turn over its share to the oblast and city or federal government for help in paying off its debt.

GM recently bought 20 percent of Fiat's stock in exchange for 5 percent of its own. As a result, GM is unlikely to start up a project with Samara's AvtoVAZ, which would directly compete with Fiat's products in Nizhnii Novgorod (*Kommersant Daily*, 8 July). As a result, the long-discussed GM-AvtoVAZ partnership is likely to never get off the ground.

### **BRIEFLY NOTED...**

Moscow Mayor Yurii Luzhkov's TV-Tsentr won a renewal of its broadcast license on 6 July. Observers had suggested that the broadcaster would lose the license because of political conflicts between Luzhkov and Putin.

Presidential Representative in the Southern District Viktor Kazantsev appointed Lt. Gen. Vladimir Bokovikov as his representative in Chechnya on 10 July. Bokovikov was Chechen President Aslan Maskhadov's commander in 1981. (*Kommersant Daily*, 11 July)

## CENTER-PERIPHERY RELATIONS

**ROSTOV LEADER DENIES PRESSURING DUMA MEMBERS.** Narodnyi deputat State Duma faction leader Gennadii Raikov on 5 July accused Rostov Oblast Governor Vladimir Chub and Rostov Oblast Assembly Chairman Aleksandr Popov of pressuring State Duma deputies to vote against Putin's bill to reorganize the Federation Council if the lower house tried to override the upper house's veto. Chub is currently on vacation, but Popov has vigorously denied that he took any such action.

Fate has played a dirty trick on Rostov's Federation Council members. Last fall, they devoted enormous energy to ensuring that the pro-Putin Yedinstvo party would win representation in the lower house. Now Yedinstvo, as the Kremlin's main backer in the Duma, is working to remove the regional elite from the Federation Council. In effect, the Yedinstvo deputies have turned on the governor and regional legislative chairman who once supported them. However, the Communists, who are generally opposed to the oblast administration, now are working as the governors' main allies. Virtually all of the Communists voted against Putin's plan. It was during the heat of this battle that Raikov made his statement.

Popov characterized Raikov's accusations as baseless, requesting that Raikov retract his statement and threatening him with a law suit if he refused to do so. In general, Raikov is a careful and moderate politician, so it seems unlikely that he openly sought to influence the Duma deputies. - Andrei Miroshnichenko in Rostov-na-Donu

**IRKUTSK, VOLOGDA GOVERNORS BACK PUTIN.** On 30 June, Irkutsk Governor Boris Govorin and Vologda Governor Vyacheslav Pozgalev issued a statement backing President Vladimir Putin's federal reforms (for the text, see *Vostochno-Sibirskaya Pravda*, 5 July, <http://www.vsp.ru/23762/index.htm>). Govorin was one of the few members of the Federation Council to vote in favor of Putin's bill to reform the Federation Council on 28 June. The statement said, in particular, that the two governors support Putin's proposal to divide the country into seven federal districts. They argue that the plan will help bring Russia closer together economically and politically and also help to make all regions equal. The two governors argued that Russia needs to move away from a form of federalism which benefits some ethnic groups over others.

Govorin's statement is dramatically different from his comments in May when he was harshly critical of Putin's plans (see *EWI Russian Regional Report*, 24 May). Then he doubted that the seven federal districts would be effective. Perhaps the reason for his change of mind is the on-going battle between the Irkutsk administration and the federal government for control of a 20 percent stake in the regional electricity monopoly Irkutskenergo, currently the largest energo that is not part of the national Unified Energy System. The oblast administration once controlled the 40 percent state owned stake and is now battling the federal government to hang onto at least a 20 percent share. - Teleinform in Irkutsk and Robert Orttung

**KABARDINO-BALKARIYA SEEKS TO BRING LAWS IN LINE WITH FEDERAL NORMS.** Kabardino-Balkariya President Valerii Kokov has issued a decree ordering amendments to the republican constitution and legislation to bring them in line with federal norms. The decree set up a working group, which includes representatives of

the republican parliament, the presidential administration, the Social Security Council, the Constitutional Court, the Justice Ministry, and the procurator's office. Republican Procurator Yurii Ketov is chairing the group.

The republic has dozens of laws that violate federal norms. Amendments to the constitution will presumably affect such issues as the republic's sovereignty, powers in relation to the federal government, citizenship, powers of the president, deputies' immunity, the establishment of republican taxes, the introduction of states of emergency, and the appointment of republican representatives to various federal ministries. Moreover, changes will have to be made to laws on the election of members to the republican legislature, election of representatives to local government, the republican electoral commission, and local referendums in the republic.

Additionally, changes will have to be made to rulings adopted by the parliament, including official statements on migration to the republic, declarations of nationality in residents' passports, temporary measures on producing and selling alcohol, relations with forced migrants, licensing medical work, and numerous other areas. The decree calls on the parliament to examine these measures with an eye to bringing them in line with federal norms. - Oleg Tsvetkov in Nalchik

## **ACTIONS OF THE SEVEN PRESIDENTIAL REPRESENTATIVES**

**SIBERIAN DISTRICT TO SET UP COUNCIL.** Presidential Representative to the Siberian Federal District Leonid Drachevskii announced plans to set up a District Council (Okruzhnyi soviet) that will include the governors and regional legislative chairmen in the district. The council will analyze the situation in the district and determine what measures need to be taken to address regional problems. Member of the Russian government and representatives of federal ministries and agencies will participate in the meetings. Drachevskii claimed that so far no one had opposed his idea (polit.ru, 7 July). Drachevskii's staff has 106 members, who will be divided between Novosibirsk, the capital of the Siberian Federal District, and the other regions. - Teleinform in Irkutsk

**LATYSHEV VISITS CHELYABINSK.** Presidential Representative to the Urals Federal District Petr Latyshev on a 6-7 July visit to Chelyabinsk said that one of his main jobs is to increase the effectiveness of the federal government's work in the regions. He said that the population currently places high demands on the authorities and is not satisfied with the response. During his visit, Latyshev visited two local enterprises and pronounced his satisfaction with the oblast economy, stating that it had made notable progress.

Latyshev said that he expected to hire all of his staff by 1 August and that his team would number 55 people. While his main office will be in Yekaterinburg, he will have senior federal inspectors in each of the other regions in the federal district. Latyshev has yet to appoint an inspector to Chelyabinsk Oblast. Since the victory of Petr Sumin in the 1996 gubernatorial elections, the presidential representative has been Nikolai Sudenkov, a former deputy governor. - Igor Stepanov in Chelyabinsk

## **PATTERNS OF REGIONAL DEVELOPMENT**

## **NAZADRATENKO WINS OUSTER OF REGIONAL ARBITRATION COURT JUDGE.**

On 20 June, the Supreme Judicial Council dismissed Tatyana Loktionova, head of the Arbitration Court of Primorskii Krai. The catalyst for this decision was a special declaration by Governor Yevgenii Nazdratenko in which he charged the judge and her husband with illegally dividing up property from bankrupted factories, accepting large bribes (estimated anywhere between \$200,000 and \$1,500,000), and embezzling funds from a World Bank loan for the development of the district's coal industry.

The stand-off between the governor and Loktionova began two years ago. They initially fought over regional companies that went bankrupt and whose assets came under the control of the arbitration court. Nazdratenko claims that Loktionova turned the bankruptcy proceedings into a family business that allowed her husband to accrue huge sums of money in his US bank account. Between 1992 and 1999, over 200 companies in Primorskii Krai declared bankruptcy, as a result of which an estimated 10,000 people lost their jobs. Local observers claim that the damage to the district's economy is estimated at anywhere between 1 billion rubles and \$1.6 billion.

While the pro-gubernatorial media paint Loktionova as a demonic figure, the governor's opposition views the situation differently. Mass bankruptcy, they say, is not a result of the judge's rulings, but a consequence of general economic conditions. Arbitration judges may choose to either defer or facilitate bankruptcy proceedings, but that is the extent of their power. Loktionova's problems began when she stopped following the governor's advice as to how to carry out bankruptcy proceedings, including ignoring his suggestions as to whom to appoint to oversee factories going through receivership. Additionally, Loktionova declared Vostoktransflot bankrupt, but Nazdratenko was able to overturn this ruling. The battle over the case was a major scandal in the region last year (see *EWI Russian Regional Report*, 15 July 1999).

Arbitration judges like Loktionova are appointed by the president, but under unusual circumstances may be dismissed by the Supreme Judicial Council. The first, failed attempt to fire Loktionova occurred this spring, when State Duma Deputy Viktor Cherepkov led a team of Loktionova's defenders to Moscow to meet with the Council. The only person present to represent the district administration's interests was Deputy Governor Gennadii Tokulenko. Among the evidence Tokulenko offered for the dismissal of Loktionova was the fact she had been known to drink two bottles of beer in the evening and that her husband wore unsuitably baggy pants around the house.

The krai administration was much better prepared the second time around. For this hearing First Deputy Governor Konstantin Tolstoshein, Nazdratenko's right-hand man during his skirmishes with the head of the regional branch of the FSB, accompanied Tokulenko. The main witness for the prosecution was the governor's former advisor Adam Imadaev. Two economists who were scheduled to attend the hearing were killed just days before their departure. Evidence against Loktionova included tape recordings of her telephone conversations, and *Novaya Gazeta* newspaper published an expose of the Loktionovs' criminal activities. Loktionova herself was late in arriving to Moscow, as she came straight from the hospital. Her lawyer was not allowed into the room to represent her.

Loktionova is determined to appeal the Council's decision to dismiss her. She plans to protest the unlawful absence of her lawyer during the proceedings, as well as the tape recordings of her telephone conversations, which she claims were both illegally

acquired and falsified. Her supporters have also uncovered a document that allegedly shows that on the eve of the court proceedings, head of the Supreme Judicial Council Zherebtsov received a \$150,000 transfer from a foreign bank.

Nazdratenko's supporters claim that a victory for him is a victory for the state. There is no doubt whatsoever that if the Supreme Court upholds Loktionova's dismissal, the governor will be able to exert far greater control over the district economy. - Dmitrii Motovilov in Vladivostok

**KALININGRAD GUBERNATORIAL ELECTIONS SET FOR NOVEMBER.** For several months now, the Kaliningrad Oblast authorities have been fighting over a relatively simple question: when to hold the next round of regional elections. The tardy publication of the new oblast law on local Duma and gubernatorial elections did much to aggravate the situation. Strict adherence to the letter of the law threatened to turn the elections into an exhausting, month-and-a-half-long marathon this autumn. The executive branch insisted upon postponing the elections to a later date, while opposition members of the Oblast Duma wanted to move them up. Each side publicly accused the other of attempting to undermine the elections' legitimacy and achieve a tactical advantage.

The Oblast Electoral Commission, which determines the date of the elections, found itself in a time trap of sorts. According to the law, following elections to the legislative assembly, the Oblast Electoral Commission is disbanded and a new commission is formed. In practical terms, this law makes it illegal to hold gubernatorial elections subsequent to Duma elections. The electoral commission decided not to tempt fate, and on 5 July declared that gubernatorial elections would be held on 5 November--the same day as the regional legislative elections. An additional advantage of the decision is that simultaneous elections are likely to encourage high voter turnout. Local governments will also likely hold elections. This autumn, representatives from 19 agricultural raions and oblast cities, as well as 16 raion administration heads, are up for reelection.

Each side in the battle over the gubernatorial elections has reason to consider itself victorious. But it was the opposition that won the best deal. Given the traditional lack of organization and weakness of local groups, Kaliningrad politicians have historically taken a long time to mobilize. The oblast administration, on the other hand, has long since prepared its PR campaign, and could have pressed its advantage further by demanding that the elections be moved up. Time will tell who will prove more effective in utilizing the extra month of campaign time. - Vladimir Abramov in Kaliningrad

## **CRIME IN THE REGIONS**

**URALMASH GENERAL DIRECTOR MURDERED.** On 10 July unidentified assailants assassinated Uralmash General Director Oleg Belonenko just as his car was pulling away from his apartment building at 7:30 in the morning. His driver was also killed in a murder that had all the markings of a professional hit. Belonenko was considered one of Russia's top managers, and Uralmash is a prominent factory in Sverdlovsk Oblast, though far from the most important plant economically (for a recent report on the plant, see *EWI Russian Regional Report*, 21 June).

Investigators have yet to determine who ordered the assassination. Belonenko had only been at the head of Uralmash for the last six months. Before coming to Yekaterinburg, he worked at the Kama Automobile Factory (KamAZ) in Naberezhnie Chelny, Tatarstan. There he rose from designer to vice president for new forms of business. In 1998, he became first deputy general director for Uralmash-zavody, the holding company that owns Uralmash, and Uralmash. The board of directors appointed him general director on 17 December 1999. According to his colleagues, he was not in conflict with anyone and did not employ any bodyguards.

Following the murder, Governor Eduard Rossel called an extraordinary meeting of the oblast's Council on Societal Security, including representatives of all the law enforcement agencies in the oblast, and said he would take personal control of the investigation. Oblast Prime Minister Aleksei Vorobev described the murder as "extremely embarrassing for the oblast."

On the day of the murder Kakha Bendukidze, the general director of United Heavy Machinery (Uralmash-Izhora Group) - the new name for the recently renamed Uralmash-zavody - and the effective owner of Uralmash, flew to the region. He said that the murder was a real shock for him. Bendukidze noted that the board of directors had met in June and everything was quiet at the time, an account corroborated by contemporary press reports. The workers at the plant said that the assassination of its director certainly would not help the plant, which was just beginning to get on its feet.

While the authorities have not publicly presented any explanations for the murder, there are several unofficial versions. One is that the crime was connected to Belonenko's activities at KamAZ, where he had relatively strained relations with General Director Nikolai Bekh, whom the press had linked to a Kazan crime group. Allegedly, Bekh had organized sales through associated firms, and Belonenko destroyed them. However, Bekh and Belonenko both left KamAZ at the same time, and this conflict is already in the past.

The press has also linked Belonenko's death to the Uralmash organized crime group. Recently, Belonenko registered the Uralmash brand name and said that he would not allow organizations with shady reputations to use it. However, it is hard to imagine a situation in which the crime group, which is desperately trying to legitimize itself, would carry out such a heinous act over a name.

The most likely scenario connects Belonenko's murder to his position as the head of Uralmash. Recently, the plant has began producing and selling more, and has accordingly aroused increased interest among investors. In the past, Uralmash was a relatively small prize, but now it has become more attractive to businessmen looking for lucrative deals. Belonenko was actively taking on more of the managerial functions and may have become a hindrance to someone, according to unofficial versions circulating in the press. In any case, the murder will have significant and immediate economic and political consequences for the region. - Nataliya Mints in Yekaterinburg

## **ENERGY ISSUES**

**BASHKORTOSTAN OPPOSES CHUBAIS' REFORM FOR ELECTRICITY MONOPOLY.** Before implementing any reforms in the Unified Energy System (EES) electricity monopoly, it is necessary to adopt legislation that creates competition within the sector while still allowing it to function normally, according to Bashkortostan Prime

Minister Rafael Baidavletov, who headed the republic's electricity monopoly Bashkirenergo until 1999. Baidavletov believes that such an "evolutionary development" of the sector would require only half as much investment as the "shock therapy," proposed by EES Director Anatolii Chubais.

Baidavletov accused the EES management of not wanting to secure the approval of the regional leadership for its plans to reform the giant company. EES has subsidiaries in almost every region of Russia.

Bashkortostan has its own "evolutionary" plans for reforming the energy sector. Baidavletov believes that dividing Russia's unified energy complex into independent generation, distribution, and retail distribution companies is simply the management's attempt to pass off the problem of supplying the electric stations with fuel to the regional authorities.

Baidavletov said that, in Bashkortostan, the fuel and energy sector is the basis of the republican economy and therefore all problems must be solved together. In effect, this means that the state must exercise firm control over the activities of the energy enterprises. Baidavletov argued that this approach should be used with EES, which would thus be considered an entity whose main goal is supplying energy to support the growth of industrial output and increasing the general standard of living. The Bashkortostan prime minister believes that the company's commercial interests should be less important than these primary goals.

Many Bashkortostani observers are convinced that low energy prices have allowed many enterprises to survive the crisis. Energy prices have been held down by artificially lowering the price of fuel oil, which in Bashkortostan is only half the Russian average. As a result of these measures, oil drilling, processing and petrochemical production have become profitable. These are the leading sectors of the republican economy, supplying two thirds of its budget revenue.

Baidavletov rejected criticisms that these methods represent a "non-market approach." He argued that EES is an organic part of the country's economic complex and that its well-being is not a goal in itself. The Bashkortostani leadership cares not only about developing Bashkirenergo, which is a regional branch of EES, but the entire economy of the republic, including the fuel sector, machine building, and agriculture. Therefore, Baidavletov said, one must be extremely careful in carrying out a reform of the electricity company. At the same time Baidavletov recognized that forcing the electricity provider into a corner with low prices also hindered the development of the republican economy.

Criticizing the EES leadership for its proposal to break the monopoly into small pieces, Baidavletov warned that the plan could lead to the destruction of the still viable sector. He doubted that the reformers would be able to attract \$70 billion in investment by selling off pieces of the utility. He said it was naive to expect much from foreign investors, who were likely to simply try to squeeze as much value from the existing equipment as possible. He also warned that EES assets were priced too low and would be sold to investors for essentially nothing. - Igor Rabinovich in Ufa

**GAZPROM CHAIRMAN VISITS KRASNODAR.** On 3 July Gazprom Chairman Rem Vyachirev visited Krasnodar, where he met with Krasnodar Krai Governor Nikolai Kondratenko and Adygeya President Aslan Dzharimov. During his visit, Vyachirev



announced his strategic vision for the natural gas sector: first gas will be used to heat residences and provide fuel for cooking. The second priority will be to produce polyethylene, fertilizers, and other supplies for the chemical industry. Producing electricity is the third and last priority.

In Vyachirev's words, gas energy will remain in use in "ecologically fragile zones": large cities and resorts towns. The rest of the country will need to turn to other fuel sources to produce electricity, primarily coal, which already exists "in abundance," he said.

This decision on the allocation of natural gas does not indicate an end to collaboration between the country's largest company and the regions-- at any rate, not in the case of Krasnodar Krai. The agreement signed by Vyachirev and Kondratenko states that gas will continue to be supplied to Kuban small towns and farms. It is expected that revenue collected from Mezhrefiongaz debtors will finance this project. The agreement also discusses joint drilling of small gas deposits, renovation of the production capabilities of Kropotkinskii Chemical Factory, and aid for the agrarian sector.

This help will take the form of ammonium nitrate, phosphorus-rich manure, and fertilizer--to the tune of 570 million rubles--which the agrarian sector will receive in the second half of this year. Next year this figure is expected to rise three-fold, with the type and quantity of supplies offered expanding accordingly.

In the future, Gazprom, with the help of the district administration, plans to create a powerful agro-industrial company, including five agro-chemical bases, two elevators, and four technological machine stations. Gazprom has allotted over 300 million rubles to this project.

In concluding their talks, Vyachirev and Kondratenko discussed the pressing problem of debt. Kuban consumers now owe Gazprom over 2 billion rubles. However, this debt has not been a point of conflict between the sides. Kondratenko emphasized that, "All current bills have been paid off, and in the autumn a portion of our resources will go toward paying off old debts. Immediate liquidation is impossible, because the majority of our material and financial resources are currently being focused on the harvest--an area where Gazprom is also helping us." (*Volnaya Kuban*, 4 July) - Ariadna Popova in Krasnodar

### **VOLGOGRAD LOOKS FOR ALTERNATE OIL SOURCES BEYOND LUKOIL.**

Volgograd Oblast is highly dependent upon LUKoil, which not only controls a large oil refinery, Nizhnevolzhskneft, and a network of gas stations in the region, but also maintains a near monopoly on local oil wells. The oblast government has repeatedly lamented the mistakes it made during the first years of privatization, which left it without any stake in the local oil drilling and refining industry. At the same time, the oil industry has long since become a thorn in the side of the local population because of the way it fouls the environment. In 1997, the Ministry for Emergency Situations fought unsuccessfully for several weeks to put out a fire on the grounds of a local oil refinery.

A factory designed to help the region solve some of these oil-related problems is about to open in Svetloyarsk raion. A joint project of the Volgograd Oblast administration and the republic of Azerbaijan, the plant will produce diesel fuel, fuel-oil, and other oil products.

Deputy Governor of Volgograd Oblast Vladimir Kabanov announced that the oblast administration has additional plans for the factory. Oblast officials are currently developing a project to drill several oil wells in Bykovsk raion-- oil wells that have not yet been turned over to LUKoil in exchange for debt cancellation. If the plan is successful, by the end of the year Volgograd Oblast will control its own oil source. This in turn would allow for the production of gasoline, which will help the oblast slip out of LUKoil's monopoly. - Ivan Kurilla in Volgograd

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RRR Editors

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**WATCH OUT YAROSLAVL, HERE COMES DANIELLE!** This week the EastWest Institute bids goodbye to RRR Senior Editor Danielle Lussier who is moving to Yaroslavl at the end of August where she will participate in the IREX Russian-US Young Leadership Fellows for Public Service program. There the vegetable-crunching, tofu-slurping Danielle will study at the university and work with a local NGO. The hockey-crazed erstwhile RRR editor hopes to "look at issues involving women in regional and local political life." Given the pathetic performance of the New York Rangers this year, some suspect that Danielle's real plan is to make waves on the Russian hockey scene. EWI's favorite herbivore also hopes to find a Gamelan so she can keep up her Indonesian music-making skills. While we fear that we will ultimately lose Danielle to Sports Illustrated, she has promised to send correspondent reports over the course of her year abroad. New York City's loss is Yaroslavl's gain, as Danielle has managed to fill this place with her boundless energy and joy. Do svidaniya Danielle!

EastWest Institute  
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## **BREAKING NEWS**

### **POLITICS**

#### **PUTIN FINALLY REMOVES KULIKOV AS MOSCOW POLICE CHIEF.**

President Vladimir Putin on 18 July signed a decree removing Nikolai Kulikov as the head of the Moscow police ostensibly at Kulikov's request. Yeltsin had tried to fire Kulikov in December, but a law that gave the relevant governor a voice in removing police chiefs blocked his move (see *EWI Russian Regional Report*, 6 July). That law has since been overturned. Moscow Mayor Yurii Luzhkov asked Minister of Internal Affairs Vladimir Rushailo to appoint Kulikov to the job again. Also on 18 July Viktor Zakharov was inducted as the new head of the Federal Security Service for Moscow city and oblast (*Nezavisimaya gazeta*, 19 July).

**MORE DEMONSTRATIONS IN KARACHAEVO-CHERKESIYA.** An unsanctioned meeting of 3,000 Cherkes and Abazins demanded the resignation of Karachaevo-Cherkesiya President Vladimir Semenov in Cherkessk on 18 July, according to *Nezavisimaya gazeta* on 19 July. The groups once again warned that they would seek to withdraw from the republic if their demands were not met. The demonstrators also said Boris Berezovskii's stated intention to resign would have a negative impact on the region and stressed that he was obligated to continue working in the State Duma. Berezovskii announced his intention to resign on 17 July and followed through on 19 July. Semenov and Berezovskii do not get along and Semenov had sought to remove him from office (see *EWI Russian Regional Report*, 19 April). The protests began last May when Semenov was elected president in a controversial election and the Cherkes and Abazins complained that their co-ethnics were not sufficiently represented in public office (*Nezavisimaya gazeta*, 19 July). The republic will hold a referendum on Semenov's leadership in October, one year after he took the oath of office.

**SHABDURASULOV TO HEAD MEDIA HOLDING COMPANY.** Former First Deputy Chief of Staff in charge of regional policy Igor Shabdurasulov announced on 16 July that he intends to form a media holding company that will consolidate the media outlets controlled by oligarch Boris Berezovskii, which include ORT, TV-6, *Kommersant*, *Nezavisimaya Gazeta*, *Novye Izvestiya*, *Ogonek*, and the radio station Nashe Radio. Shabdurasulov's announcement confirms Berezovskii's leading role at ORT and

raises the question of who will have control over the channel in the near future. Polit.ru cited the newspaper *Vremya novosti* as confirming that Berezovskii has already held negotiations with Russian President Vladimir Putin about transferring his 49 percent stake in ORT to the state. Polit.ru surmises that Berezovskii is organizing this media company as a way to counter his weakening influence with the administration.

## **ECONOMICS**

**KRISTALL DISPUTE ONLY PARTIALLY RESOLVED.** On 17 July a Moscow court ruled that the decision made at the Kristall vodka factory's 26 May board of directors meeting to dismiss General Director Yurii Yermilov and appoint Aleksandr Romanov was invalid (see *EWI Russian Regional Investor*, 31 May). After that vote, Kristall's top managers refused to accept the board's decision and would not allow Romanov to enter the factory. Following this protest, one of the factory's pro-Yermilov shareholders, the Tekhnogres company, filed a suit with the Moscow arbitration court to have the board of director's decision overturned.

The board's decision to remove Yermilov was motivated by the general director's opposition to the formation of state alcohol monopoly, Rosspirtprom, which is expected to take over a 51 percent stake in Kristall. The 51 percent stake is owned by the state but is in the trust of the Moscow City government. The remaining shares are split between Internet Management Ltd. (Cyprus) (19.46 percent), Tekhnogres (5.11 percent), Soyuzplodimport (4.58 percent), and the Kristall workers' collective (19.54 percent). According to *Vedomosti*, the Moscow City government initiated Yermilov's removal in May.

The 17 July decision does little to clarify the issue of who is Kristall's general director. While the court overturned the 26 May decision, it did not make a ruling on the 19 June decision during which the board once again voted to dismiss Yermilov and instate Romanov. According to Kristall lawyer Natalia Iskulova, the 19 June decision exhibited the same violations as the 26 May decision. The court will likely have to review this case again before the situation can be fully resolved.

The core of the issue is the lucrative profits the vodka industry generates and who is entitled to the lion's share of this wealth--the federal or regional governments. (*Kommersant Daily, Vedomosti*, 18 July)

**KASYANOV ANNOUNCES ONAKO AUCTION.** On 17 July Russian Prime Minister Mikhail Kasyanov signed an order to auction off the state's 85 percent share in ONAKO. The two most likely bidders for the stake are LUKoil and Yukos. According to ONAKO, foreign companies have expressed interest as well, although ONAKO is not disclosing who these companies are. Yukos holds a blocking stake in ONAKO subsidiary Orenburgneft, and is reminding others of this fact in an attempt to intimidate potential competitors and keep the bidding down. It is not yet known what the starting price will be, but it is likely to run in the \$300-400 million range. The state is not planning to sell off its shares in Rosneft (25 percent) and Slavneft (19.6 percent) at this time. (*Kommersant Daily, Vedomosti*, 18 July)

### **DE BEERS NEW STRATEGY COULD CHANGE FACE OF RUSSIAN**

**DIAMONDS.** South Africa's De Beers diamond giant has adopted a new strategy to maintain its dominance of the world diamond markets. The company no longer plans to prioritize purchasing uncut diamonds, but will rather spend its resources marketing jewelry. The company's Diamond Trading Company will become the principle supplier of uncut diamonds. This is important news for Russia, which has been one of De Beers top diamond suppliers for many years. Russia's Almaznyy Rossii Sakha (ALROSA) extracts nearly all of Russia's diamonds and supplies De Beers with at least \$550 million in diamonds annually, approximately one-third of its total production. In 1998 De Beers and ALROSA signed an agreement granting De Beers exclusive rights to ALROSA's diamond exports. De Beers purchased Russian diamonds at a special rate 10 percent below market cost.

De Beers' change in strategy will have a definite impact on ALROSA. According to ALROSA President Vyacheslav Shtyrov, there are four different scenarios for ALROSA regarding De Beers: work independently under conditions of agreed prices, quotas, and other policies; continue to trade diamonds with De Beers but become a stock holder in the Diamond Trading Company; maintain the current trade agreement (which is valid until 2001) with changes in the sales and pricing conditions; or enter into direct competition with the company. For ALROSA to compete effectively with De Beers on the world market it would need to increase its production of cut diamonds or broaden its sales of uncut diamonds. Therefore, it is in ALROSA's best interests to maintain some sort of relationship with De Beers.

According to head of Gokhran (State Fund for Precious Metals) Valerii Rudakov, Russia should dissolve its agreement with De Beers and work directly on the world diamond market. Maintaining an agreement with De Beers protects ALROSA's position as Russia's diamond monopolist, a status that Gokhran would like to see diminished. (*Vedomosti, Kommersant Daily, Izvestiya*, 18 July)

**DE BEERS' REPRESENTATIVE EXPLAINS LOMONOSOV DECISION.** On 15 May De Beers announced that it was selling its 27 percent stake in the Severalmaz venture to exploit the Lomonosov diamond deposit in Arkhangelsk Oblast to ALROSA (see *EWI Russian Regional Report*, 17 May). In an 18 July interview with *Nezavisimaya Gazeta* De Beers' Moscow representative Raymond Clark offered an explanation for the company's decision to leave the Lomonosov project. According to Clark, De Beers encountered legal obstacles from the start as it was made clear that the investment climate of Russia's diamond industry was not welcoming to foreigners. Several high level officials made statements that only domestic companies should be involved in mining Russian diamonds. Clark stated that ALROSA's interest in expanding its work into the North West made the sale of De Beers' 27 percent stake a logical course of action to pursue given the hostile attitude towards the foreign investors.

### **BRIEFLY NOTED**

--The government has decided to reduce import tariff rates, abolishing the 30 percent and 25 percent rates. Import tariffs will now range from 5 to 20 percent, depending on the respective good. (*Kommersant Daily*, 18 July)

## **LEGISLATING PUTIN'S FEDERAL REFORMS**

**STATE DUMA APPROVES FEDERATION COUNCIL COMPROMISE...** On 19 July the State Duma voted simultaneously in three readings to accept a compromise agreement on the formation of the Federation Council. The vote was 307-88, with five abstentions. The Federation Council will meet on 26 July to consider this bill. Some Duma members and Presidential Representative in the State Duma Aleksandr Kotenkov feared that the Federation Council plans to veto the bill to postpone any further action until the fall, but the overwhelming vote in favor of the bill should send a strong signal to the upper house.

The main features of the bill on the Federation Council were hammered out by the conciliatory commission of the two houses and the presidential administration on 17 July. The committee agreed to allow the governors to appoint their representatives to the Federation Council as long as the regional legislature did not reject the appointment by a two-thirds votes within two weeks. The governors will also be able to remove their appointee by the same procedure. Both sides got something from the deal. If the bill passes, Putin has removed the governors from the upper house. However, the governors will be able to control their representatives in the new body and remove them if they do not like the way they vote. The governors will leave the Federation Council as their terms are up or by 1 January 2002 at the latest. This deadline gives the governors an extra year over the previous bill passed by the State Duma. Many governors face elections this fall and thus will not be able to return to the Federation Council. In adopting this compromise, the president and regional leaders avoided a showdown on whether the Duma would override the veto in its 19 July special session.

The agreement was a last minute compromise. On 14 July the conciliatory committee admitted defeat and claimed that there would be no further meetings. The main point of conflict was that the governors wanted to be able to appoint their representative to the new Federation Council without first gaining the approval of the regional legislatures. Additionally, the governors wanted to be able to remove their representatives. To get a better understanding of the process, the RRR turned to Viktor Pokhmelkin, the deputy chairman of the State Duma's Soyuz pravyykh sil faction who was a member of the conciliatory committee.

"The work of the committee showed that the vast majority of the members of the Federation Council did not like the very concept of the new law. During the process of our joint work, they tried to convince the Duma and president either to drop their plans to restructure the way members are chosen for the Federation Council or to castrate the law to the point that everyone will realize that it will be impossible to implement in the form that it was approved. ... It is necessary to say that our colleagues from the Federation Council did not hide their intentions. They behaved professionally, coordinatedly, and purposefully. In this sense, the Duma members and the president's team seemed unprepared for such coordinated and professional opposition. Among the Duma members there was a lack of coordination, while the presidential administration also did not have a unified position. One got the impression that neither the representatives of the president, nor the representatives of several Duma factions knew what they wanted: a compromise at any price or simply destroying the work of the committee."

**... BUT GIVES PRESIDENT POWER TO REMOVE GOVERNORS.** Also on 19 July, the State Duma voted to override the Federation Council veto of Putin's bill giving the president the right to fire governors and disband regional legislatures (362-35, with 8 abstentions). Chuvashiya President Nikolai Fedorov warned that this act made it more likely that the upper house would veto the bill on procedures to form the Federation Council at its 26 July meeting ([www.nns.ru](http://www.nns.ru)). Additionally, the State Duma approved Putin's amendments to the law on local governments in the third reading.

## **CENTER-PERIPHERY RELATIONS**

**PUTIN TAKES TOUGH STAND IN URALS VISIT.** President Putin visited Sverdlovsk Oblast on 13-14 July. In his first trip to the Urals region since becoming president, he arrived around 10 o'clock at night and went immediately to the governor's residence, where the governors of all the regions in the Urals Federal District were waiting for him. The main theme for discussion was the course of Putin's reform of the federal state and the problem of dividing power between the center and the regions. The basis of these relations will be the seven newly-created federal districts. Putin said, "There is full certainty that this mechanism will be carried through to completion."

According to Sverdlovsk Oblast Duma Speaker Yevgenii Porunov, the governors did not convince Putin to change his plans for reforming the country's institutions or inter-budgetary relations. The president said that the redistribution of tax income from the regions to the federal government will be carried out despite the protests of the regional leaders. Currently the federal government and the regions divide this tax income 50:50, but the new plan apparently calls for a division of 70:30 in favor of the federal government. This reform is expected to cost Sverdlovsk Oblast 8 billion rubles in 2001. Putin said that he would also push through changes in the Federation Council. Putin also made clear that "his" bureaucrats in the region, Presidential Representative Petr Latyshev and Federal District Procurator Yurii Zolotov could count on his full support.

The key purpose of Putin's visit was to view the arms show in Nizhnii Tagil (for details, see this week's *EWI Russian Regional Investor*). He also visited the Nizhnii Tagil Metallurgical Combine, which is preparing to install a production line to build the first wide-diameter pipes in Russia. Putin said that the Russian government would support the project only in the framework of a market economy. The state would invest no funds in the project, nor would it force Gazprom to buy pipes from the plant. Putin said that the project would succeed only if it produced a quality product that was in high demand. - Natalya Mints in Yekaterinburg

**NEW JUSTICE MINISTRY BRANCH IN SOUTHERN FEDERAL DISTRICT.** On 14 July Justice Minister Yurii Chaika announced the formation of a new branch of the Justice Ministry at the federal district level. He said that his ministry would in the future focus not only on pin-pointing violations of federal law in the regions, but also on encouraging regional officials against such violations. Attendees at the conference included Presidential Representative to the Southern Federal District Viktor Kazantsev, Rostov Governor Vladimir Chub, Chairman of the Don Parliament A. Popov, and other high officials.

Chaika gave an overall negative evaluation of the state of adherence to the law in the Southern Federal District (which includes the North Caucasus), noting that adherence to federal law and maintenance of national security went hand in hand. He cited several examples of dangerous behavior that could affect national security adversely, from republics declaring sovereignty to regional interference in the realization of citizens' constitutional rights. Chaika divided the Southern district's members into two categories: "national" republics, and Russian krais and oblasts. The bulk of criticism was directed at the national republics, Ingushetia in particular. At the same time, some krais and oblasts were commended for their exemplary work. In part, this dichotomy may be explained by the fact that republics have their own constitutions and are thus more easily able to diverge from federal law.

Chaika pointed out that while historically there has been no mechanism in place to hold regional leaders responsible for laws that violate federal legislation, a series of presidential bills now exists to address this issue. Punishment for violating federal legislation may include dismissal from office. The Justice Ministry is also preparing a federal legal register in which all regional leaders would be required to document their normative acts. Regional leaders would also have the opportunity to exchange information and pool their knowledge through this register. In addition, the Security Council is planning to create an interdepartmental commission under the auspices of the Justice Ministry to ensure greater conformity to the law. Also the Justice Ministry is creating its own department on regional legislation. Finally, the minister announced that his ministry will have branches in all federal districts.

Taken together, these various decisions signify a comprehensive reform of the Russian legal system. Branches of the Justice Ministry will not only scrutinize regional legislation, but ensure that it complies with federal norms: a job once reserved for the procurator. It seems clear from these and other comments made by the Justice Minister that the procurator's monopoly on supervising legal activity has come to an end.

In general, it appears that both the procurator and the Justice Ministry are bending over backward to accommodate the Kremlin's latest interests. While the procurator has been especially zealous in fighting the oligarchs, the Justice Ministry has decided to clean up regional legislation. - Andrei Miroshnichenko in Rostov-na-Donu

**STROEV DEEMS ATTEMPTS TO REFORM LEGISLATURE ABSURD.** The Orel state television and radio company (<http://www.oryol.ru>) recently broadcast two exclusive interviews with Orel Oblast Governor and Federation Council Chairman Yegor Stroev on President Vladimir Putin's plans to reform the Federation Council. The positions he states on local television are much stronger than what he says on the national networks.

These two interviews, conducted 29 June and 9 July, demonstrate that Stroev sees an appalling lack of logic behind the recent events that have thrown the Russian parliament into chaos. He notes that, "Some want there to be two houses in government, some one. Still others suggest founding a State Council, which could take the place of both houses. I think that all three models are absurd, given our Constitution."

While Stroev believes that the national government needs to undergo systematic reform, he thinks it should be carried out differently. "In 1997 I said that the constitution is not an icon. ... Today, Russia has a carcass of power, but there is no system of power,

no clear hierarchy of authority, and no nation-wide budgetary policy. Local self-government has been left to the mercy of fate. All local leaders know that they are leaders in name only: they have no money, no opportunity to conduct independent policy of any sort. Instead of systemically reforming individual laws, we are debating laws that can wipe out entire state institutions, such as the Federation Council. Without it, the Federal Assembly cannot function. We (senators) saw the shooting at the White House and the dispersal of the Supreme Soviet. We were witnesses to the political crisis of 1993. This is why we have renounced the proposed law."

Stroev believes that the governors have served the Russian people well by stabilizing the situation in the country at large: "Even following the crisis of 1998, when the federal authorities could do virtually nothing to stop the break-down of Russia, the country withstood, it moved forward. What pulled it back from the precipice? The regions. This is where Russia's strength lies. Regional leaders, under the most difficult of conditions, virtually without money, were able to pull the economy back from the edge of the abyss by working together."

Of the current situation, Stroev said, "We understand that Russia has grown weak at the center and that she is gradually dragging the regions down with her. Chechnya is a striking example. This bloody second war, which has no end in sight, has forced us to think seriously about how to bring the whole country together. And because of this, the talk at the last session of the Federation Council was devoted to how to build a system of power in Russia. The Federal Assembly, and above all the Federation Council, have no quarrel with the president over the main issue at hand: Russia must be a federal, democratic, unified country where all laws are the same for all citizens, whether they live in Chechnya, Tataria, or Orel Oblast." - Sergei Sarychev in Kursk

**KOMI ELITES DIVIDED OVER FEDERAL REFORMS.** In Komi the political elites view President Putin's federal reforms differently depending on their own different political interests. Komi leader Yurii Spiridonov is strongly opposed to the reforms, particularly the reform of the Federation Council. On 30 June, he warned "One cannot pass laws that violate the constitution, and then subordinate the constitution to those laws." Overall, he stressed that a "healthy conservatism" is useful in politics. He said that the federal government had basically adopted the approach that it could not operate without an "enemy figure" and therefore had decided to battle the governors.

Spiridonov complained that the federal authorities were seeking to take control of an undue share of taxes. By taking all the proceeds from the value-added tax, the federal government would be taking hundreds of millions of rubles from Komi. At the same time, the government was dumping additional responsibilities on the Komi government. He complained that the regions dependent on federal subsidies benefited from such a redistribution of resources and, since they are a majority within the federation, all of the tax plans would be approved. However, Spiridonov expressed strong doubts that the federal government would return the money it collected from the regions in the form of federal programs. He said that even though Komi is fulfilling its agreement with the Finance Ministry on taxes, the Russian government had not given the republic the money required for summer vacations (*Panorama*, 6 July). Spiridonov called the centralization of the funds robbery and declared that the center had begun its attack on the regions.



In contrast to Spiridonov, Komi Speaker Vladimir Torlopov gave Putin's reforms high marks saying that he generally supported the plan developed Economic Development and Commerce Minister German Gref (*Argumenti i fakti. Komi*, no. 27).

Additionally, the newspaper *Molodozh severa* asked several well-known politicians in the republic if they thought that the president's reforms would lead to the return of a totalitarian state. Almost all said no. Komi Soyuz pravyykh sil leader Igor Bobrakov, replied that "this myth is being spread by two journalists who work for key oligarchs - Russian Public Television Anchor Sergei Dorenko, who is backed by Boris Berezovskii, and NTV Anchor Yevgenii Kiselev, who is backed by Vladimir Gusinskii." He said that the arrest of Gusinskii and the effort to reform the Federation Council would not lead to a change of the country's political system. Komi Communist Party Secretary Aleksei Kozlov warned that Putin was seeking a dictatorship and that if a powerful person like Gusinskii could be arrested, then such a dictatorship was at hand (*Molodozh severa*, 13 July). - Yurii Shabaev in Syktyvkar

**AYATSKOV FIRMLY BEHIND PUTIN REFORM.** While most members of the Federation Council are heatedly, but relatively anonymously, attacking Putin's reform of the Federation Council, Saratov Governor Dmitrii Ayatskov is firmly behind the president. Perhaps only Penza Governor Vasilii Bochkarev has been more loyal. Ayatskov has made his position clear in a series of press conferences for local journalists.

Under Yeltsin, Ayatskov made public many debatable ideas dreamed up in the Kremlin so that they could be discussed in wider society. Ayatskov is proud that in 1997 he began to speak publicly about the idea of choosing members of the Federation Council on a professional basis. At that time Yeltsin began to realize the danger he faced from the governors and wanted to make public the idea of setting up the body in a different way. Until recently, the idea was not taken seriously. In 1998 Ayatskov mentioned the idea of holding a constitutional assembly, and does not hesitate to take credit for his "authorship" of this idea now that it is being widely discussed, particularly among his colleagues in the Federation Council.

However, Ayatskov's first and last meeting with Putin came in July 1999, when Putin was still head of the KGB. Putin was apparently put off by Ayatskov's ambitions and made clear that he would use the services of other consultants.

Thus began a difficult time in Ayatskov's political career. All he obtained from the end of Yeltsin's tenure and his efforts to build a close relationship with the former president was the opportunity to move his gubernatorial elections up from September to March, guaranteeing another term.

Now Ayatskov has staked his career on supporting the three bills Putin proposed to the Duma in May and has yet to lose. He has made sharp denunciations of his colleagues in the upper house. Of the Federation Council, he said, "I don't support turning it into a branch of the government, which examines questions of supplying the regions with fuel and spare parts for tractors." In these conditions few pay attention to constitutional issues, he claimed. Ayatskov said Putin was seeking reforms for these reasons. He has also made disparaging remarks about his colleagues, suggesting that they are mainly interested in saving their positions in the upper house. Ayatskov believes that the prime minister should chair the Federation Council. He has made these ideas public through State Duma member Oleg Korgunov, a member of the conciliatory committee,

Duma Member Oleg Utkin, and Deputy head of the Otechestvo-Vsya Rossiya faction Vyacheslav Volodin, a former Saratov deputy governor.

Ayatskov has difficult relations with Presidential Representative to the Volga Federation District Sergei Kirienko. Ayatskov had initially signed the "Group of 14" November 1998 statement expressing his support for the formation of the Soyuz pravyykh sil, but then quickly withdrew it. Kirienko has so far turned down all requests to visit the oblast (see *EWI Russian Regional Report*, 3 December 1998).

Ayatskov also faces a tough situation in Saratov. The sharp conflict between regional Security Council Secretary Aleksandr Miroshin and the head of the oblast branch of the federal tax police, Anatolii Yatskov, shows that the heads of the federal agencies in the region are slipping out of the governor's control. Ayatskov is not now strong enough to impose his own control over them. However, he cannot give up his support for Miroshin because then the law enforcement agencies would take a greater interest in his past. More details about these alleged past misdeeds are starting to appear on the website: [www.flb.ru](http://www.flb.ru). - Yuliya Yeliseeva in Saratov

## **PATTERNS OF REGIONAL DEVELOPMENT**

**TYUMEN: OKRUGS STILL SEEK INDEPENDENCE.** Although Tyumen Oblast is not scheduled to hold its gubernatorial elections until January (or possibly February) 2001, the looming vote is already influencing life in the region. According to lists being published in the local press, likely candidates include five of the region's six "senators" (the Khanty-Mansi and Yamal-Nenets autonomous okrugs are both located on Tyumen territory and like the oblast itself, have representatives in the Federation Council). Only Khanty-Mansi Governor Aleksandr Filipenko consistently asserts that he does not want to leave the okrug. Another potential contender is State Duma member Gennadii Raikov, who leads the Narodnyi deputat faction, a position that gives him considerable clout on the regional stage.

The front-runners are incumbent Governor Leonid Roketskii and Yamal-Nenets Governor Yurii Neelov, who is already campaigning actively. A year ago his okrug bought Tyumen's second most popular newspaper, *Tyumenskaya pravda*, removed all the Roketskii supporters from its staff, and now uses the paper to criticize the Tyumen governor in his backyard. The okrug also bought prime time on Tyumen television. Unfortunately, Neelov's supporters did not prepare appropriate material to broadcast and now fill the air time with just about anything that has the words "Neelov" and "Salekhard," the Yamal-Nenets capital. In the okrugs themselves, the Khanty-Mansi okrug government now almost completely replaces Tyumen state broadcasting with local material, and the Yamal-Nenets government is increasingly doing so.

Roketskii is much more passive. He presents himself as the unifier of the oblast, fighting against the separatism of the okrugs, who seek to be completely independent regions. The problem of separatism or integration is key to the oblast's politics today. As is well known, Russia has 10 autonomous okrugs, which are simultaneously independent regions and part of the oblast or krai on whose territory they are located. Article 66 of the 1993 constitution says that their relationship can be regulated by federal law or an agreement between the okrug and oblast or krai (only Chukotka has won its independence from Magadan Oblast). The author of this clause was Vladimir Ulyanov,

who in the summer of 1993 was the chairman of the Tyumen Oblast Council and a member of the Constitutional Assembly. Most of the okrugs are poor and are not interested in leaving the larger region of which they are a part.

The situation is different in Tyumen. In both the southern part of Tyumen proper and in Khaty-Mansii there are about 1.4 million residents, while there are 500,000 in Yamal-Nenets. The northern okrugs make up 58 percent of the population while the southern unit comprises 42 percent. The northern okrugs produce 96 percent of the region's total output and generate 87 percent of the budget revenue. The north produces almost all of Russia's gas and 60 percent of its oil, while the south is a poor agrarian region.

Despite the conflict between the three units, there are many factors linking them together. First, the south of the oblast has a more livable climate and always served as a staging area for mining the resources of the north, where the climate is much less hospitable. Housing is two-four times as expensive in the north as in the south. Many people in the south once worked in the north or have relatives there, while the okrug residents have many ties to the south. These connections are especially apparent among the three governors who are all from the north and once worked together. All are connected to G. P. Bogomyakov, the former obkom first secretary, who is the godfather to almost the entire local elite.

Second is the transportation infrastructure. The main rail links are north-south, meaning that the region is largely cut off from the rest of the country. Only a few east-west tracks to Sverdlovsk Oblast and Komi Republic break this isolation. Industrially, the region sends its entire output west, while it looks south for social infrastructure.

Third, the regions' fates are closely intertwined. The collapse of the south would make it difficult to supply the north. The okrug budgets subsidize the south and the okrug government and residents own a considerable amount of property in the south.

This unity is expressed in political institutions, with one governor, one oblast legislature, a council of governors (including the oblast and okrug governors). There are also some oblast-wide social organizations.

There are also many factors dividing the regions. The parade of sovereignties of the early 1990s had an impact when the industrial strength of the north led its leaders to oppose the power of the oblast governor. Article 66 in the constitution and the failure of the federal government to take a strong stand also encouraged separatism. Roketskii's attempts to act as the senior of the three governors did not go over well with the leaders who already had tense relations. Ultimately, Roketskii became the de facto governor of the south and only ventured into the okrugs on the extremely rare occasions when a federal official came to visit. The okrug residents eventually began to forget about him and the fact that they live in Tyumen Oblast.

The cities of the north were built during the Soviet era when no expense was spared to show that the country could conquer any natural obstacles. They are all beautiful and well populated. Surgut has 300,000 residents, Nizhnevartovsk, 250,000, Nefteyugansk, 100,000. The headquarters of Surgutneftegaz could rival that of any western corporation.

Another factor in the disintegration was the enormous difference in standards of living between the north and south. In Khanty-Mansi, supplements to salaries are 1.4

times the usual salary, while it is 1.6 to 1.9 in Yamal-Nenets. The northern residents are relatively well off, while their southern cousins are much poorer.

The okrugs are also angry that the southern part of the oblast gets a share of the tax revenue generated from the production of oil and gas. According to federal law, the okrug and local governments each get 30 percent of this income, while the federal government takes 40 percent. The federal government gives half of its share, 20 percent, to the oblast. In 2000, this 20 percent was 1.126 billion rubles, 49 percent of oblast budget income. The oblast gets the money without obligation, while the northern okrugs have to spend money on replenishing their resources and cleaning the environment.

Particularly alarming for oblast unity, road projects are now under way to connect the okrugs to the west. Eventually a new road will connect Khanty-Mansi and Ivel in Sverdlovsk Oblast. There are also plans to connect Salekhard and Nad. All these roads will avoid Tyumen in the south.

The main point of division between the three regions is the political differences among the three political leaderships. Both okrugs have adopted charters which only formally recognize membership in the oblast. In 1997 the Constitutional Court ruled that the okrugs were part of the oblast. This ruling did not end the question: while Khanty-Mansi brought its okrug charter into line with the oblast charter, Yamal-Nenets only deepened the differences.

In general the population has become used to this situation and it does not really affect life much. However, people in Tyumen are relatively more politicized than elsewhere in Russia. In the oblast legislature, 14 of 25 deputies support the okrugs, but the decisions of the body essentially only have meaning for the south.

Roketskii's team constantly stresses the importance of holding the region together. He points out that life in the north is closely connected to extracting oil and gas, resources that are already running dry. When the resources are used up, the residents of the existing cities in the north will have to come south to escape the harsh climate. Given that situation, he argues that there is little sense in dividing the region.

Additionally, the major oil and gas companies control most of these towns. LUKoil controls Langenas, Urai, and Kogalym, which make up its name. Nizhnevartovsk is the capital of the Tyumen Oil Company, which took Nyagan from Sidanko. Yukos controls Nefteyugansk and Pyat-Yakh, Sidanko controls Raduzhnyi, Sibneft, Noyabrsk and Muravlenko, Slavneft, Megion, and Surgutneftegaz controls Lyanntor. Gazprom controls Novyi Urengoi, Nadym, and Yamburg. Surgut, which boasts an enormous heat energy plant and an extensive train system still gets 70 percent of its revenue from Surgutneftegaz. All of these cities are basically self-sufficient and have little contact with each other. The fact that these cities are so dependent on private companies gives Roketskii's proponents even more cause to argue that the okrugs should be subordinated to the oblast, so that they are not left alone to fight one-by-one with the powerful companies.

In the battle between Roketskii and Neelov, much depends on Filipenko. He will likely support Roketskii because Neelov as governor of the oblast would likely try to centralize power in the oblast more effectively than Roketskii has been able to do so far. Another possibility is that Putin will simply abolish the okrugs, leaving the three current governors to fight over the one remaining seat. - Leonid Smirnyagin in Tyumen Oblast

**AFTER TITOV WIN, FROSTY RELATIONS WITH KREMLIN.** Samara Governor Konstantin Titov was reelected to his post on 2 July for a five-year term, winning 53.25 percent of the vote, 10 percent less than he had won in elections four years earlier. He had resigned from office on 4 April following a humiliating showing in the 26 March presidential campaign. Many thought that he resigned at the time because polls showed that 65-70 percent of the voters were willing to support him in a gubernatorial election.

Several other factors were working in Titov's favor. First, the social-economic situation in the oblast on the eve of the elections was stable, and even seemed to be improving. During 1999, industrial output in the region grew 13 percent over 1998. Second, there were no real competitors since all other candidates only had 5-8 percent support in the polls. They all were only known at the regional level and therefore had difficulty winning a large share of votes. Third, all four of the major financial-industrial groups that determine the health of oblast economy supported him. These are AvtoVAZ, Samaraenergo-Volgopromgaz, YUKOS, and Siberian Aluminum. The support of these groups guaranteed that Titov would be extensively and positively covered in the media. Fourth, Titov's main opponents did not complete the race. Samara Mayor Georgii Limanskii decided not to risk a run against Titov and even worked as one of Titov's authorized supporters. General Albert Makashov, who would have won the protest vote, had to drop out of the race when he could not collect enough signatures in support of his campaign.

Despite these positive factors working in his favor, Titov also faced a number of difficulties. Among them were the population's unhappiness with his unsuccessful attempts to build a national party, a 25 million ruble (nearly \$1 million) income declaration, his poor showing in the presidential campaign, and his resignation and immediate return to politics.

Other factors working against Titov included the more or less clear opposition from the presidential administration. Although the Kremlin maintained official neutrality during the campaign, and Titov constantly expressed his loyalty to Putin, the Yedinstvo party supported State Duma member and Samaratransgaz President Gennadii Zvyagin. Since the gubernatorial elections and local elections were held at the same time, most mayors' only offered formal support in seeking the governor's reelection since they were focused on their own elections. Local civil servants and pensioners did not receive a raise announced by the federal government on 1 April, although their salaries are still higher than the Russian average.

Titov's main campaign theme was "Let's finish what has been started, and continue what has been done." He dominated the media, occupying 1,062 minutes on central and regional television during the period 1-30 June, when his closest competitor had only 531 minutes. The vast majority of the Titov coverage was positive. Titov also dominated the press, with 372 publications between 4 May and 30 June, again mostly positive. His closest competitor scored only 109 publications. However, his ads were much less effective than those of his opponents, according to studies by the Sociology Center at the Fundamental Research Foundation.

Overall the victory was not the triumphant march one might have hoped for. After the voting results were in, the Kremlin sent no one to congratulate Titov. Even Presidential Representative in the Volga District Sergei Kirienko, who repeatedly declared Samara the capital of the Volga region, sent his deputy V. Stepankov for the

inauguration. Now the question remains, Will Samara get a new impulse for development or will it evolve only with the inertia of past years? - Viktor Kuznetsov in Samara

**CHEREPKOV PRODUCES ALLEGED TAPES OF NAZDRATENKO ON ELECTIONS.** On 15 July, a court in the Leninksii raion of Vladivostok rejected Viktor Cherepkov's motion to declare the Vladivostok mayoral elections invalid. (On 18 June, Primorskii Krai Governor Yevgenii Nazdratenko's pick for the post, Yurii Kopylov, won the elections.) During the court proceedings, the plaintiff produced tapes containing recordings of telephone conversations that have become the source of yet another national scandal.

The tapes, on which voices that sound like those of Nazdratenko and Kopylov discuss electoral preparations, support Cherepkov's allegation that large number of voters -- including municipal workers, teachers, doctors, and students -- who requested that they be allowed to vote early, did so with the encouragement of regional officials. The cynical tone of these tapes provided additional shock value. On one tape, a krai administration worker demanded that the head of a raion administration ensure that every municipal forewoman under his jurisdiction turnout no fewer than 50 people to vote. If the forewomen did not succeed in their task, the krai official threatened that they would be fired and replaced by prostitutes, who would be sure to get the job done satisfactorily. On another tape, the Nazdratenko voice demanded that the Kopylov voice make it impossible for the opposition's media outlets to function following his victory.

The origin of these tapes remains unknown. Cherepkov says that they were left on the doormat of his campaign headquarters by an anonymous figure. In light of their dubious origin, the judge expressed doubt as to the tapes' validity and refused to admit them as evidence of guilt. The defendant's lawyers claimed that the tapes had been falsified.

As a result, this lawsuit over the outcome of an election -- a phenomenon with which residents of Vladivostok are highly familiar -- could have serious ramifications for either side. Law enforcement officials should soon prove whether these tapes are genuine. If not, Cherepkov's image as an honest, albeit eccentric, figure will be tarnished. However, if the tapes are genuine, the situation will become even more delicate. On the one hand, it would be reminiscent of Watergate: the illegal recording of telephone conversations is a serious violation of any citizen's Constitutional rights. Yet the content of these alleged recordings is indicative of an equally serious violation of the Constitution by the local authorities.

Cherepkov has filed an appeal with the Primorskii Krai court and is determined to take this case to the Russian Supreme Court if necessary. Kopylov has urged citizens to unite against those who violate Constitutional rights. - Dmitrii Motovilov in Vladivostok

## **TAXATION ISSUES**

**ZUBKOV TO COLLECT MORE TAXES IN NORTHWEST.** Viktor Zubkov, Deputy Minister of the Russian Tax Collection Ministry and head of St. Petersburg's municipal tax inspectorate, recently accepted the position of Tax Inspector for Russia's Northwest Federal District. Zubkov announced his new title during a briefing on the

reorganization of Russia's tax authorities in light of the creation of the seven new federal districts.

In his opinion, the new system will significantly raise tax revenue. After the oblast tax authorities audit taxpayers, the interregional inspectorate will reserve the right to audit the auditors' findings. The head of the interregional inspectorate will most likely be appointed from among the heads of the St. Petersburg's largest raion tax inspectorates.

Zubkov singled out Lentransgaz and the region's railroad as two of the largest debtors in the region. While the railroad has begun to pay off its debts lately, Lentransgaz has paid nothing into federal coffers since April. This subsidiary of Gazprom now owes the federal budget 800 million rubles. Zubkov does not rule out the possibility that Lentransgaz will face punitive measures. - Marina Makova in St. Petersburg

## **NATURAL MONOPOLIES**

**YARENERGO CUTS OFF ELECTRICITY TO ITS DEBTORS.** On 17 July, Yarenergo, a subsidiary of Unified Energy System, began to cut off electricity to its debtors for the first time in recent history. The move comes on the heels of EES head Anatolii Chubais' announcement that the company would cut off all debtors after 15 July. Thirteen of the 14 wholesale consumers of electrical energy in Yaroslavl Oblast fall into this category.

Ultimately, the real victims of this "planned" curtailment are the retail consumers who pay their bills on time -- an estimated 70 percent of the wholesale buyers' clientele. The wholesalers do not know concretely who owes money or how much each debtor owes. Wholesalers' distribution networks are unequipped to cut off energy to particular companies or factories without curtailing the electricity flow to nearby residential buildings at the same time. Wholesale buyers are also unequipped to cut off electricity to individual apartments that may have stopped paying their utility bills years ago.

Under these conditions, it would seem logical that those city residents who have paid their bills but nonetheless had their electricity cut off would direct their anger at the local authorities. Yet, if one is to believe the local media-- as residents of Yaroslavl appear to do-- the guilty party behind halted trams and melting refrigerators is none other than EES head Chubais and Yarenergo itself. While some municipal organizations are on the list of Yarenergo's debtors, the local authorities have emerged from this conflict unscathed. Although local authorities have not publicly announced their role in this conflict, they are nonetheless quietly trying to make amends. Evidence suggests that the tax haven enjoyed by companies friendly with the local administration may soon come to an end. This added revenue could be used to cover the electricity debts of organizations on the administration payroll.

This conflict has demonstrated that it is time for large firms to start setting up PR offices to explain their activities and interests to the public in a potentially hostile environment. It also highlights the absence of any opposition to the local authorities. Not a single political organization in the oblast raised its voice during the conflict, although "scandals" like these provide an excellent opportunity for opposition groups to gain public recognition and make a name for themselves. - Vladimir Antonov in Yaroslavl

## **BUSINESS IN THE REGIONS**

**AND NOT SO QUIET FLOWS IVANOVO'S VODKA.** Factories that produce alcoholic beverages have always attracted heightened scrutiny from local law enforcement officers. However, the recent events surrounding the Shuiskii Liquor-Vodka Factory in Ivanovo have gone beyond the usual tug-of-war between local authorities and industries.

As far back as 1997, Shuiskaya Vodka, despite its unique product, was operating at a loss of 39 million new rubles -- and this was prior to the August 1998 crash. The enterprise was declared bankrupt, and Andrei Serov, an entrepreneur who at the time already owned a network of grocery stores and served as the head of the committee on economics of the Ivanovo City Duma, was appointed to oversee receivership.

Serov worked actively to revive the factory. The product line was significantly increased and its quality enhanced (over the past few years, Shuiskaya vodka has received several medals at various exhibitions).

In early 1999, Serov became the head of the board of directors of the factory. He began to bring in his own team of people, including Sergei Vinogradov, who was appointed his deputy. In December 1999, Serov ran for the office of State Duma deputy. As he was already a prominent figure in the oblast, his chances looked good. Soon, however, he was implicated in a series of scandals. One entrepreneur sued Serov for \$1 million, a sum which Serov had allegedly taken to develop Shuiskaya. In fact, Serov bought \$1 million worth of the factory's vodka for his own firm, Eda, thus increasing the vodka factory's turnover capital. In doing so, he not only was able to pull the factory back from the abyss, but also become its director as well as its overseer. Serov's property was subsequently seized.

Soon afterwards, on 20 November, unidentified assailants tried to kidnap Galina Yablokova, who officially serves as legal counsel to the Ivanovo medical academy but, according to many members of the local political elite, is actually the "gray cardinal" of regional policy. All those arrested in relation to the case turned out to be guards of a company owned by Serov. One of the guards later testified against him. On 24 November, Serov announced that an attempt had been made on his life that demanded that he go into hiding. Federal investigators are still looking for him.

On 19 December, only 5 percent of the population voted for Serov for Duma deputy. He came in seventh.

Since January, Shuiskaya Vodka has had more than its fair share of attention. It has been repeatedly audited by various government departments, and the oblast committee on state property (the government controls 49 percent of company stock) has made several attempts to change the company's leadership, charging it with causing extensive losses through veksel operations and with producing counterfeit vodka.

While these allegations remain unproven, they have been subject to widespread discussion in the local media. Despite his absence, Serov remains, at least nominally, Shuiskaya Vodka's general director. Vinogradov, his deputy, is currently overseeing the factory.

Production volume at the factory has fallen of late: a result both of higher excise taxes on vodka and the recent scandals. A shareholders' meeting at which the question of Serov's premature dismissal and termination of his contract were discussed should have



decided the factory's fate. Representatives of the oblast administration have not hidden their interest in appointing Vinogradov general director of the factory despite his allegiance to Serov. However, at the meeting, which took place 9 June, an indefinite moratorium was called due to the confusion over the size of the state stake. In practice, the state owns 49 percent, but legally only 25 percent because the federal government claims the other part of the stake.

Thus the situation remains unclear at one of the oblast's largest companies, whose tax revenue makes up a large part of the oblast budget (in 1999 alone, Shuiskaya Vodka paid 123 million rubles in various taxes). The next shareholders' meeting, slated for 30 June, did not take place, and production continues to fall. The situation is unlikely to change prior to local elections, scheduled for December 2000. Serov, despite his "underground" status, remains a viable candidate for the post of mayor. Thus it is that the fate of one of few functioning enterprises in the oblast hinges on the results of the local elections, making for an unpredictable situation, to say the least. - Anna Semenova in Ivanovo

**CORRECTION:** Last week the RRR erroneously reported that two economists had been killed before they could testify in the case of Tatyana Loktionova. In fact, the two had been the target of an attack in which unidentified assailants shot at their car with hunting rifles, but both survived. We apologize for the error.

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**BREAKING NEWS**

**POLITICS**

**FEDERATION COUNCIL APPROVES COMPROMISE ON ITS FUTURE.** The members of the Federation Council voted on 26 July to strip themselves of their seats in the national legislature's upper chamber, thereby further consolidating power in the



Kremlin. The passage of this bill follows on the heels of the Duma veto of the Federation Council rejection of a bill that would allow President Vladimir Putin to dismiss governors who violate federal laws. A third bill, this one allowing regional governors to fire mayors, bypassed the Federation Council because the two-week deadline for debating it after the Duma ratification had already passed; the bill can now go directly to Putin for his signature.

The bill to remove governors from the Council passed by an overwhelming majority of 119-18, with four abstentions. This lopsided result should not be misconstrued as support for the bill; rather, most of the governors were resigned to the fact that a rejection of the bill would simply be overturned by the Duma. Many of the governors were bitter about the severe reduction of their power, saying that Putin was consolidating too much power in his own hands. According to Chuvashiya President Nikolai Fyodorov, the bill causes a "destruction of the system of checks and balances, and is very dangerous for democracy."

The governors did receive a few carrots in the bill. They will be allowed to keep their seats on the council until their current terms expire, or through the end of next year, whichever comes first. In addition, they were given the right to appoint and dismiss their own representatives in the upper house as long as two thirds of the regional legislature do not object.

Despite these presidential concessions, Kemerovo Governor Aman Tuleyev told reporters that the council might as well be abolished, since it is useless in its current shape. Presidential Representative to the Northwest Federal District Viktor Cherkosov said on 21 July that in the future both houses would be elected directly and that these changes would be made through constitutional amendments. Cherkosov is considered close to Putin, but it is not known if his statement really reflects the president's thinking about the future evolution of the upper chamber.

**UPPER CHAMBER APPROVES TAX LEGISLATION.** The Federation Council ratified the second part of the new tax code and its implementation bill by overwhelming majorities on 26 July. The vote was expected to be very close, as many experts expected some in the council to vote against the bill in retaliation for President Putin's recent efforts at limiting the power of regional leaders. However, the final margin was a lopsided 128-13, with nine abstentions.

Key elements of the legislation include a flat 13 percent income tax, a minimum 5 percent unified social tax, the raising of some excise taxes, and the amending of the law on value added tax (RFE/RL Newswire, 20 July). The new tax code is intended to be easier to understand, as well as to enforce. In addition, it provides for a much greater distribution of wealth amongst the regions than exists currently. As a result, the large number of poor regions supported the bill, while the richer minority spoke against it. The most vocal critics of the bill were representatives from Moscow, which stands to lose 30 percent of its budget, according to Mayor Yuriy Luzhkov.

Luzhkov argued that "This Tax Code is a vivid manifestation of liberal Bolshevism: to seize everything from the strong, to dekulakize them and to put everything into one pot. Then somebody will stand near this pot with a sentry and divide everything, presumably in a just way. This is an unnatural process."

Luzhkov's impassioned pleas apparently fell on deaf ears, as the impoverished regions jumped at a chance to increase their revenues by reaching into Moscow's pockets. The actual impact of the votes on federal and regional revenues remains unclear. Many governors believe that the federal government will receive 70 percent of tax revenue in the future, leaving 30 percent to the regions. The current system divides income about 50:50. At the session, Finance Minister Aleksei Kudrin claimed that the regions would get 52.5 percent, while the center's share would be just 47.5 percent ([www.polit.ru](http://www.polit.ru), 26 July). Other federal officials have quoted different figures. Earlier, First Deputy Finance Minister Sergei Shatalov had claimed that only 8-10 regions would actually have less income as a result of the legislation. In a statement on the eve of the vote, Tax Minister Aleksandr Pochinok noted that the federal government would take on more responsibilities as part of the redistribution of resources.

**REACTION STRONG TO DUMA OVERRIDE OF BILL GIVING PRESIDENT POWER TO REMOVE GOVERNORS.** While visiting Blagoveshchensk on 20 July, Putin tried to get the governors not to fight too much over the bill giving him the power to remove regional executives accused of violating the law and to disband regional legislatures. The State Duma overrode the Federation Council veto of this bill on 19 July (*See EWI Russian Regional Report*, 19 July). Putin said that he would only use this power as an "extreme measure." Putin was happy that the Duma had overridden the Federation Council veto, saying that it would make the country more manageable. Likewise, Putin suggested that it would make sense to give the governors the power to remove mayors who violate the law.

The governors, however, expressed anger that the Duma overrode its veto of Putin's bill. Federation Council Chairman Yegor Stroeve said that the bill simply could not stand up to criticism, and suggested setting up a conciliatory commission to improve its text. Chuvashiya President Nikolai Fedorov did not rule out the possibility that the governors would appeal the law to the Constitutional Court. However, the governors would likely have little luck in this forum since the court usually rules in favor of the federal government. Ingushetiya President Ruslan Aushev went much further. He said that the constitution did not set up the Russian state system so that federal officials could fire regional leaders: "What kind of federation is it if the president can remove the popularly elected head of a region or disband the regional legislature?" Aushev said that this idea violated "democracy and parliamentarism." Since the Duma overrode the upper house, Putin can sign the bill regardless of the governors' objections ([www.polit.ru](http://www.polit.ru), 21, 22, 24 July).

**PULIKOVSKII ON CHINESE BORDER ISLANDS.** Presidential Representative to the Far Eastern Federal District Konstantin Pulikovskii declared that the Bolshoi Ussuriiskii and Tarabarov islands were Russian territory. The islands are the object of dispute between Russia and China. Pulikovskii said that Putin discussed the topic when he was in China, but that the Russian and Chinese leaders had not made a decision on how they would be divided. Pulikovskii said that the two sides would continue to negotiate. ([www.polit.ru](http://www.polit.ru), 22 July)

**PUTIN STOPS IN KAMCHATKA TO DISCUSS PROBLEMS.** On his way back to Moscow from the G-8 summit in Okinawa, President Putin visited Kamchatka on 24 July to discuss the region's economic problems. Putin and Deputy Prime Minister Matvienko, who is in charge of social issues, stressed that more federal control is needed to ensure the social and economic development of the region.

The isolated peninsula is one of the poorest regions in the country, with 45 percent of the population living below the poverty line, compared to 35 percent nationally. The unemployment level there is higher than the Russian average. Wage debts are huge in the region, especially in housing and communal services, where workers have not been paid for 18 months. The region is also plagued by power shortages. An abundance of natural resources means that the region has strong potential for growth, but current levels of extraction barely meet local needs.

In a statement before the conference, Putin noted the vast natural resources of the region and said that with improved infrastructure, Kamchatka could become prosperous. Although there have been several previous attempts to revitalize the region, Putin ridiculed these as being worked out in isolation from reality. He charged the government with working out a concept for the rational use of the region's resources. To this end, the session discussed plans for building power plants on the peninsula, thereby lessening dependence on mainland energy.

Despite his criticizing previous presidential plans as flawed, Putin placed most of the blame for the region's economic malaise on Governor Vladimir Biryukov's administration. He strongly criticized the awarding of fishing quotas to foreign vessels at a time when Russian fish processing plants are idle, saying that while he supports foreign cooperation, the system should favor Russia. He also claimed that excessive bureaucracy costs the region valuable foreign freight traffic, and also allows many of the region's precious resources to be sold abroad. As a result, the federal government received a meager \$400 million of fishing revenue from what should be a \$2.5 billion industry.

While more long-term plans for growth and development are being discussed, some immediate aid is on the way. On 20 July, the Duma passed a law that provides for full control over exports of fish and other seafood. This law should increase revenue for local fishermen and for the government. In addition, Matvienko promised measures to render social support to the local population. (Based on various wire reports)

**PRESIDENTIAL REPRESENTATIVES GET DOWN TO BUSINESS.** Presidential Representative to the Central Region Georgii Poltavchenko has set up a staff with 40 people in Moscow and 3-4 in each of the 18 other regions in his federal district. He has conducted an inventory of regional laws, determining that the situation is generally good, but that there are 140 regional laws and acts that do not correspond with federal legislation. Many of them block the free trade of goods between regions. Additionally, he criticized Moscow city authorities for not implementing court orders to dismantle the registration (*propiska*) system. He did not name a concrete term for when he expected the Moscow authorities to make the change. However, *Kommersant Daily* (21 July) speculated that it was likely that if Moscow Mayor Yuriy Luzhkov remained loyal to Putin, he would not be forced to comply with the court order.

Presidential Representative to the Northwest District Viktor Cherkesov announced that his main priorities were reforming the Russian economy and setting up an

opposition to the regional elite (*Nezavisimaya gazeta*, 26 July). He charged that there had never been "regional self-sufficiency" in the Russian regions and that the establishment of the seven federal districts answered this need. He said that he would not seek to influence the upcoming Arkhangelsk gubernatorial elections to elect the candidate most likely to please Moscow, but would work to ensure that the law was observed during the elections.

**SECURITY COUNCIL CONSIDERS ISLAMIC EXTREMISM.** The Russian Security Council met on 25 July to discuss the problem of Islamic extremism, hearing reports from Minister of Internal Affairs Vladimir Rushailo, Federal Security Service Director Nikolai Patrushev and First Deputy Justice Minister Eduard Renov. The speakers warned that extremist organizations were becoming more politicized and threatened Russia's national security. Security Council Secretary Sergei Ivanov said that several regions had developed effective legislation against terrorism and that this experience would be used in drafting new federal laws. The speakers charged that the aggression against Russia had the financial support of "foreign centers of Islamic extremists." The seven presidential representatives to the new federal districts participated in the meeting. (Russian Television - RTR, 25 July)

**PUTIN COULD START COMBINING REGIONS WITH AUTONOMOUS OKRUGS.** Putin could start acting on the long-discussed idea of reducing the number of Russian regions from 89 to a more manageable number by including some of the country's 10 autonomous okrugs in the oblasts and krais on whose territory they are located. Under the current constitution, the okrugs are (confusingly) simultaneously part of the oblasts and krais, but also separate regions. Komi Permyak Autonomous Okrug leader Nikolai Poluyanov has said that the region would be better off as an integral part of Perm Oblast rather than as a separate region, while Ust-Orda Buryatiya leader Valerii Maleev said that the population of his region would support a referendum to become part of Irkutsk Oblast. Both Perm and Irkutsk are much better off economically than the okrugs. Chukotka has also talked of returning to Magadan. Of course, Yamal Nenets, Khanty-Mansii, and Nenets would rather retain their independence, which is economically profitable. Each of these three regions has extensive natural resources. (*Nezavisimaya gazeta*, 25 July)

## **ECONOMICS**

**INTERNATIONAL FINANCE CORPORATION DEMANDS \$52 MILLION FROM KAMAZ.** The International Finance Corporation (IFC) is demanding that the giant Tatarstan truck-maker KazAZ return \$52 million in credits. If the funds are not returned, the IFC is threatening to seize KamAZ property. The IFC is unhappy about KamAZ's attempts to give it equity in the plant rather than repay the debts, arguing that KamAZ pushed this plan on the bank unilaterally. Until now the EBRD had been the main creditor that did not accept the plan. KamAZ owes the EBRD \$141 million. (*Vedomosti*, 25 July)

**TATNEFT BUYS TIREMAKER.** Tatarstan's Tatneft oil company took control of Russia's largest tire-maker, Nizhnekamskshin, on 21 July at an extraordinary meeting of the board of directors. Now Tatneft and allied companies hold a majority of the seats. The plant managers believe that the plant needs an equipment overhaul worth \$1 billion, but, Tatneft is only prepared to invest \$50-60 million in the plant. Tatneft will consider further investment if the plant can raise its profitability from the current 5.2 percent to 15-17 percent. (*Vedomosti*, 24 July)

**ST. PETERSBURG RESUMES TV PRODUCTION.** The Kozitskii Factory in St. Petersburg began producing television sets after a five-year break in April as part of the Union Television program between Russia and Belarus. In the 1990s, most television production in Russia ended because domestic models could not compete with cheap, high-quality imports. In three months, the plant has produced 3,350 sets using imported kits from Philips and Siemens. By the end of the year, the factory hopes to raise annual production to 25,000. Sold under the old Soviet name Raduga, the sets go for between \$127 and \$345, slightly more than other domestic models, but less than imports. (*Vedomosti*, 24 July)

**NEW FIRM SEEKS MOSCOW OBLAST DEBT.** The previously unknown Porto Leone Management has won an arbitration court settlement against Moscow Oblast requiring the oblast to pay off the 711 million ruble debt that the firm now holds. Overall, the oblast has 1 billion rubles in outstanding debt. Oblast officials believe that the company represents Guta Bank, which had loaned former Governor Anatolii Tyazlov considerable sums and supported him in his unsuccessful campaign effort against current Governor Boris Gromov.

The current administration did not like inheriting the enormous debt from Tyazhlov. Additionally, Moscow Oblast was not able to restructure its debt at the end of 1999 as several other regions had. Moscow city, for example, was able to buy up some of its debt on the market for 30-40 percent of face value. At that time the oblast's debt was selling at 15-30 percent of face value, but the oblast did not have the funds to buy it because it was six months behind in paying civil servants and nine months behind in children's benefits. Despite these problems, at that time the oblast did buy up some of its debt at 100 percent of its value in a way that benefited Guta bank.

Just before the December 1999 gubernatorial elections the oblast borrowed \$6 million and 100 million rubles from the bank, providing controlling shares in 27 oblast enterprises as collateral. In the deal, at least one of the enterprises was sharply undervalued. However, due to a lack of time only six of the enterprises were registered as part of the deal. Gromov's advisors charge that Guta Bank was working to take advantage of the oblast.

Until 10 July Mikhail Babich managed financial issues for the oblast. However, the Ministry of Internal Affairs charged that the firm he worked at before joining the administration had sold US humanitarian aid and kept the proceeds rather than turning them over to the oblast budget. Gromov fired Babich on 10 July, the same day that Port Leone Management filed suit against the oblast. Gromov claims that he is under pressure, but will only say that it is not by the president or his associates. (*Kommersant Daily*, 25 July)

**CHUBAIS BACKS SAKHALIN-JAPAN ENERGY BRIDGE.** On 21 July, Unified Energy System head Anatolii Chubais and Sakhalin Governor Igor Farkhutdinov signed a protocol of intentions to build a Russia-Japan energy bridge. A consortium of Japanese companies will build a 4,500 megawatt electric station and underwater cable for \$9.6 million. The station will burn excess natural gas recovered in oil wells worked as part of the Sakhalin-1 and Sakhalin-2 projects. Partners in those projects include Rosneft, SOCECO, Mitsui, and Marubeni. The cost of producing the electricity will be 5 cents a kilowatt-hour, while electricity on Hokkaido sells for seven cents a kilowatt-hour. The Swiss-Swedish ABB will provide the technical equipment. The Japanese companies working on Sakhalin-1 and -2 will finance the project along with the Japanese ExImBank. The station would come on-line at full strength in 2015. Chubais said that there might be some opposition to the project, apparently alluding to Far Eastern governors who criticize exporting electricity when their regions are suffering blackouts. (*Kommersant Daily*, 22 July)

## **ENERGY CRISIS**

### **CHUBAIS ADMINISTERS SHOCK THERAPY TO PRIMORSKII KRAI**

**ENERGY INDUSTRY.** Over the past week, Primorskii Krai has been shrouded in darkness, with electricity cut off 10-20 hours each day.

While the energy crisis in this region began in 1994, recent events have added an entirely new feel to the situation. In the past, the authorities addressed the crisis by cutting off electricity to private homes -- that is, mainly to citizens who were in fact paying their electricity bills. Now, those debtors actually responsible for the energy crisis -- various federal, regional, and municipal enterprises, including some military units -- are also being subjected to the cut-offs. The city's trams and trolleybuses are not running, and the Varyag and Dalzavod defense enterprises, as well as a series of administrative buildings, have no electricity. Energy personnel have promised even stricter measures next week, when all energy debtors, including hospitals and maternity wards, will be cut off.

The reason behind this turn of events is United Energy System (EES) Director Anatolii Chubais' decision that, as of 1 July, all payments for electricity must be made in cash (up until this point, a complicated system of mutual debt cancellations and payment extensions was in operation). The only exception pertains to local budgets, which are allowed to utilize a system of mutual debt cancellation for no more than 30 percent of their total bills.

This new system is Chubais' attempt to eradicate the shady financial dealings of Russia's regional energy system. Federal and regional energy users, especially military consumers, have not paid for their electricity for years, instead addressing the payment issue through an enormous number of agreements and deals that are valid on paper only. It is because of these deals that the electricity utilities owe enormous sums to miners and fuel oil, equipment, and parts suppliers. These groups, in turn, either refuse to continue to supply the necessary goods to generate electricity or else file suits with an arbitration court. As a result, for several years now bankruptcy has hung over Dalenergo, the krai's main electricity provider, like a sword of Damocles.

A feeble attempt to address the parties truly responsible for the crisis took place in 1995, when Dalenergo cut off energy to several entities belonging to the Pacific Fleet. Then-Prime Minister Viktor Chernomyrdin was quick to protest this action, and the accusation that they were weakening national defense capabilities forced the electricity utilities to economize at the expense of ordinary citizens.

This time around, Dalenergo has taken a more systematic approach to the problem. Head Engineer Dmitrii Tarasov has announced that the company will meticulously follow the letter of the law. Debtors will receive several official warnings, after which their energy use will first be limited and then completely curtailed. According to Tarasov's observations, following the official warning, 30 percent of debtors immediately pay their bills, and another 30 percent do so after having their electricity cut off. The remaining 40 percent consider themselves untouchable and begin to put pressure on the utility through the courts, the procurator, and loud political campaigns.

This last phenomenon is the most obvious: the press services of both the local authorities and Dalenergo are engaged in a game of furious finger-pointing that has resounded across the entire country. At the beginning of the week, a newborn infant in one of Vladivostok's maternity wards died because its life-support system was cut off during a black-out. The local authorities are trying to direct the population's ire at Dalenergo and Chubais. In turn, utility officials insist that the maternity ward's electricity was cut off for only three hours due to an accident at the power station, and stress that it is the local authorities who are responsible for allocating emergency energy reserves in such situations.

The federal government's position regarding Chubais' initiative remains unclear. Nonetheless, several sources say that President Putin supported the move to dismantle the current payment system involving mutual debt cancellation during a recent conference in Blagoveshchensk between Chubais and the governors and Far Eastern energy workers.

Residents of several of Vladivostok's raions have blocked traffic on city roads several times to protest the blackouts. Despite the inherent drama of this gesture, Chubais sympathizers and critics alike agree on one thing: this shock therapy was necessary. Had the situation continued in the previous vein, the upcoming winter in the region would have had far graver consequences. - Dmitrii Motovilov in Vladivostok

### **HIGHER ELECTRICITY PRICES STRAIN RELATIONS BETWEEN**

**KRASNODAR MAYOR, GOVERNOR.** The Federal Energy Commission, in conjunction with United Energy System (EES), has raised prices on electric energy in Krasnodar krai by 150 percent. As a result of this decision, which came into effect in May, prices on public transportation in Krasnodar have gone up, and some 200,000 citizens are no longer eligible to travel for free.

On 18 July, Krasnodar citizens protested these changes. The Kuban Workers' Union organized the picket to protest Mayor Valerii Samoilenko's decision to revoke free public transportation privileges for veterans, schoolchildren, and students. The mayor's decision contradicts the federal law "On Veterans", which states that veterans have the right to free travel on all forms of public transportation except taxis.

Because of the hot weather and the advanced age of the protestors, the "anti-mayoral" protest lasted only two hours. While the protest was short, participants

nonetheless spoke passionately, discussing, among other things, whether or not to physically block all tram and trolleybus routes and force them to a standstill.

Not far away, near the krai administration building, a different protest was underway. These protestors focused criticism on Krasnodar Governor Nikolai Kondratenko because of the Krai Energy Commission's role in raising prices on electrical energy. Legislative Assembly deputies came to the governor's defense, explaining to the protestors that the Federal Energy Commission raised prices on electrical energy at the behest of the federal government. These deputies charged that Mayor Samoilenko had organized this second protest. Tempers flared, and several protestors from both groups were injured.

Samoilenko and Kondratenko remain at loggerheads, like so many other mayors and governors in Russia today. As the situation in Krasnodar demonstrates, financial constraints could make such conflicts more severe. - Oleg Tsvetkov in Krasnodar

## **PATTERNS OF REGIONAL DEVELOPMENT**

**RUTSKOI TO SEEK A SECOND TERM IN KURSK.** On 11 July, the Kursk Oblast Duma set the region's gubernatorial elections for 22 October and lengthened the governor's term from four to five years, the maximum allowed by a federal law adopted in October 1999. On 15 July Governor Aleksandr Rutskoi announced that he would seek a second term. He spoke at the Second Congress of Local Government Leaders in Kursk Oblast. Representatives of 439 municipalities, as well as regional and federal officials, participated in the event. The formal reason for the meeting was to analyze President Putin's annual State-of-the-Union address. Putin said that the region's problems included "economic weakness, demographic catastrophe, and the lack of a national idea." Rutskoi proposed solving these problems by building more bridges between the federal and regional authorities, on the one hand, and local authorities on the other. Rutskoi declared his support for local government, saying it was the best way for the population to participate in the oblast's political and economic life. If the governor was sincere in his expression, then his views have changed dramatically from the past.

The Congress passed a resolution claiming that during Rutskoi's four years in office the economy had improved, and declared support for him to win another term (*Kurskaya Pravda*, 18 July). Having lost the support of the Oblast Duma, Rutskoi is hoping to participate in the elections with the support of the local governments. Combined with the regional administration, this could be a powerful force.

The only other real candidate who has a chance at winning the governor's seat is State Duma Deputy Aleksandr Mikhailov. Although Rutskoi won the 1996 gubernatorial elections with the support of the Kursk Communist Party, he did not follow through on his promises to give key party members important appointments in the administration. Instead, he appointed many of his relatives and personal friends. The conflict between Rutskoi and the Communists determined much of the politics in the region for the last year, particularly Rutskoi's poor relations with the pro-Communist Oblast Duma.

The local oligarchs also have some power on the political scene. They include Nikolai Greshilov, Aleksandr Degtyarev, and State Duma member Aleksandr Chetverikov. Greshilov has already set up a political movement to support the idea of



"eliminating poverty in Kursk," something Rutskoi has also done. Greshilov's newspaper is already actively supporting his candidacy ([www.ddd.kursknet.ru/dnew/](http://www.ddd.kursknet.ru/dnew/)).

Finally, according to *Komsomolskaya Pravda* (29 June), former Kursk Federal Security Service (FSB) Chief Viktor Surzhikov is also likely to run. Surzhikov was recently moved from Kursk to an analogous position in another oblast because of his dispute with Rutskoi. However, since then he has become a deputy to Presidential Representative to the Central District Georgii Poltavchenko. If he runs, he may have the support of Putin, taking away a considerable number of Rutskoi's votes.

**KOMI-PERMYAK NO LONGER HOME TO OFFSHORE ACTIVITY.** The unofficial battle for the post of okrug leader is already underway in Komi-Permyak. Elections will take place in December. The main battle will most likely take place between incumbent Nikolai Poluyanov and either State Duma Deputy Andrei Klimov, who was elected by the okrug population but resides in Perm, or a candidate backed by Klimov. Poluyanov represents the ineffective local administration, while Klimov stands for the energetic business circles of Perm.

The battle between these two groups began last December during the State Duma elections, when the local political establishment suffered a humiliating defeat at Klimov's hands (see *EWI Russian Regional Report*, 3 May). Later, the okrug elite attempted to strengthen its position by passing a regional law stating that the okrug head must be a permanent resident of the okrug. However, following President Putin's decree that all local laws be brought in line with federal legislation, last month local deputies were forced to reject this amendment.

This legislative triumph was not Klimov's first victory. Since Komi-Permyak has long ranked at the bottom among Russian regions in terms of economic growth and living standards, four years ago Klimov suggested an initiative to turn the okrug into an offshore zone. Tax revenue from the registration of firms in the okrug would be invested in its economic growth. While Klimov's idea was put into practice, Klimov himself was not allowed to work on it. The local administration kept firm control of all the funds gathered in the zone. Klimov was quick to criticize okrug leaders for using these offshore profits ineffectively and in ways that did not benefit the okrug population. Perm Oblast and federal officials agreed, and on 29 May the Finance Minister and the Perm Oblast Governor announced to the okrug administration that Komi-Permyatsk's offshore status had been revoked.

The okrug currently receives 70 percent of its funding from the federal government. In 1999, it received 422 million rubles in federal funding and generated only 130 million rubles' worth of revenue. While the offshore program was designed to lift the okrug out of its economic slump, it proved unsuccessful during the time of its operation.

Komi-Permyak remains financially dependent upon the federal and oblast governments, with whom it is wise to retain good relations. In 1999, Perm Oblast allotted only 110 million rubles to the okrug, as compared to 132 million this year. The okrug expects to receive 540 million rubles from the federal budget this year. At the same time, Perm Oblast lost an estimated 832 million rubles due to Komi-Permyak's offshore status, which led 200 oblast companies to reregister in the okrug (*Parma*, 2 July). Now these same companies will apparently be required to restore their status in Perm.

Most importantly, this change in status has stripped the okrug authorities -- who are preparing for the December elections -- of an important source of largely uncontrolled income.

Another conclusion may also be drawn. Russia has several "matryoshka"-like regions that contain autonomous okrugs: Tyumen Oblast, Krasnoyarsk Krai, and others. Conflicts between okrug leaders and regional governors over the distribution of power and finances have at times turned into bitter political stand-offs. Of late, these conflicts seem to have died down, as many of the pertinent problems have been resolved. As the situation in Komi-Permyatsk demonstrates, however, grounds for conflict remain.

The political battle in the okrug will most likely center around the effectiveness of the administration's economic policy. Okrug industries produced 285.6 million rubles in the first five months of this year – an increase of 20.8 percent over the same period last year. In the forestry and timber industry growth was pegged at 22.1 percent over last year, in the fuel industry at 9.6 percent, and in the food industry at -4.3 percent (*Parma*, 30 June).

However, only a few companies are working effectively, and this growth is largely due to LUKoil's oil-drilling activities in the northern part of the okrug. This work is expected to expand, and in the coming years some 100,000-200,000 tons of oil will be extracted from the okrug. The increase in world oil prices has also had a positive effect on the okrug's recent economic indicators.

In the agricultural sector, upon which a significant portion of the population depends, the story is different. The economic slump of recent years continues: of 50 collective farms, only five are functioning relatively effectively. Of these, three produce 56 percent of the okrug's dairy products. While dairy workers receive a pittance, workers in other agricultural sectors have received no pay at all for several years now. Some dozen farms in the okrug are not being sown or ploughed, and their fields are growing over (*Parma*, 8 July).

In light of these problems, it seems clear that the current okrug administration has accomplished little, and convincing voters to support it in the December elections should prove difficult indeed. - Yurii Shabaev in Syktyvkar

**MOSCOW OBLAST GOVERNOR TRIES TO BALANCE THE BOOKS.** Moscow Oblast Governor Boris Gromov inherited a burdensome legacy last December: an oblast budget with a deficit of 55 percent (12.5 billion rubles). Almost all spheres of business had been neglected, including industry, agriculture, transportation, and the social sphere. Living standards in the oblast are much worse than those in the capital. Addressing this discrepancy has become Gromov's top priority.

In the governor's opinion, the oblast administration has reason to be proud of its accomplishments in the first half of the year: in April, wage arrears were paid in full to teachers, doctors, and cultural workers. The minimum monthly pension was raised, and the oblast budget deficit fell to 5 percent (*Podmoskovnye izvestiya*, 19 July).

Despite these advances, the state of industry in the oblast remains relatively poor. Around 600 enterprises are chronic debtors to the oblast budget. An oblast ministry on debt obligations has been set up to address these problems, with a special program to be created for the 56 largest debtors. Massive electricity cut-offs have also affected the oblast. Moscow Oblast consumers owe Mosenergo 4.5 billion rubles, a fact that served as

the basis for cutting off the electricity supply to a number of Moscow Oblast cities and raions.

Other suggestions for improving the state of the oblast economy include attracting investment, both domestic and foreign. New oblast legislation on investment activity has been suggested as a way to create a better investment climate. Gromov noted that, in the first quarter of this year alone, \$72 million was invested in oblast industry, over 2,000 jobs were created, and 190 million rubles in taxes and payments were collected (*Podmoskovnye izvestiya*, 19 July). Currently, the oblast is home to over 600 joint ventures and foreign companies. - Irina Slavnova in Moscow Oblast

## **CENTER-PERIPHERY RELATIONS**

**BASHKORTOSTAN PROTESTS ATTACK ON ITS CONSTITUTION.** On 27 June the Constitutional Court ruled that numerous passages in six republican constitutions violated the federal constitution (see *EWI Russian Regional Report*, 12 July. The text of the ruling was published in *Rossiiskaya gazeta*, 25 July). Bashkortostan President Murtaza Rakhimov responded on 14 July in a message sent to the Bashkortostan parliament entitled "A Time for Decisive Action." In his message, Rakhimov accused Putin's team of attempting to disrupt the current social agreements in Russian society, and called upon the president not to substitute the painstaking work of strengthening state power with an attempt to start another revolution.

Rakhimov went on to say that he rejects such revolutionary methods of problem-solving, especially since he viewed the current political skirmishes as a result of the creation of a modern form of democratic and federal relations in Russia. At the same time, he underlined Bashkortostan's readiness to address the contradictions that have arisen between regional and federal legislation, but only on a treaty basis. He added that the only proper path for the country to take involved increased independence and a stronger legislative status for the republics, as supported by a treaty. Rakhimov stressed that the Russian Federation is not taking the republics' legislative powers seriously enough, and that it is the federal center's attempts to recreate a strong central government, rather than any action on the part of the regions, that could shatter the Russian state. Rakhimov emphasized, however, that Putin's position instilled hope that such disastrous events would not occur. - Igor Rabinovich in Ufa

## **POLITICS AND BUSINESS**

**SARATOV'S AYATSKOV PITS SIDANKO AGAINST LUKOIL.** By signing a cooperation agreement with Sidanko President Robert Sheppard on 25 July, Saratov Governor Dmitrii Ayatskov has increased the level of competition in the region for LUKoil. In doing so, Ayatskov insures himself against any difficulties if LUKoil runs into serious trouble with the federal tax authorities, who are currently investigating the company. Additionally, he makes Saratov one of the priority regions for oil extraction.

Thirty years ago, Saratov was one of the Soviet Union's main energy-producing regions. At the end of the 1960s, the region produced 6 million tons of oil a year and 7 billion cubic meters of natural gas. Thanks to a significant drop in exploratory work, the region now produces less than 1 million tons of oil a year and almost no gas.

Nevertheless, the Caspian basin is considered to have relatively large reserves of oil and gas. The deposits are located in the center of Russia's industrial heartland, where there is a high demand for oil and gas. Additionally, the deposits are located near existing pipelines.

Since the early 1990s, little has been accomplished in developing the region's energy reserves. The French Elf Aquitaine company purchased geological information about the region, but the lack of production-sharing legislation prevented development, and the French ultimately gave up on the project.

LUKoil came to the region in 1999. Ayatskov wanted to find oil so badly that he did not think of the ecological consequences and gave the firm drilling rights in a nature preserve. Greenpeace became involved in the scandal, but the drilling produced no results. Finding no oil at a depth of 5,000 meters, LUKoil sought to leave the region. However, Ayatskov managed to convince LUKoil President Vagit Alekperov to change his mind and drill at a second site. As compensation for LUKoil's losses, the governor sold LUKoil the petrochemical company Nitron for an extremely low price.

At the same time, Ayatskov worked on setting up a relationship with Sidanko. Currently, three Sidanko subsidiaries are working in the region in the fields of exploration and production, processing, and sales.

To the governor's delight, both Sidanko and LUKoil are talking about serious work in the region. Sheppard has said that Sidanko is ready to guarantee uninterrupted fuel supplies to the population. In turn, Saratov Oblast will offer lucrative benefits to Sidanko subsidiaries in the region. For example, the administration will seek tax benefits from the oblast legislature and federal government while Sidanko restructures the Saratov Oil Processing Factory. Additionally, the administration will help Sidanko seek out new deposits of oil in the region. Saratov is the only region with which Sidanko has signed such an agreement. It signed a protocol of general intentions with Udmurtiya and a protocol of intentions with Khanty-Mansii. Ultimately, Ayatskov hopes to boost the region's oil output back to 5-6 million tons a year. Given the statements of the oil companies, these hopes do not seem unrealistic. - Yuliya Yeliseeva in Saratov

## **BUSINESS SURVEY**

**NEW STUDY DEMONSTRATES UNFAVORABLE CONDITIONS FOR SMALL BUSINESS IN KOMI.** The State Committee of the Republic of Komi recently issued an innovative new survey on local entrepreneurs. Some 20,000 individuals involved in small- and medium-sized business filled out the questionnaire.

The results of the survey demonstrated that the vast majority of respondents experience difficulties in their work, primarily in the sphere of taxes. The main tax-related problems they face are: a) an exceedingly complicated taxation system, b) strict tax laws, c) erratic tax rates, and d) a flawed taxation system in general. Some 60 percent of respondents said that they lacked both sufficient funds and the opportunity to receive loans (due to their inability to supply a deposit or guarantee of payment). However, respondents are more likely to turn down loans because they have high interest rates, are too small, or are too short-term. Seventeen percent of entrepreneurs polled have had trouble receiving credit.

Another serious problem affecting the survey's respondents is their lack of legal protection. They noted that the rise in crime in Komi has led to increased extortion and threats. Such violent methods have become the norm in business relationships. Entrepreneurs are forced to seek protection and pay for private security guards.

Some respondents also mentioned excessive bureaucracy and corruption among local authorities as serious problems. In addition, some 25 percent of them face difficulty in selling their products due to the local population's low purchasing power.

Among those questioned, 19.4 percent plan on expanding their business, 31.1 percent foresee no significant changes, 3.9 percent will stay in small business but change their activities, and 9.5 percent plan to close their businesses permanently (*Tribuna*, 21 July). It is clear that proper conditions have yet to be created for the development of small business in the republic, although local government has expressed a strong interest in this arena and is currently undertaking a series of measures designed to support small business.

As it stands, however, these measures remain inadequate, and are often more theoretical than practical. Thus it is scarcely surprising that small business in Komi Republic has shown little growth lately. Other regions are in a similar, if not worse, plight. Overall, the state, in the form of countless bureaucrats, remains one of the largest obstacles to the development of small business. - Yuri Shabaev in Sytyvkar

## REGIONAL RESOURCES

**Shaimiev on-line** ([www.tatar.ru/president](http://www.tatar.ru/president)) You can find Tatarstan President Mintimer Shaimiev's personal web page here with lot of up-to-date information about the Tatar president.

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## **BREAKING NEWS**

### **POLITICS**

**PUTIN CALLS FOR IDEAS ON STATE COUNCIL.** On 27 July, one day after the governors agreed to vote themselves out of the Federation Council, Putin issued a directive supporting the creation of a State Council and called on the members of both houses of the federal parliament to present ideas on its status and membership. Clearly the State Council will not be as important as the Federation Council was, and will have considerably less power. Most likely it will be a purely consultative organ that gives the governors a way to present their opinions to the president. Because the State Council is not mentioned in the constitution, much will depend on Putin's personal desire to work with it.

One idea is to include important regions, but not less important ones. *Kommersant Daily* (29 July), for example, published a list of the 17 regions that do not receive subsidies from the federal budget and an additional eight that are important demographically. This attempt to divide the regions into first and second categories, however, goes against the trend to equalize the rights of the various regions. Ultimately, of course, the Kremlin will form the State Council however it wants.

**PRIME MINISTER SIGNS RULES FOR REGIONAL FOREIGN TIES.** On 26 July, Prime Minister Mikhail Kasyanov signed an order requiring all regions to register their agreements with foreign countries. If the registration is rejected, the regions may appeal to the courts. (*Nezavisimaya gazeta*, 27 July)

**DEREV PLANNING TO LEAVE MAYOR'S POST.** Cherkessk Mayor Stanislav Derev is planning to resign his current position in order to take a job working for Federal Representative to the Southern District Viktor Kazantsev, *polit.ru* reported on 31 July. Derev lost Karachaevo-Cherkessiya's highly controversial presidential election last year.

**SARATOV BORDER REMAINS LEAKY.** Russia's border guard service is sending a detachment to Saratov to monitor that oblast's border with Kazakhstan. Up to 70 individuals a day, mostly from Pakistan and Afghanistan, enter the Russian Federation through Saratov

without identification, according to current estimates. In a recent police operation, border guards seized 120kg of narcotics. They have confiscated 34 million rubles in smuggled goods over the last six months. (RIA, 1 August)

**SMOLENSK JOURNALIST MURDERED.** Sergei Novikov, head of the independent radio station Vesna, was murdered on 26 July. Since its debut in April, Vesna has repeatedly alleged that the Smolensk regional authorities, including Governor Alexander Prokhorov, maintain ties with local organized crime leaders. Novikov had planned to run for governor himself in 2002 to root out the corruption. As a result of his station's repeated harsh criticism of the administration, many believe that the killing was politically motivated.

**PRIMORSKII KRAI JOURNALIST ARRESTED, RELEASED.** Irina Brebneva, the editor of *Arseyevskye Vesti*, a Vladivostok newspaper that had published transcripts of obscenity-laden phone calls attributed to Primorskii Krai Governor Yevgenii Nazdratenko and his allies, was arrested on 28 July. The tapes contain voices that sound like those of Nazdratenko and Vladivostok Mayor Yurii Kopylov discussing preparations for the mayoral elections, which were won by Kopylov (see *EWI Russian Regional Report*, 19 July).

Another individual exposed on the tapes and in the papers was Deputy Governor Konstantin Tolstoshein. *Arsenevskie Vesti* quoted Tolstoshein as saying, "[Expletive]. Nobody [expletive] works at your office. I'll [expletive] you. Just whup them. [Expletive] them [expletive]." Tolstoshein has been known to swear at press conferences. A reporter for the *Moscow Times* claims that Tolstoshein once cursed him out for seeking a comment near a protest of unpaid workers. The Federal Security Service issued a press release in 1998 accusing him of going ballistic and swearing at citizens who met with him to discuss Vladivostok's water supply. (*Moscow Times*, 1 August).

Grebneva received a five-day sentence for "petty hooliganism," i.e. printing profanity, which she served in a special jail in which prisoners are fed only once a day. She had been on a dry hunger strike, meaning that she accepted neither food nor water during her incarceration. On Monday, she had a special hearing in front of a Nazdratenko-controlled court to plead her case for release. Pale and trembling, she said, "It was not the editor of *Arsenevskie Vesti* who was arrested; it was freedom of speech that was arrested in Primorye." Predictably, her appeal was denied.

The sentence expired on Wednesday, and Grebneva spoke with NTV following her release. Following are her comments:

[I am feeling] okay after such a hunger strike. I went through it as well as might have been expected. Many thanks to all you [journalists] for supporting me. Of course, I have lost a lot of strength but I hope to restore it. I believe that the most reprehensible human rights violations are taking place [in this jail]. People are not just isolated from society; they are totally cut off from life. The conditions are disgraceful. The prisoners do not have access to radio and television and they are not allowed to read newspapers. And there is a total absence of hygiene. As for the food, I myself did not partake of it but I saw

what people were being given to eat, and it was absolutely disgusting. This period of confinement in prison will in no way affect the newspaper's activity. The paper will continue to publish everything that it believes needs to be published. That is my firm conviction. And we will not go back on this pledge. (NTV, 1 August)

**KATYN SITE DEDICATED IN SMOLENSK.** A cemetery was dedicated in Katyn to thousands of Polish officers who had been executed there by Stalin's secret police. Polish Prime Minister Jerzy Buzek, Russian Deputy Prime Minister Viktor Khristenko and relatives of the victims attended the ceremony, which honored the 4,500 bodies that had been exhumed from their mass grave and reburied in the cemetery. The memorial is very important to Poles, who have long been angered by the massacre of approximately 15,000 of their countrymen and the Soviet Union's subsequent denials of guilt. This symbolic bit of reconciliation comes at a time when the two nations are trying to improve their often-conflictual relationship. A monument to the victims will also be dedicated in Baltimore in September. (For more information on the Katyn massacre, see Louis FitzGibbon's 1979 article in the *Journal of Historical Review*, available at <http://www.vho.org/GB/Journals/JHR/1/1/FitzGibbon31-42.html>)

### **ECONOMICS**

**WINNERS AND LOSERS IN TAX REFORM.** On 26 July the Federation Council approved the second part of the tax code. The package includes five key parts that will go into effect on 1 January 2001:

- Replacing a progressive income tax from 12-30 percent with a 13 percent flat tax
- Replacing all payments to the current pension fund, medical insurance fund, and social insurance fund with a single regressive social fund going from 35.6 down to 5 percent. Plants with high salaries will pay the minimum fee. Currently the overall payment is 39.5 percent.
- Reducing the 4 percent turnover tax. Until now enterprises paid 2.5 percent of turnover to the road fund and 1.5 percent to finance housing. Only a 1 percent road tax fund remains.
- Increasing the tax on gasoline to pay for roads and introducing an additional 5 percent local profit tax to pay for housing. Tobacco taxes will also rise.
- The federal government will now control 100 percent of the value-added tax. In the past, the regions controlled 15 percent of it.

Overall, the changes should reduce taxes on industry by 2.2 to 2.3 percent, according to First Deputy Finance Minister Sergei Shatalov. This low tax burden is expected to stimulate the economy.

The governors lost control of a considerable amount of money as a result of the reform, and many analysts see the main goal of the package as giving the federal government much greater control over the regions, particularly in financial matters (*Vedomosti*, 27 July). Until

now, 90 percent of the income tax remained in the regions, meaning that lowering the tax affects the governors directly. The governors also believe that the new 5 percent local profit tax will be extremely hard to collect since most Russian enterprises claim to be working at a loss in order to avoid paying taxes. The loss of the 1.5 percent turnover tax for housing will also mean that much less revenue will come into the regions. The same is true with the reduction of the tax that will provide money for building roads. The initiators of the tax reform wanted to abolish the road tax all together, but the governors were able to save 1 percent. That 1 percent is expected to be worth 130 billion rubles (*Ekspert*, 24 July). The governors are not sure that they will see much direct benefit from the new gasoline tax (*Kommersant vlast*, 1 August).

In theory, the federal government will now take over many of the duties that the regions once had. Prime Minister Mikhail Kasyanov claimed that it will make payments for key social programs and build more roads in the regions. However, many governors have denounced the new tax. Belgorod Governor Yevgenii Savchenko said that the new tax stimulates the formation of a unitary state in which all regions will be dependent on the center (*Vedomosti*, 27 July). Moscow Mayor Yuriy Luzhkov warned that the federal government would now control 65 percent of the country's revenue, leaving only 35 percent for the regions. Currently, the federal government controls 52 percent and the regions control 48 percent.

**STANDARD & POOR'S REVISES REGIONAL CREDIT RATINGS.** Standard & Poor's, the global ratings agency, released evaluations of various Russian regions on 31 July. St. Petersburg was upgraded to a B-/Stable rating, as the analysts cited a recovering economy and developing service sector, improved infrastructure, and a good fiscal performance by the government. The rating was held down by low predictability on a number of factors, including revenues, the foreign exchange rate, and local industrial output. Irkutsk and Samara Oblasts were both given CCC- ratings that reflect the general improvement in the Russian Federation environment as well as improvements in the regions' own financial positions. The ratings of Moscow City (CCC+/Stable), Sverdlovsk Oblast (CCC-/Stable), Yamal-Nenets Autonomous Okrug (CCC-/Stable), and Tatarstan (selective default) are all constrained by the large debts incurred by those regions.

The agency withdrew its issuer credit ratings for Rostov Oblast at the oblast's request. S&P had rated Rostov a CCC-, citing a need for economic restructuring and industrial stabilization, as well as high arrears, a large and highly volatile agricultural sector, a weak financial position, a rapid accumulation of debt, and low wealth indicators. Positive economic indicators in the region include a favorable entrepreneurial climate, growth in the service sector, and debt servicing. (S&P press release, 31 July)

**VALUABLE METALS FOUND IN SVERDLOVSK OBLAST.** A "bonanza" of palladium has been found in Nizhny Tagil, about 150 kilometers north of Yekaterinburg in the Ural Mountains, sparking intense interest from foreign investors. Eurasia Mining PLC has begun initial drilling tests in the area, and discovered large and very high-grade deposits of palladium, a precious metal in the platinum group. The deposits contain approximately 4-6 grams of platinum per ton of rock, compared to the 3 grams per ton found in South African mines from which



much of the world's palladium comes. In addition, the Yekaterinburg deposits are much closer to the surface than those in South Africa.

Mineral deposits were originally found in Yekaterinburg about 375 years ago, and it quickly became a mining town. However, work around Yekaterinburg was largely abandoned in the years following World War II, and is just now being started again. The Soviets chose to neglect the palladium deposits in favor of huge nickel deposits further north, which were much easier to mine. Currently, Vladimir Potanin's Norilsk Nickel has a virtual monopoly on nickel in the Russian Federation, and produces about a third of the world's nickel, as well as the same percentage of palladium, earning it approximately \$1 billion in profits in 1999.

The London-based Eurasia Mining firm is seeking to end that monopoly by exploiting the forgotten fields of Yekaterinburg. It faces tremendous bureaucratic obstacles, ranging from bringing rail links and power to the sites to obtaining an export license. However, palladium boasts a large profit margin, making it extremely lucrative and giving the firm strong incentive to persevere. The metal is in heavy demand for its use in catalytic converters, leading to a recent skyrocketing of its value. It began the week at a record high of \$768 per ounce, compared to \$580 per ounce of platinum and approximately \$300 per ounce of gold. Average world extraction costs of palladium are about \$300 per ounce, but the devaluation of the ruble leads Eurasia to believe that it can extract the Yekaterinburg palladium at only \$100-150 per ounce. (*Moscow Times*, 1 August)

**CONSTRUCTION SCANDAL ON MOSCOW HIGHWAY.** Federal investigators have charged the head of a Moscow construction company with embezzling millions of dollars that were supposed to have been spent on the reconstruction of the outer ring road, or MKAD. Oleg Khomenko, head of the SU-802 joint-stock company, is accused of embezzling 103 million redenominated rubles out of the roughly 2.5 billion that it received from the city government for work on the MKAD from 1995 to 1998.

It is not clear how much the city spent on reconstructing the road. Earlier this year *Vremya-MN* cited unidentified experts as saying the project should have cost some \$580 million, or \$5.36 million per kilometer, and a *Kommersant* reporter noted that similar projects in Germany have cost about \$6 million per kilometer. However, *Kommersant* quoted Khomenko as acknowledging that it cost his firm an average of \$15 million per kilometer to reconstruct the MKAD.

Former federal tax chief Alexander Pochinok once noted that the MKAD could have been paved with silver ingots if the city and builders had actually spent as much on it as they have declared. (*Moscow Times*, 1 August)

**BENDUKIDZE ELECTED URALMASH GENERAL DIRECTOR.** Kakha Bendukidze, the general director of United Heavy Machinery (Uralmash-Izhora Group) took over as the general director of Uralmash, a subsidiary of his company, following the 10 July murder of Oleg Belonenko, the previous general director (see *EWI Russian Regional Report*, 12 July). No one besides Bendukidze would agree to take the job. Although a prominent Russian businessman, Bendukidze has never managed a factory before, preferring to delegate this work to his managers.

Investigators have yet to determine who assassinated Belonenko and why. With his new responsibilities at the plant, Bundukidze will have to spend more time in Yekaterinburg. In the past he only came for a few days at a time. Governor Eduard Rossel supported Bendukidze's decision to accept the job. (*Vedomosti*, 27 July)

**SWEDES CONSIDER NOVGOROD INVESTMENT.** The company Swedish Match is considering working with the Novgorod Oblast company Solntse to set up a joint venture requiring a \$10-12 million investment. Swedish Match is the world's largest match producer. In the 1980s, Russian companies produced 20 million boxes of 50,000 matches a year. Today, they only produce 6.2 million boxes, and Belarusian companies are working to supply the Russian market. Most Russian firms are more interested in exporting their products.

Solntse has already worked for two years sending the small wooden sticks used to make matches to Sweden. The Swedes said that the negotiations are only in their opening stages and are expected to take a long time. (*Vedomosti*, 27 July)

**ALROSA, KRISTALL FORM ALLIANCE.** On 28 July, the Russian diamond monopolist Alrosa and Smolensk Oblast's Kristall, the CIS's largest diamond processing plant, signed a bilateral agreement to work together on mining, processing, and selling diamonds in Russia and abroad. The companies hope that their move will block the state from setting up a diamond holding company. The federal government first considered this idea after De Beers announced that it would no longer try to monopolize the world diamond market. If the federal government went ahead with its plans, it would gain effective control over Alrosa and Kristall, blocking Alrosa's ambitions to compete on the world diamond market with De Beers. The federal government owns 32 percent of Alrosa's shares. (*Kommersant Daily*, 29 July)

**MILLER BEGINS BREWING IN KALUGA.** The American Miller Brewing Company has begun producing its beer in Kaluga Oblast at a brewery owned by South African Breweries. The production of the beer is part of a five-year licensing agreement. The companies did not release the details of their agreement. (*Kommersant Daily*, 27 July)

## **EXCLUSIVE INTERVIEW**

### **PRESIDENTIAL ADMINISTRATION'S SAMOILOV ON SEVEN REPRESENTATIVES**

*On 29 July Sergei Samoilov, the head of the Presidential Administration's Territorial Department and the official who is responsible for coordinating the activities of the seven presidential representatives to the newly created federal districts, met with RRR Correspondent Dr. Marina Kalashnikova, a Russian journalist. He provided a comprehensive overview of how the seven representatives are working in their new jobs.*

**RRR: Why did Putin choose as his representatives five military men, one diplomat, and only one "real politician" - Sergei Kirienko?**

Samoilov: The president himself made the decision about whom to appoint as his "ambassadors." The actual candidates he considered came from various categories of people able to fulfill difficult functions. In my view, the president was mainly concerned with personal qualities. All of his appointees are statist (*gosudarstvenniki*), who recognize the importance of a power hierarchy, have management experience, and are not backed by a particular political force. I want to emphasize that as soon as he was appointed, Kirienko distanced himself from lobbying any political issues, quit his position in the leadership of the Union of Right Forces, and began to act exclusively as a manager.

**RRR: What proportion of the representatives' staff will be made up of members from the power ministries?**

Samoilov: It is difficult to say, since the process of forming the staff is still underway. Only 50 percent of the vacancies have been filled. But it is easy to explain the need to include a large number of power ministry personnel, as well as specialists who have experience in the fiscal ministries (tax, oversight). One of the most important duties of the representatives involves imposing financial order and overseeing the districts. But, of course, for work with the population, political parties, social movements, and the media, we will hire people with experience in these fields. People well versed in economics will handle analytical work, social monitoring, and the analysis of federal programs.

For example, Presidential Representative to the Urals Federal District Petr Latyshev hired as his first deputy Sergei Sobyenin, the former chairman of the Khanty-Mansii Legislative Assembly and chairman of the Federation Council Committee on Constitutional Legislation. However, Sobyenin will work on economic rather than legal issues since he is an economist by education. A different deputy, Vladislav Tumanov, until recently the deputy minister for nationalities, will handle management issues. Another deputy head of the Urals district is Mikhail Ponomarev, who previously served as deputy governor of the Yamal Nenets Autonomous Okrug. He is in charge of relations with society, political parties, and movements.

**RRR: Will there be a representative of the presidential administration in each of Russia's 89 regions? Besides the seven capitals of the federal districts, where will they be located and how will you choose these cities?**

Samoilov: The seven presidential representatives will not appoint federal inspectors to every region. As a rule, inspectors will work in large, economically and politically important oblasts and republics. Another criterion will be the geographic situation and whether it allows them to play an independent role for the center. For example, the federal inspector appointed to Volgograd will be responsible for three regions: Volgograd, Astrakhan, and Kalmykiya. I can say that there will be one federal inspector in all the oblasts and krais whose territory includes one or more autonomous okrugs. The inspector in Chita will be responsible for Chita Oblast and Agin Buryat Autonomous Okrug. Moreover, all federal agencies, for the sake of expediency, will be moved from the autonomous okrugs to the oblast of which they are a part.

**RRR: Will there be a federal inspector appointed to Tatarstan? [Tatarstan did not have a presidential representative under the old system.]**

Samoilov: Certainly.

**RRR: How many central positions and federal inspectors will there be in the new system?**

Samoilov: Each representative will set up the system that works best for his district. It will be determined by the situation on the ground rather than any decrees. Each representative will make up his own mind. For example, in the Southern Federal District, a significant part of the staff will be located in Rostov-na-Donu. A relatively large group, 15-18 people headed by a first deputy representative in Mineralnyi Vody, will coordinate work in the North Caucasus republics.

**RRR: What kind of powers will the federal representatives have?**

Samoilov: Today the representatives have been given real power, in contrast to the presidential representatives who worked in the regions [in the Yeltsin era]. In terms of responsibilities, their rank is somewhere between deputy chief-of-staff of the presidential administration and deputy prime minister. They are members of the Security Council, a consultative body to the Russian president. The federal agencies in the administrative centers of the districts are subordinate to them. Not one appointment in the federal agencies can be made without their approval. The representatives to the federal districts are a powerful link in the management chain. Their job is not to look after the governors, but to manage the federal institutions in the regions. This is the difference between them and the former presidential representatives in the 89 regions.

**RRR: What have the "Seven" accomplished so far?**

Samoilov: Presidential Representative to the Urals Federal District Petr Latyshev actively participated in organizing the president's trip to Nizhnii Tagil, while Presidential Representative to the Far Eastern Federal District Konstantin Pulikovskii organized the visit to Kamchatka and Blagoveshchensk. Leonid Drachevskii (Siberia) is very active and has already organized a trip by Atomic Energy Minister Adamov to Novosibirsk. On 1 August Drachevskii will accompany Deputy Prime Minister Klebanov to Omsk and Novosibirsk to discuss the military industrial complex. Kirienko has held a large symposium on the fuel and energy sector in Nizhnii Novgorod with the participation of the governors from the Volga District.

Viktor Kazantsev is carrying out intensive work in the North Caucasus, where there have been several conferences, including a forum of the Association of North Caucasus regions. Additionally, he participated in conciliatory procedures in Karachaevo-Cherkessia, where an agreement between the two opposing sides was signed. The agreement assigns responsibilities and sets deadlines. Last Saturday in Novorossiisk, he discussed energy issues in the Southern Federal District because there is a shortage of fuel there prior to the harvest season.

Cherkessov has prepared a presidential trip to Baltiisk (Kaliningrad Oblast) to celebrate the navy's holiday, and on 2 August he will escort the head of state to Pskov for the seventieth anniversary of the paratroopers. Georgii Poltavchenko (Central District) has the largest district - 18 regions - and therefore visits 2-3 oblasts every week.

**RRR: What kind of relations do the seven representatives have with each other?**

Samoilov: For them, the most important thing, especially in the period when they are organizing their work, is to have like-minded colleagues with whom they work as a team. I can say that they meet practically every week in Moscow. They get together before meetings with the government, the president, and the Security Council to formulate the main issues that they want to discuss and to clarify their arguments. As far as I can judge, they trust each other on a personal level; in one word, this is a team. The president is the leader of the team and he is not stingy about spending time with his representatives. The president will immediately receive any of the representatives and try to help them if they so request.

Additionally, the president holds working group meetings with the representatives no less than 2-3 times a month. The last time they met was last Friday. The president asked about organizational issues: obtaining financing for the staff, logistical needs, and priority tasks. He also expressed his opinion on the formation of a State Council. The president tasked his representatives with discussing with the governors their view of the composition and functioning of the State Council.

**RRR: What are the relations between the representatives and the governors?**

Samoilov: Extremely varied. For the time being they are checking each other out. The governors clearly understand that they have lost a part of their former powers. Sometimes it is difficult for them to recognize and accept this. Second, this affects the governors in the administrative centers of the federal districts (we do not call them "capitals"). They also are relatively jealous that a bureaucrat with higher status than their own has appeared in their diocese.

**RRR: Will the representatives control federal funds? What will be their relationship with the Finance Ministry? Some observers see a triangle relationship (Finance Ministry-representatives-regions) rather than a strict vertical hierarchy.**

Samoilov: The representatives will monitor the federal funds sent to the regions. They will also monitor the taxes collected in the regions for the federal budget. But I cannot say that the representatives will monitor the entire budget of a region as confirmed by the Finance Ministry. Each region has a budget that is adopted by the regional legislature and, as before, the governor will be responsible for it. The presidential representative by no means has to approve every line item and every ruble.

The representatives have responsibility for the use of federal subsidies, federal programs, and the activities of federally-owned enterprises. Their functions can cut across several ministries and agencies. The task of the ministries and agencies remains to manage their own structures. The job of the representatives is to coordinate their activity within the federal district.

**RRR: How will the representatives work with Unified Energy System (EES) and Gazprom? Do they have any concrete plans? Can they agree with [EES head Anatolii] Chubais about turning electricity off and on?**

Samoilov: Such relations are not an end in themselves. But since these structures wield great influence on the social-economic situation in the regions, coordination with them is being established and negotiations on this topic are under way. For example, at the recent meeting in

Petropavlovsk-Kamchatskii, the main theme was power outages. The head of EES made a speech about the situation, suggested some measures, and provided guidance. But this was with the participation of the president himself.

Last Saturday Viktor Kazantsev participated in a meeting about energy issues in his district, where EES plays a major role. In general, don't expect the representatives to lobby for the interests of their districts.

**RRR: Will Moscow Mayor Yuriy Luzhkov dismantle the residential registration system, which the Constitutional Court has declared unconstitutional? Will Poltavchenko be able to win this argument?**

Samoilov: This is not an argument between Poltavchenko and Luzhkov. It is an argument between federal and regional legislation. Today, the prerogative lies with Deputy General Procurator Makarov, who must evaluate whether Moscow city laws violate federal norms. If he finds that city law contradicts federal legislation, he must file a court case. If the court rules in favor of the procurator, then he must implement the decision. Not carrying out the decision weakens the state. Yuriy Mikhailovich Luzhkov himself understands this.

**RRR: If every region has approximately 30 federal agencies, then the presidential representative must coordinate approximately 400-500 agencies. How realistic is this?**

Samoilov: My department is now working with the government to fulfill a presidential order by 13 August. Each ministry and agency is proposing its structure. In each administrative district, institutional structures will be created to carry out management duties in the district following staff reductions in the regions and central ministry. It is not by chance that several ministries and agencies have assigned deputy ministers to head this work. Coordinating the work of these structures [at the federal district level] will be the task of the president's representatives.

Clearly, the representatives will have to create a series of consultative bodies. The federal collegia working in the oblasts and republics will now have to be set up anew at the district level. There will also be councils of governors. Now, as the governors slowly leave the Federation Council, it will be particularly important for them to meet in the framework of the federal district. Councils on local government will take over some municipal, regional, and federal obligations. Most likely, the representatives will set up special bodies to monitor and bring regional legislation in line with federal norms.

**RRR: How will the representatives coordinate the work of the Ministry of Internal Affairs, Federal Security Service, and military structures?**

Samoilenko: First, they will coordinate in terms of personnel issues. Second, they will work through the Federal Collegia, in which all power ministries are represented. The representatives do not have to approve all training exercises. But they should be informed in a timely way about all major operations on the territory of the district. This concerns operations carried out by the government and the military.

**CENTER-PERIPHERY RELATIONS**

**POLTAVCHENKO STUDIES HIS CENTRAL FEDERAL DISTRICT.** Bryansk Oblast has become the testing ground for Presidential Representative to the Central District Georgii Poltavchenko as he explores how to work with the regions under his jurisdiction. The visits he conducted with regional bureaucrats during his recent working visit to Bryansk, as well as the many letters he received from the oblast's citizens, have demonstrated that much is expected of the presidential representative in the way of concrete help on a wide range of issues.

Poltavchenko received royal treatment in the region. The local authorities were represented by hundreds of oblast officials, leaders of raion administrations, and chiefs of departments. This was not merely a question of protocol -- the oblast is suffering from a wide variety of problems: the still-severe aftereffects of Chernobyl, growing poverty, and conflicts between the local authorities and the mass media. The guest from Moscow discussed these issues at closed meetings as well as social gatherings, briefings with the local press, and, most likely, during several confidential discussions with Bryansk Oblast Governor Yurii Lodkin.

When speaking to the public, Lodkin offered a highly optimistic evaluation of the situation in the oblast. He noted growth (over 10 percent in the first half of this year) in all the main spheres of industry, a decrease in federal subsidies to the oblast budget to 37 percent (compared to the previous 70 percent), and the stabilization of the population's real monetary wages.

Lodkin's deputies and colleagues were less sanguine. In their working meetings, they did not seek to elide the hardships the oblast currently faces. The Bryansk Mayor -- if not precisely an oppositional figure, then certainly one who operates independently of Lodkin -- characterized the situation differently. In his words, 40 percent of the oblast population is living beneath the poverty level, pensions and other subsidies are not being paid on time, and the medical and educational systems are severely under-funded. The oblast administration is not able to compensate for the federal government's arrears in paying subsidies to local veterans of the wars in Afghanistan and Chechnya. The program for rehabilitating Chernobyl victims (more citizens of Bryansk Oblast were affected by the accident than in any other part of Russia) is receiving neither federal nor oblast funding.

Some members of the oblast administration contributed further to this pessimistic picture in their informal discussions with the Moscow delegation. The oblast's ability to produce relatively cheap foodstuffs for the local population has been seriously undermined: potato farms have shrunk in size over recent years by a factor of 14, and 65 percent of grain production takes place in the "shadow" economy. The agreement signed between oblast leaders and Gazprom on the supply of gas to and development of regional industry (Gazprom controls over a dozen companies on favorable terms) have brought only a fraction of the expected profits into the oblast treasury.

Even more damage has been wrought by the oblast's "criminal" economy. The head of the oblast customs department commented that the fight against contraband is increasingly important, especially against narcotics imported from Ukraine and Belarus.

A key problem in the life of Bryansk oblast is the unstable oblast administration. Lodkin is the fourth governor to hold this post over the last eight years. As a result, the oblast comes in second nationwide in terms of turnover of its regional leaders. In addition, Lodkin, who is a member of the Communist Party, has declared his undying loyalty to President Putin. The

governor is one of the most ardent supporters of strengthening the power hierarchy, saying that "If the governors are not held responsible to the president, it will be impossible to carry out radical economic reforms in the country."

According to the mayor, the governor's stance is a serious roadblock to normal development in the oblast -- as is the fact that around a third of the oblast's population supports the Communist party. The city of Bryansk is, in fact, the only one in the oblast in which the majority of citizens voted for Putin. The mayor also noted that the seeming activism in the oblast -- which is home to over 30 parties and movements -- often takes a "meeting-like" tone and in no way facilitates the development of democracy in the region.

Journalists, Oblast Duma deputies, and heads of local raions asked Poltavchenko a series of questions which made clear Lodkin's monopoly on power in the region. There was talk of a brewing scandal involving his multiple violations of federal, oblast, and local laws. The governor's power is such that judicial rulings that contradict his interests are simply not carried out. The oblast and local media are entirely under Lodkin's control. These officials also claimed that Lodkin has fired all members of the local administration who do not appeal to him.

After listening to these complaints, Poltavchenko promised to "respond to the violations of citizens' rights and freedoms." Deputy Presidential Administration Chief of Staff Dmitrii Kozak, whose responsibilities include ironing out any wrinkles in regional legislation to bring it into line with federal law, reminded those present that "Failure to abide by judges' rulings is a criminal act." Deputy Presidential Representative to the Central District Anton Fedorov summed up the federal authorities' position by saying that "personnel policy is the prerogative of the oblast administration, and Moscow is not planning to interfere with it."

The discussion of the situation in Bryansk oblast could not be covered in the prearranged time allotted for it. The number of people who wished to lodge complaints with Poltavchenko was so high that a "Department of Letters" was quickly organized among the presidential representative's assistants. While the Moscow delegation visited industrial enterprises, these assistants spent several hours meeting with the local population. - Marina Kalashnikova in Bryansk

**VOLGA FEDERAL DISTRICT HOLDS CONTEST FOR POSITION OF FEDERAL INSPECTOR.** On 26 June, Presidential Representative to the Privolzhskii Federal District Sergei Kirienko announced -- via the Internet ([www.kadri.ru](http://www.kadri.ru)) -- a competition for the position of District Federal Inspector. This is the first such open competition for a high-ranking federal job, although a federal law recommending such competitions was passed in 1995, followed by a similar presidential decree in 1996.

Over 5,000 initial applications were received for the position. Interested individuals did not need to be residents of the Privolzhskii District in order to apply. The first stage of the competition, which lasted almost a month, was conducted entirely by e-mail. Applicants were requested to fill out a standard application form, undergo IQ, psychological and professional profiling tests, and write an essay answering the question "Does my generation need a reformed Russian state?" The program for selecting finalists was developed by specialists from Moscow State University's Department of Psychology, and was administered by Pavel Malinovsii.



After their selection, the 120 semi-finalists were summoned to Kstovo (near Nizhni Novgorod) for the second stage of the competition. Finalists were asked to engage in various business games, and tests designed to determine their ability to fulfill the duties of a federal inspector, which include coordinating the work of federal ministries' regional departments, providing the presidential representative to the Volga District with information and analytical support, and bringing regional legislation into line with federal law.

Following the second round of the competition, on 27 July Kirienko awarded the 25 finalists their diplomas. Of these, 17 were appointed federal inspectors to the district's various regions, and the other eight were made reserve officers. Among those awarded jobs was acting President Representative in Kirov Oblast Nikolai Martyanov, who will become the chief federal inspector in Kirov Oblast (*Kommersant Daily*, 28 July).

This unusual method of appointing high-ranking officials will have multiple consequences. On the one hand, it will assist Kirienko in his planned administrative reforms, as well as bring Russia's recruitment and hiring practices into line with international norms. On the downside, this method will also create its share of problems, not least of which is a lack of professional experience on the part of the new federal inspectors that will leave them ill-equipped to fulfill their new responsibilities. This, in turn, will only heighten governors' and federal representatives' tendency to view the federal inspectors as newcomers and outsiders -- an attitude which cannot but keep the inspectors from developing a nuanced understanding of the true situation in the regions.

Finally, the federal inspectors' lack of a concrete set of responsibilities and adequate resources may lead to their serving either as a mouthpiece for the governors and the local administrations or as a source of conflict between the federal and regional authorities. This is made more likely by the uncompromising position of the majority of federal inspectors, on the one hand, and the independent politics of regional leaders such as Tatarstan President Mintimer Shaimiev, Samara Governor Konstantin Titov, Saratov Governor Dmitrii Ayatskov, and Chuvashiya President Nikolai Fedorov, on the other. - Viktor Kuznetsov

## **GOVERNORS' REACTIONS TO PUTIN'S FEDERAL REFORMS**

**KARELIYA'S KATANANDOV GOES ALONG WITH PUTIN REFORMS.** "I am convinced that it would be hard to think of a better system than the current one," Kareliya Prime Minister Sergei Katanandov said of the Federation Council on 27 July. "Nevertheless, since the president began his reform of the entire system, I have voted to support him each step of the way. Now the question has been settled."

In terms of the tax code, Katanandov said that the governors supported the reduction of taxes regardless of whether it affected federal or regional taxes. He warned that Kareliya and other regions could lose a significant amount of income because of the reform, but he believed that adopting the reform was necessary to improve the Russian economy.

However, Katanandov pointed out that while the governors supported the overall reform, "This does not mean that the discussion of concrete numbers in the budget will be easy. The battle for the budget will be extremely severe." He called on the republic's businessmen to pay their taxes honestly, estimating that 40 percent of the economy is now in the black market.

He threatened that if the companies did not pay, then the country's tax policy could be changed again. - Boris Matveev in Petrozavodsk

## **ENERGY CRISIS**

**BLACKOUTS HURT KRASNODAR.** Thanks to Unified Energy System's decision to cut energy supplies to Kubanenergo, the utility has had to start massive blackouts without warning. The blackouts have affected about one quarter of the utility's customers. The electricity providers say that they have to turn off the electricity because the natural gas suppliers are now demanding to be paid for the fuel that has already been used. On the other side, numerous Krasnodar enterprises simply do not pay their electricity bills, squeezing the utility in the middle. At the same time, the municipality has paid off 23 million rubles of its debt, an amount that makes up 10 percent of its overall debt to the utility.

The situation is made more complicated because the krai is heavily dependent on electricity from outside its borders. In particular, the Stavropol, Nevinnomysskaya, and Novochoerkasskaya energy stations have significantly cut back their electricity supplies. Krasnodar Mayor V. Samoilenko has sent a letter to Prime Minister Mikhail Kasyanov asking for help in restoring the region's electricity supply.

In July, the city of Krasnodar owed 10 percent of the krai's debt for electricity use. Mayor Samoilenko asked Kubanenergo to cut the city's electricity supply by 10 percent rather than the 26 percent cuts it was facing. Additionally, the mayor demanded the right to determine which enterprises would lose electricity. Currently the Kubanenergo dispatcher service is making these decisions without taking into account the level of debt for a city or rural raion. The mayor hopes to switch off enterprises which have not paid their bills, but not apartment buildings (*Krasnodarskie izvestiya*, 28 July).

Governor Nikolai Kondratenko made an emotional speech on this topic in the Federation Council on 26 July. He warned that raising electricity prices would wipe out domestic producers. He said that sanatoria were being shut down at the height of the tourist season, and that even though the harvest was underway, some processing plants did not have the electricity required to process the food. Kondratenko threatened that if the blackouts continued, he would halt construction of the pipeline being built by the Caspian Pipeline Consortium and the natural gas pipeline, as well as the export of oil and oil products through the krai's ports.

The krai's overall electricity debt is 2.1 billion rubles, according to Kubanenergo Director Demyan Sevastidi. The utility itself owes 1.375 billion rubles for gas and 1.1 billion rubles for purchasing electricity. Therefore, outside suppliers have reduced deliveries to the krai, and Kubanenergo began shutting off power to some customers.

The main debtors to Kubanenergo are middlemen who redistribute the electricity to retail users. Among the major debtors are agricultural users (including irrigators), housing complexes, and water pumping and cleaning stations, which already owe 200 million rubles (*Volnaya Kuban*, 28 July). However, the krai leadership excluded from the list of enterprises all firms connected to harvesting the region's grain. Another major debtor is the regional branch of the Defense Ministry, which owes 220 million rubles.

According to the some sources in the utility, the krai authorities are essentially holding Kubanenergo hostage. The current situation will last a week or so, and then the authorities will find some money to pay for some of the oil and gas. Then, in three-four months, the situation will repeat itself (*Krasnodarskie izvestiya*, 28 July). - Ariadna Popova in Krasnodar

**BLACKOUTS SHUT DOWN MUCH OF TVER...** Tver is one of the myriad Russian regions currently suffering from a shortage of natural gas and electricity. Power is cut off every morning, and almost the entire city goes without electricity during midday. This lack of power causes innumerable problems. For example, trams and trolleybuses do not function, leaving the approximately 5,000 people who rely on these services stranded at home. The city's water provider cannot pump its Artesian wells, leaving the city with precious little water. Many people have suffered deteriorating health from these conditions. Factories that use ammonia and other dangerous chemicals cannot store them properly, evoking the threat of an ecological disaster. The Tver press has also been crippled by the power outages and the city administration's press-service has limited its service. Your intrepid correspondent had to wait three weeks to file this report because there was no electricity at the University Internet Center. - Boris Goubman in Tver

**...WHILE KIROV HAS ENERGY PROBLEMS TOO.** Energy problems have also cropped up in Kirov Oblast. The local energy utility, Kirovenergo, has no money, making it impossible to prepare for winter, since it cannot afford to buy energy from the Perm power plant. As a result, the utility has declared that all payments must be made in cash, and that energy will no longer will be provided in exchange for goods or services. The leadership of Kirovenergo has asked that journalists not interpret their warnings about a lack of preparation for winter as threats, but as statements of fact, leading Kirov residents to believe that they are in for another dark and cold winter. - Vera Yakubovich in Kirov

**OUTAGES SHUT MEDIA IN KRASNOYARSK.** On Tuesday, Krasnoyarsk joined the ranks of the power-deprived. The local electric utility switched off power to the TV and radio transmission center, which also cut phone contact with Norilsk, Evenkiya, and other far flung areas. The utility said that power would stay off until "Moscow sends the relevant letter of guarantee that the debt will be paid off." (RIA, 1 August)

**KEMEROVO'S TULEEV BLOCKS PRICE INCREASE.** Kemerovo Governor Amen Tuleev has forbidden the hike in electric charges imposed by Unified Energy System of Russia. Prices were supposed to rise from 10 kopecks per kilowatt-hour to 23 kopecks per kWh, but Tuleev ruled that this rate was arbitrary, and not in line with the situation in the Siberian region. Thirty percent of the local population lives below the poverty line, and they have already faced rising telephone and utility prices. Tuleev fixed the tariff level at 15 kopecks per kWh, as approved by the Regional Power Commission which he controls, and has appealed the increase in court.

**YABLOKO SEEKS NAZDRATENKO OUSTER OVER ENERGY.** Yabloko's Primorskiy Krai regional branch early this week demanded that Governor Yevgenii Nazdratenko be removed from his post. The party charged that Nazdratenko was one of the main people responsible for the protracted energy crisis in the region. The activists said that the crisis was violating people's rights. People are regularly paying money for electricity even though their houses are dark up to 18 hours a day.

However, on 2 August, the Kremlin rejected the appeal. A senior Kremlin official told RIA-Novosti that the president can only remove a governor if a court has decided that the regional leader has violated the constitution or a federal law. Although the official acknowledged that the lack of power is an "outrage," it is insufficient grounds for dismissal.

## **PATTERNS OF REGIONAL DEVELOPMENT**

**OUT OF NECESSITY, VORONEZH GOVERNOR SUPPORTS PUTIN, BUT WITH RESERVATIONS.** Last week the Federation Council voted to revise the way its members are chosen. Though the bill passed in a landslide, it was still very controversial, and many governors, even those who voted in favor, were strongly opposed to it. Shortly after his return home, Voronezh Governor Ivan Shabanov organized a press conference to discuss the vote. Shabanov is up for reelection in the fall, and has recently become a staunch supporter of Putin, a move that many perceive as a way to improve his chances of winning the election. He is, however, a member of the Communist Party, which has led to many conflicting statements. True to form, Shabanov was extremely positive in his evaluation of the decision to remove the senators, saying that "Whatever the president says, goes," but found ways to be critical without mentioning Putin.

However, in another setting, he was very critical of the arrangement, expressing fear about the governors' reduced status. Earlier, Shabanov led a delegation from the Federation Council to meet with a group of American legislators in the US. The trip taught him that the Americans were more independent of, and free to criticize, the executive branch than he and his colleagues. He perceived this lack of separation of powers as one of the main flaws of the Russian Federation (*Bereg*, 21 July).

Shabanov was careful not to place the blame for this problem on Putin, but rather on the "lechery" [*blud*] of Kremlin officials. When pressed for an example of this "lechery," Shabanov cited the federal repeal of a decision he had made to create oblast and raion reserves of food supplies (see *EWI Russian Regional Report*, 28 June). The issue has been a constant sore point for Shabanov, and he used this opportunity to once again express his dissatisfaction with the president's administration (but not with the president himself).

Returning to the question about the passing of the Federation Council law, Shabanov also noted that he was acting according to the wishes of his constituents by supporting the bill. The result of a poll of Voronezh citizens showed that 44 percent supported the change in the way Federation Council members are chosen, 22 percent supported some change, and only 16 percent came out against any change. According to Shabanov, these results show that Voronezh continues to trust and support President Putin (*Voronezh Vesti*, 31 July). - Yulia Fedorinova in Voronezh

**KRASNOYARSK SHOWS STRONG POPULAR SUPPORT FOR BYKOV.** The investigation into the deeds of Anatolii Bykov, the former chairman of the board of the Krasnoyarsk Aluminum Factory and its largest shareholder, is reaching its apogee. However, it is already clear that Krasnoyarsk Governor Aleksandr Lebed and the law enforcement agencies working with him have lost the battle against Bykov. Many officials are now talking about the case publicly. For example, Krai Procurator Ivan Borisenko complained to the newspaper *Krasnoyarskii rabochii* that his office is under unprecedented pressure from a large number of social organizations, celebrities, legislators, and ordinary citizens across the krai and Russia seeking Bykov's release. Borisenko called on the citizens not to interfere.

Bykov is now sitting in jail in Krasnoyarsk, but the massive number of letters supporting him has been unprecedented. Part of this work has been organized by the Anatolii Bykov Information Cultural Center. His supporters have even launched a series of television ads showing Bykov with some of the many people he helped with his enormous wealth before his arrest (children, pensioners, and religious figures, among others). However, many of the letters are spontaneous and sincere expressions of support. More than one hundred well known figures have spoken out in support of Bykov, including the head of the Krasnoyarsk Krai Greek Cultural Association and the head of the Russian Boxing Association, a position Bykov once held. Usually the statements praise Bykov's deeds, but sometimes they also criticize Governor Lebed.

The krai legislature, of which Bykov is a member, has refused to let the procurator prosecute him. The majority of deputies decided that they would not allow prosecution until there was more convincing evidence of his guilt. The feeling in the body was so strong that even the usually pro-Lebed deputies voted to protect Bykov. Bykov's attorney, the well-known Moscow lawyer Genrikh Padva, argued to Bykov's fellow legislators that the authorities did not have enough evidence to justify holding him. The authorities argue that they can not let Bykov out because they fear that he will flee the country. Bykov was arrested in Hungary and then extradited to Russia.

The prosecutors face a real problem now in the lack of evidence to convict Bykov. General Vladimir Kolesnikov, now an advisor to the general procurator, has returned to the krai to do further work. Lebed had summoned him last year, when Kolesnikov was first deputy minister of the interior, to deal with crime in the region. During that time, Kolesnikov tried to find evidence tying Bykov to a series of murders that took place from 1993-1998. Bykov's supporters claim that 18 months of intensive work produced no evidence against him. The local media now assume that Kolesnikov's task is to insure that Bykov stays in jail. On 24 July, the regional legislature sought to hold a session with the investigators to find out if political pressures were really preventing them from pursuing their case against Bykov. However, the procurators did not show up for the session.

The next day the prosecutors issued new charges against Bykov. Currently they accuse him of participating in the 1996 murder of Oleg Gubin. The second charge against him involves illegal weapons possession. The third, and completely new, charge is the illegal turnover of valuable metals, in this case gold. The investigators have yet to produce convincing evidence that Bykov was involved in these cases.

So far Bykov is refusing to cooperate with the investigators. Bykov's defense is that there is no evidence implicating him in the crimes of which he is accused, and that any testimony against him was secured through coercion. The new charges mean that Bykov will be in jail for many more months. The time limit for the previous charges was set to expire at the end of August, a situation that could have forced his release. - Vasilii Damov in Krasnoyarsk

**MARI EL PRESIDENT ILLEGALLY MOVES UP ELECTIONS.** On 6 July, the deputies of the Marii El State Assembly voted to move up the republic's presidential elections to 8 October. President Vyacheslav Kislitsyn signed off on this decision. However, the move violates the Marii El constitution and the republican electoral law by shortening the president's term by more than six months. The deputies argue that the change allows them to save money. In reality, Kislitsyn is the main beneficiary, as he is the only candidate currently competing for the office, and moving up the elections will prevent the opposition (which is already weak) from better organizing. All the agencies that are supposed to monitor the sanctity of the elections are doing nothing. The Central Electoral Commission is silent and the procurator is inactive.

Only the members of the Chelovek i zakon organization have taken action. Chairman Igor Kislitsyn and Jurist Sergei Poduzov filed a case against the legislature in the Republican Supreme Court as republican citizens who claimed that their voting rights had been violated. On 18 July, the court decided not to act on the case, charging that the paperwork did not include the 65 first, middle, and last names of the deputies in the legislature and that the suit did not mention President Kislitsyn, who is clearly affected by the outcome. In addition, the court ruled that the charges did not say which rights had been violated. According to the suit, the main victim was the president, whose term was shortened. The court also said that the activists needed to submit one copy of the suit for each of the 65 defendants (the members of the legislature). The court set a deadline of 26 July for the suit to be filed again. Despite the difficulty of meeting the deadline, Kislitsyn and Poduzov succeeded in turning in 68 copies of the case, with the necessary corrections, on 24 July.

On 25 July, the landlord of the building where Chelovek i Zakon has its offices demanded that the group withdraw its case or face eviction. Since the group refused to withdraw the case, it lost its offices. Obviously, the landlord was under pressure from the republican authorities. The republican procurator has refused to get involved in the case, saying it is a matter for the courts.

The court will most likely throw the case out on another technicality. The federal authorities, including the Central Electoral Commission, procurator general, and presidential representative in the Volga Federal District continue to do nothing. - Svetlana Zaslonkina in Ioshkar-Ola

**CAMPAIGN FOR PSKOV GOVERNOR OFF WITH A BANG.** On the night of 20 July, two explosives were thrown into the apartment of Pskov Oblast Deputy Governor Vladimir Blank. The deputy governor was able to take care of the explosives with minimal harm to himself and his property. Blank thinks that this attack was an attempt to put pressure not just on him, but on the governor's entire staff. "I think that this incident was directly related to my professional duties," he told Pskov media.

Blank, a former entrepreneur, was only officially appointed to the position of deputy governor in early May. He began his new job by conducting an inventory of the regional media. This is not surprising, considering that many observers consider his real position to be head of the committee to reelect Pskov Governor Yevgenii Mikhailov.

In the beginning of July, Blank concluded his investigation into the activities of the oblast media. His inquiry was largely directed toward *Panorama* newspaper, which is financed by Mikhailov's main opponent, State Duma Deputy Mikhail Kuznetsov. According to Blank, *Panorama* was privatized in violation of current legislation -- its state-controlled stock was simply placed into private hands.

Blank also undertook an investigation of Pskov Oblast's electronic media. Here, oblast authorities were trying to uncover how informational materials that Blank considers to be libelous ended up being broadcast by federal media, primarily ORT. This television station has, over the past two months, broadcast materials highly critical of Governor Mikhailov during blocks of time slated for commercial use only. The materials were produced by the staff of the Pskovskaya Lenta Novostei news agency, which has actively participated in Kuznetsov's electoral campaign. The materials were broadcast on the basis of an agreement between Prime, Ltd., a regional advertising agency, and Video-International, the main distributor of commercial airtime for ORT. The materials broadcast on ORT, however, were essentially propaganda. Blank also noted that Pskovskaya Lenta Novostei broadcast its materials for about a month without obtaining the appropriate license from the Press Ministry.

"This was a Bacchanalia hosted by outsiders to our city," Blank said, hinting at the fact that Pskovskaya Lenta Novostei's leading journalists, as well as other journalists under Kuznetsov's control, are in fact permanent residents of Arkhangelsk and Volgograd. "If this is how the election campaign is beginning, all right-minded citizens of Pskov Oblast should think hard about who benefits here," he added.

Blank considers the incident involving his apartment to be a terrorist act, and does not rule out the possibility that it was meant to avenge his attempt to rein in those media outlets controlled by Mikhailov.

Prospects for finding Blank's attackers remain dim, despite the fact that many of the oblast's highest-ranking law officers are working on the case. The incident has resounded dramatically through the regional and national media.

Commercial activity remains one of the motives for the attack. Blank founded a network of companies in Pskov, Buryatiya, Nazran, Elista, Gorno-Altai, St. Petersburg, and Moscow -- and investigators allege that none of them pay their taxes. Blank and his chief bookkeeper Yelena Lenina have been charged with outstanding taxes in the amount of 2,800,000 rubles. Tax Police Head Gennadii Podznoev has announced publicly that he will not allow the criminal case against Blank to drag on indefinitely. Blank and Lenina are currently reviewing the case against them with their legal counsel (*Kommersant*, 25 July).

Mikhailov was not in the oblast during the attack on Blank. He was shocked to discover what had happened to his deputy, announcing that "This event is entirely unique for our city and oblast. This is indeed an attempt to commit a terrorist act. It is an attempt to frighten political opponents. I think that everyone understands that this is a blow to my team, it is political in nature, and it is directed toward the political destabilization of the oblast. This affair

will be under my personal control, and I may say with utmost certainty that such attempts will not occur unchecked in our oblast. (Telekom 7 kanal, 28 July).

It must be noted that Mikhailov was being more than a bit cunning in describing the attack upon Blank as unique. Similar incidents of an equally political nature took place in the oblast in 1997-1998.

In the winter of 1997, Vladimir Ivchenko, Mikhailov's deputy governor, was dismissed from his post. Ivchenko immediately began to appear in oppositional media with a series of complaints against the oblast administration's bureaucrats. Following his dismissal, Ivchenko was not immediately able to vacate the state-owned dacha where he and his family lived. In January 1998, this dacha, located in an elite township on the banks of Pskov Lake, was burnt to the ground. The case has not yet been solved.

Another unsolved mystery revolves around the former head of Pskov Oblast's Department of Internal Affairs Sergei Shchadrin. After a drawn-out conflict with Mikhailov, Shchadrin was eventually transferred to the national ministry toward the end of the summer of 1998. At the same time, under mysterious circumstances, Shchadrin's country house was burnt to the ground. At the time, the official oblast media dismissed all discussion of arson.

On 26 July -- just a week after the incident involving Blank's apartment -- a car belonging to Dmitrii Dervoed, director of Pskovprod company and a close friend of Mikhailov, was set on fire in Moscow. The Pskovprod company maintains exclusive contracts to supply food to agencies that receive support from the oblast budget. As Dervoed recounts, "My car, which was in the garage, was blown up. Afterwards, threatening calls were placed to my wife, saying that this was no accident. The car was completely destroyed and can't be repaired. Even the engine burned up. (Telekom 7 kanal, 28 July).

*Pskovskaya Pravda*, the oblast's main official newspaper, commented on the recent explosions by offering its readers the following simple scenario: Governor Yevgeny Mikhailov is the leader of the Pskov branch of Yedinstvo and a close colleague of President Vladimir Putin. He is running for office against State Duma Deputy Mikhail Kuznetsov and his ally, oligarch Boris Berezovsky, a strong opponent of Putin's policies. This interpretation, as offered up by a governor-controlled newspaper, may lead independent observers to conclude that these attacks were simply a publicity stunt. Given that each side has benefited from the attacks, the only question that remains is: whodunnit? - Andrei Shcherkin in Pskov

**ELECTORAL PREPARATIONS ALREADY UNDERWAY IN NENETS.** Regional elections for the okrug executive and legislature will take place in Nenetskii Autonomous Okrug at the end of the year. Conflicts between the legislative and executive branches of the okrug have already arisen over the date of these elections. While the Okrug Assembly would like to hold the legislative and executive elections on the same day, as in 1996, Governor Vladimir Butov is insisting that they occur separately.

The current political -- and, to a degree, the social -- situation in the okrug is clearly being influenced by the upcoming elections. This is most likely a reflection of the battle for control of the okrug's oil deposits -- most obviously, between LUKoil, which is attempting to begin the widespread extraction of the okrug's oil deposits, and the Butov administration. All evidence points to the fact that Butov, who prior to being elected head of the okrug



administration was the okrug's premier entrepreneur, is himself, via commercial structures controlled by or friendly to him, foiling LUKoil's plans to gain access to the black gold. In his fight against LUKoil's expansion, Butov has found allies in former Finance Minister Andrei Vavilov and Kalmykiya President Kirsan Ilyumzhinov. Butov supported Vavilov during last winter's Duma elections (LUKoil placed its bets on Artur Chilingarov), and this spring he and Ilyumzhinov signed a treaty on collaboration between their two regions. On 24 July, at a meeting with local journalists, Kirsan Ilyumzhinov's brother Vyacheslav was appointed Butov's first deputy -- although, as was determined the next day, Butov had not signed an executive order to this effect.

The Butov-backed Vavilov lost the Duma elections primarily because he did not wage a good campaign in the media. He chose to advertise heavily with the Zapolyare television-radio company, which sympathizes with Butov. In light of this experience, Butov's administration has founded -- and, as of July, begun to publish -- the free weekly *Zapolyarnye vesti* newspaper. Journalists from St. Petersburg were invited to work for the newspaper. The unofficial editor of the paper is the head of Zapolyare television-radio company, Zoya Agapova. Several issues have already been published that criticize industrial enterprises working in the okrug, including LUKoil, Varandineftegaz, Arkhangelskgeoldobych, KomiTEK, etc.

Nenets Okrug Assembly Speaker Vyacheslav Vyucheiskii did not mince his words when discussing *Zapolyarnye vesti* in an interview with local journalists: "I'll say one thing: the newspaper was founded illegally. We have lodged a complaint with the procurator's office on this matter. It's clear that the newspaper will serve as a mouthpiece during Butov's upcoming political campaign." The okrug's executive branch has not responded to these comments.

Last autumn, Butov and Kirsan Ilyumzhinov were recognized at a constituents' meeting of the Yedinstvo movement. At the time, it was expected that Butov would be nominated for the Yedinstvo party slate. The fact that this did not come to pass is apparently a result of Butov's two previous criminal convictions, both of which have now been overturned. This spring, Butov became the head of the regional branch of Yedinstvo in Nenetskiy Autonomous Okrug. Evidence indicates that St. Petersburg representatives of Yedinstvo are already conducting an investigation into the mindset of the okrug population and most likely will develop an electoral strategy for Butov's team. Butov's post as regional head of Yedinstvo most likely affected his ability to publicly weigh in on the proposed presidential reforms to the Federation Council, as any criticism of Putin from a regional leader of the party in power would be frowned upon by Yedinstvo leaders. It may be assumed that Butov takes a negative view of the presidential reforms. Vyucheiskii, on the other hand, has publicly announced that he approves of them.

Since June, the Butov-supported Nenetskaya oil company has carried out a series of widely advertised charitable acts: sending several hundred okrug children on vacation to the Black Sea and two groups of schoolchildren to England, and hosting various famous pop groups' performances in Naryan-Mar. At the same time, the local department of internal affairs has been investigating a criminal case concerning the company. At a session of the okrug assembly in May, Anatolii Sivak, Nenetskaya's newly appointed general director, announced that prior to his appointment, 60,000 tons of company oil "disappeared somewhere".

The only person to have already publicly declared his candidacy for governor is Vice President of the Polyarnoe siyanie company Aleskandr Shmakov. Polyarnoe siyanie is the

largest company extracting oil on Nenets territory. Its stock is owned by LUKoil and the American Conoco. The company's taxes account for around 40 percent of the okrug budget. Nevertheless, the Butov administration's negative relations with Polyarnoe siyanie are well-known. Butov's administration believes that the company should contribute more to local coffers -- at any rate, this is the official explanation for Butov's stance toward Polyarnoe siyanie.

Taken together, these events suggest that the upcoming election campaign to the Nenetskii Okrug Administration and Deputy Assembly will be a battle of unprecedented magnitude. - Yevgenii Kiselev in Naryan-Mare

## **BUDGET ISSUES**

**SVERDLOVSK GOVERNOR ROSSEL STRUGGLES TO HOLD ON TO REGIONAL INCOME.** The Sverdlovsk Oblast Duma has announced that in 1999 the oblast budget received 5.6 billion rubles in revenue, or 85.4 percent of the figure forecast in the 1999 budget. Property, sales, income and several other taxes failed to meet forecast levels. Excise taxes brought in only 444 million rubles, 60.7 percent of the 730 million ruble forecast figure. Of these, beer brought in 70.9 percent, tobacco products 42.1 percent, and jewelry 34.1 percent of expected revenue. At the same time, monetary tax revenue to the oblast budget rose significantly, to 44.5 percent. The Fund for the Support of Municipal Education received 100.5 percent of its forecast revenue.

Articles protected in the oblast budget were financed at 81.4 percent, which is more than in recent years. Expenditures on education and health were significantly higher than in recent years. However, transportation, roads, and communications received only 51.3 percent of expected funds, and youth programs received only 28.7 percent. Of 23 programs, 17 were under-funded. The state domestic debt allowed for by oblast law is currently estimated at over 617.5 million rubles. As the legislature has little actual control over the budget, all it could do was point out to the oblast government the aforementioned discrepancies between the 1999 budget projection and the actual flow of resources for the year.

Budgetary statistics for the first half of this year were also discussed at the recent Oblast Duma session. Tax revenue had increased over this same time period last year by a factor of 1.6, creating a surplus of some 7 billion rubles. Local politicians are worried that this surplus will be re-routed into the federal coffers, as the federal government has begun to re-allot such finances in order to achieve a "Russia-wide economic standard." For donor regions such as Sverdlovsk Oblast, this means tightening one's own belt in order to help out more backward neighbors. Last year, the oblast lost 2.4 billion rubles in this manner. This year, the federal government is planning to seize 7 billion rubles from the oblast. The legal groundwork for this move is in place, with relevant changes already made to the new Tax Code and the bill on the 2001 federal budget. Sverdlovsk Oblast Governor Eduard Rossel and Oblast Duma Speaker Yevgenii Porunov are determined to fight these changes in the Federation Council.

This attempt to increase budget revenue is largely a result of a new oblast law on the maintenance and privatization of Sverdlovsk Oblast state property. The law seeks to increase the state's efficiency in managing its property. In 2000, the oblast expects to receive 48.5 million rubles in revenue from state property. Priorities this year have shifted away from the

privatization and toward the maintenance of government property. The government will continue to focus on taking inventory of state property, including, increasingly, intellectual property (*Uralskii rabochii*, 22 July 2000 and *Vechernie Vedomosti*, 25 July 2000). - Sergei Pushkarev in Yekaterinburg

**KARELIAN PRESIDENT SCRUTINIZES REPUBLICAN DEBT.** "Round Two" is how journalists are describing President of Kareliya Sergei Katanandov's talk on 24 July with his staff, local administration officials, and federal representatives. "Round Two" because for the second week in a row, in response to media criticism, Katanandov is conducting a thorough investigation into the effectiveness with which various executive orders and resolutions are being carried out in the republic.

When it comes to tax-collecting, Kareliya is currently in a state of crisis reminiscent of the situation two years ago. The local government owes 10 million rubles in wage arrears. In a series of raions (Kareliya's Deputy Finance Minister Antonina Lisina mentioned Belomorskii), the republican budget law requiring that 60 percent of budget revenue be spent on paying salaries is not being observed. Katanandov ordered the finance, economics, and labor ministers to sort out the problems in the most backward raions within 10 days, and if necessary hold extraordinary sessions to determine the necessary measures to improve tax collection.

"Some local budgets are attempting to work against us," said Katanandov. "We have to bring them in line. We already experienced a situation two years ago in which the raions had enough resources for everything except salaries."

Katanandov drew attention to lay-offs in the Petrozavodsk branch of the Oktyabrskaya railroads, as well as to the fact that the Petrazavodsk office continues to avoid paying taxes into the republican budget. He also gave his ministers orders to organize a workers' meeting and, if necessary, discuss these issues on a federal level in order to ensure that, first of all, debts to the republican budget and workers' salaries are paid in full, and second, to investigate the economic necessity of these cut-backs -- and, if necessary, protect the rights of Karelian railroad workers.

## **MEDIA ISSUES**

### **YEKATERINBURG MEDIA STRUGGLE TO REMAIN FINANCIALLY VIABLE.**

When President of Media-Most Vladimir Gusinskii was arrested and sent to Butyskaya prison, the first representative of the Yekaterinburg media to respond publicly was President of 4 Kanal holding Igor Mishin. Journalists viewed Mishin's negative reaction to Gusinskii's arrest as a natural outcome of the economic relations between these two media structures: Gusinskii's company owns 51 percent of 4 Kanal stock.

For the time being, such a Muscovite presence in the local media market is relatively rare, other examples being the short-wave radio stations Russkoe radio, Radio nostalgie, etc. At the same time, however, market relations have long since become an integral part of Yekaterinburg's media. Virtually all media outlets are privately owned -- indicating that they possess particular political leanings.

A calculation of the number of media outlets per every thousand residents demonstrates that Yekaterinburg is comparable to Moscow and St. Petersburg in terms of its widespread media presence. The oblast is home to over 200 periodicals, 12 television stations (including the state-owned stations broadcast to the Urals), and around a dozen radio stations. Recently, regional media has become increasingly competitive.

Another notable tendency in Yekaterinburg media concerns sales. For example, Severnaya kazna bank, which owned ATN, Yekaterinburg's leading television company, recently decided to sell the company to well-known local industrialist Pavel Fedulev and head of the Ural copper holding Andrei Kozitsyn. So far, this deal has not affected the scale of broadcast or the content of the media company, which continues to enjoy high ratings. However, local analysts have predicted that such changes could occur in the near future. The former owners and heads of ATN, while ostensibly neutral in their reporting, over time became increasingly supportive of the city administration and Mayor Arkadii Chernetskii. As for ATN's new head, Kozitsyn, his political leanings and economic interests clearly lie with Sverdlovsk Oblast Governor Eduard Rossel.

The decision of a bank as prosperous as Severnaya kazna to relinquish its media outlet demonstrates just how expensive it can be to support media outlets in today's Russia. The situation regarding *Podrobnosti* newspaper, which is owned by 4 Kanal, is another case in point. *Podrobnosti*, which used to be published thrice weekly, has been forced to cut back its publication to once a week. In addition, a plan to increase the newspaper's staff has been put on hold for the time being.

Curtailing a publication's budget is a sure sign that the company is in the red. Today, practically all of Yekaterinburg's newspapers are in this position. As of 1 July, the already low circulation of *Uralskii rabochii* and *Vechernii Yekaterinburg* newspapers fell even further. Such troubled economic conditions affect the salaries of journalists, who are less loyal to their jobs than they used to be. The staff of *Uralskii rabochii* has been particularly affected by this situation, and it remains unclear whether the newspaper will survive.

The situation on the press market has given rise to yet another tendency: consumers, tired of the misfortunes of daily life, decidedly prefer light, entertainment-oriented information to economic and political analyses. Only those media that take this preference into account may expect a bright future. The situation with the oblast television company SGTRK, *Oblastnaya gazeta* newspaper, *Uralskii rabochii*, and other media outlets experiencing financial difficulties is a clear indicator of their failure to take their public's interests into account -- interests that have always played a significant role in the ability of a media company to survive. - Dmitrii Strovksii in Yekaterinburg

## **ECONOMIC ISSUES**

**MORDOVIYA ATTEMPTS TO ERADICATE BARTER.** The current tax reforms will soon force all companies nation-wide to use only money in their transactions and relinquish all forms of barter, debt cancellation, and other non-monetary transactions. This reform could lead to serious problems for Mordoviya, where many companies use barter in up to 60-70 percent of their transactions. In addition, many enterprises are able to generate wealth through various

illegal barter deals with subsidiary firms. Mordoviya Prime Minister Vladimir Volkov has announced that federal leaders are convinced that there are no real obstacles preventing all companies nationwide from accepting only monetary payments. The only problem? Powerful, notorious middlemen who do not wish to lose the colossal source of income that barter operations have afforded them over the past several years.

According to Volkov, information has come to light on shady barter deals -- conducted by the aforementioned "subsidiary" middlemen -- that have raised the cost of republican industrial enterprises' mutual debt cancellation. Experts point out that middlemen make serious profits by inflating the value of the goods they barter. What most interests the republican administration is whether or not these middlemen held preliminary talks with the directors of the Mordovian factories involved in these barter operations. This concern is what led to Volkov's order that a number of enterprises in Saransk be investigated. At the same time, Volkov has not attempted to hide the fact that a sharp break with barter will lead to an immediate reduction in industrial production volume for Mordoviya. The companies to suffer the most will be those in which barter transactions once made up 90 percent of total transactions (and in which barter transactions currently hover between 60-70 percent of total transactions). It is suspected that the transition to monetary payment will cause competition on the domestic market to rise sharply. The Mordovian prime minister does not rule out the possibility that this transition will also result in a drop in demand for the republic's products -- leading to immediate problems in paying workers' salaries.

How long will these problems last? Naturally, that will depend largely upon how quickly the heads of local industries are able to adapt to the new conditions. Also significant is the fact that the bulk of current factory directors were formed by the Soviet economic system. Under these circumstances, the lack of younger, post-Soviet staff will be a pressing problem for the Mordovian leadership since the older managers do not want to implement change quickly. - Igor Telin in Saransk

## **INTERVIEW**

### **IVANOVO GOVERNOR TIKHOMIROV ON FEDERATION COUNCIL REFORMS**

*On 17 May RRR Correspondents Vasilii Filippov and Dmitrii Grushkin interviewed Ivanovo Governor Vladislav Tikhomirov in Moscow.*

**RRR: Vladislav Nikolaevich! The majority of governors have been extremely wary of the reforms initiated by the president on revamping state institutions. How do you evaluate the bills proposed by Putin on reforming the Federal Assembly?**

Tikhomirov: The lawlessness that raged prior to these proposed reforms had to be stopped. And I have always been in favor of appointing, not electing, our brother governors. I am also in favor of the regions being equal not only according to the letter of the Constitution, but in terms of our actual position within the federal structure. Bashkortostan has one status, Tatarstan another, Yakutiya, a third. Whereas we, the central oblasts of Russia (and I don't just mean

Ivanovsk, I mean Kostroma, Vladimir, Yaroslavl), are in the positions of supplicants. So, I take a positive view of the president's initiatives. In addition, I think that this is only the first step -- we have to go further! I wholeheartedly support Vladimir Vladimirovich's decision to put this country in order. I hope that the anti-federal forces at work will not be able to stop these new reforms. This process is, of course, terrible for the presidents of the national republics. I think that sooner or later there will be an explosion of sorts. Many republican leaders, like the president of Kalmykiya, take a negative view of the idea of reforming Russia's federal structure. Well, so what, let them! An oblast governor and a republican president cannot be of the same mind on this issue.

**RRR: What do you think -- does Putin have the power, and more importantly the desire, to destroy the republican presidents' opposition?**

Tikhomirov: For the time being, the president enjoys the people's trust. There is a deep belief in the power of the state. Putin did not come to power simply because the Yedinstvo party appeared on the political scene. No, the people were tired of a lack of government, tired of our property -- the people's property -- being carted off. All of this has been a thorn in the side of our citizens. What Putin led us to understand about himself is important: he will stand up for Russia's state interests in the world, and the interest of the state in Russia itself. This, in my opinion, is what determined the people's vote. In any case, inasmuch as I can be the judge, this is what determined the vote of the people of Ivanovo oblast. All the decisions that the president has made, even before his actual election to the post, were, without doubt, correct. Because of this, I repeat, the beginning of reforms to the executive branch should only be welcomed.

**RRR: So you support the appointment of representatives to the executive branch?**

Tikhomirov: Yes, I've said it before: the executive branch should be appointed, and the legislative branch should be elected. Let the people give them a mandate of trust. Here's a paradox: the President issues a decree that recommends that the local authorities do xyz. What does it mean to "recommend" that we do something? I, as a government servant, have two choices. Either I carry out my duties, or I don't. If I don't, I'm breaking the law -- an utter violation of the power hierarchy! Sovereignty was handed out, and now the government doesn't know how to get it back. This is why I like what the president is doing today. As a man, as a person, as a governor, it feels right to me.

**RRR: Do you think there is any real threat of a "governors' opposition" against the central government, as personified by Vladimir Putin?**

Tikhomirov: From my conversations with colleagues, and I have spoken with many of them, I can conclude that the majority of governors support these events. We have "swallowed" the first part, but what will happen next remains unclear. For example, here's an essential question: will the President's federal representatives keep us on a short leash? That would be bad. This is why I am in favor of the Kremlin providing us with the necessary explanations of the concepts behind the new regional policy. In addition, I would like the interests of all regions to be taken into account when developing and executing this policy. Let's assume that our oblast has certain

particularities. In my opinion, when organizing the new relationship between the federal center and Ivanovo Oblast, these particularities need to be taken into account.

**RRR: In your opinion, can reforming the government apparatus lead to serious political upheavals?**

Tikhomirov: In general, the anti-federal forces that exist in Russia today force one to think unpleasant thoughts. It would be terrible if Russia were to shrink to the size of the former Vladimir-Suzdal principality! Superpowers like the USA are just waiting for us to disintegrate. When planning to visit friends in Ufa or Kazan, I don't want to have to get a visa in my passport, like I have to when traveling to Latvia, Lithuania, or Estonia. How are matters going to develop further? Should we just wait and see? It's not that clear-cut. Should we focus all our power in the center? We've already done that, twice. But how can we ensure that I voluntarily give up part of my gubernatorial power to the center without being forced to do so? I have yet to see the mechanism for this, and I don't know how it would be put into practice. When Vladimir Vladimirovich visited us, we discussed this issue. I am satisfied with how he views the problem.

**RRR: Do you think that it will be possible to iron out the wrinkles in the old system of budgetary federalism? Will ethnically Russian oblasts continue to shoulder the bulk of federal expenditures, thus supporting the relative blossoming of a handful of (sovereign) ethnic republics?**

Tikhomirov: Your question touches a nerve. Along with the republics, we signed a federative treaty in 1992. It was carried out with great pomp and circumstance, in the Georgevskii Room of the Kremlin Palace. Everyone signed it, and ostensibly everyone was equal. But I know that several republics have yet to create a treasury. They distribute taxes themselves, at their own dictates. I can't do that. The president's actions offer hope that the situation will change fundamentally. As you know, he has already issued decrees about Tatarstan and Bashkortostan ordering them to bring their republican legislation in line with federal law. And they are not the only ones required to do so. We have already brought our legislation in line with the Constitution, as have Nizhnii Novgorod and Kostroma. These presidential acts have yet to give us something concrete, but they have already woken us up. I think they will have positive consequences. Russia should blossom and become as great a state as she was under Peter and Catherine the Great -- and, maybe, Brezhnev and Stalin. I'm not talking names, I'm talking greatness. Our country, our power, should be a force to be reckoned with. We should not be walking around, hands outstretched to the very countries that we have been victorious over. The countries we liberated defile our graves. Russia is no longer taken into account. From the richest country in the world, we have turned into beggars. As they say, the king's retinue is what forms him, so I wish the president luck in standing firm, and we will support him whenever necessary.

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**NEW TEAM FOR RRR AND RRI.** The EastWest Institute has assembled a new team to prepare the Russian Regional Report and Russian Regional Investor. Joining Publisher Heyward Isham and Editor-in-Chief Robert Orttung are Elizabeth Wishnick as deputy editor-in-chief and Marisa Robertson-Textor as executive editor. Elizabeth holds a Ph.D. from Columbia University and is the author of the forthcoming book *Mending Fences: The Evolution of Moscow's China Policy from Brezhnev to Yeltsin*. Marisa earned a Bachelor's degree from Brown University and spent the last four years in Moscow, where she worked at *Business in Russia* magazine and the Moscow bureau of the *Los Angeles Times*. The new members of the team already have brought many new ideas to the report and we hope to continually improve the publication in the coming months.

EastWest Institute  
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## BREAKING NEWS

### **GOVERNMENT DEFINES RELATIONSHIP WITH SEVEN FEDERAL**

**DISTRICTS.** On 12 August Mikhail Kasyanov signed a decree defining the relationship between the government and the seven newly created federal districts (*Rossiiskaya gazeta*, 22 August). The order invites the representatives to participate in the meetings of the government and gives them a consultative vote. A deputy prime minister, currently Viktor Khristenko, will meet with the representatives once a month and will provide assistance in enforcing federal laws in the regions. The document orders federal agencies to set up a department to work with the presidential representatives. The agencies are to make information about their activities available on their web sites. The agencies must agree important appointments with the presidential representatives. The agencies also are to include staff members of the presidential representatives in meetings that touch on the district's interests.

The decree affects important ministries, like the Finance Ministry, but not the power ministries. It does not provide much clarity in how the government and presidential representatives will actually get along. Nor does it shed much light on the relationship between the Finance Ministry and the seven representatives. Khristenko described the decree only as defining "the starting point of interaction."

Members of the government are divided on the issue of how much economic power the presidential representatives will have. On 1 August Deputy Prime Minister Ilya Klebanov claimed that the government had begun drawing up economic plans for each of the seven districts (*Kommersant Daily*, 2 August). In a subsequent interview, Khristenko ridiculed the idea, saying that "it is impossible to devise a program of economic development within the scope of a district (*Kommersant-Vlast*, 15 August)." Georgii Poltavchenko, the presidential representative in the Central Federal District seems to support Klebanov's position much more closely than Khristenko's. In an interview published in the official *Rossiiskaya gazeta* (4 August), he that to improve the social-economic situation in the district he would "jointly with the governors develop a single program for the economic development of the Central Federal District." This issue is likely to become the crux of the battle for power between the government and the seven federal districts.

Khristenko explained that most ministries will keep their representation in all of the regions. However, the branch in the federal district capital will have responsibility for summarizing what is going on in the federal district as a whole.

Khristenko noted that in the past, the governors were able to wave off the Finance Ministry and the Energy Ministry as if they were "annoying flies." He claimed that now the presidential representative has direct contact with the prosecutor's office and other agencies and will be able to protest any decision. The result is that the governors will lose much of their influence over the ministries, Khristenko claimed.

**FAR EAST FEDERAL DISTRICT ONLY ONE TO SHOW DEFICIT.** The Far East Federal District was the only one of Russia's seven federal districts to show a deficit in the overall fulfillment of regional budgets, according to data published in *Rossiiskaya gazeta* (12 August) showing the income, expenses, and surplus or deficit for each of Russia's 89 regions except Chechnya during the first six months of 2000. In the Far East District, Sakha accounted for the vast majority of the shortfall. The other districts all reported surpluses, although some regions had deficits. The city of St. Petersburg, for example, reported one of the largest deficits.

**NEW HEAD OF PRIMORSKII KRAI FSB APPOINTED.** Major-General Aleksandr Gromov was appointed head of the Primorskii Krai FSB, the most important branch of the service in the Russian Far East. Gromov, a native of Primorskii Krai, served as deputy to Viktor Kondratov, the former presidential representative to the region from 1997 to 1999, who lost a power struggle with Governor Yevgenii Nazdratenko and was removed from office (*Kommersant*, August 24). Gromov's future relationship with Nazdratenko is unclear. Nazdratenko had backed a candidate from Nakhodka who was not appointed. *Kommersant* speculated that appointing a local person to the job, rather than someone from outside the region as Kondratov had been, may have been a compromise in Nazdratenko's favor.



### **PETERSBURG: NEW CAPITAL OF THE RUSSIAN-BELORUSIAN UNION?**

State Duma Speaker Gennadii Seleznev suggested that President Vladimir Putin would not be opposed to locating the parliament of the Russian-Belarusian union in St. Petersburg. Seleznev made these comments after meeting with Putin. Just days before, Presidential Representative to the Northwest Federal District Viktor Cherkesov had proposed relocating to Petersburg several other federal agencies, including the State Duma. (*Kommersant*, August 16)

**THREE CANDIDATES FOR SAKHALIN GOVERNOR.** On October 22, Sakhalin will elect a new governor, an election with far-reaching implications for future development of the region's offshore oil and gas resources. Incumbent Governor Igor Farkhutdinov, who helped launch development of the resources, is seeking another term. Yuzhno-Sakhalinsk Mayor Igor Sidorenko and Kholmsk Mayor Nikolai Dolgikh have now both registered to run against him even though in early August they launched the Nash Ostrov (Our Island) opposition movement, which was to support one candidate for governor. (*Nezavisimaia Gazeta*, August 24).

**KRASNOYARSK COURT FREES ANATOLII BYKOV.** On August 24, a Krasnoyarsk district court released Anatolii Bykov, the former chairman of the Board of Directors of Krasnoyarsk Aluminum (KRAZ), from prison (See *EWI Russian Regional Report*, 2 August). Krasnoyarsk Governor Aleksandr Lebed initiated proceedings against Bykov in April 1999. The aluminum magnate was arrested in Hungary in October and charged with misuse of company funds, illegal possession of weapons, and accessory to murder (*Vedomosti*, August 25).

Bykov, who controls 25 percent of the company's shares, immediately announced his intention to sell. Krasnoyarsk Vice-Governor Nikolai Verner expressed interest in purchasing them, fueling speculation that Bykov was released in exchange for his shares. Verner eventually may be able to acquire as much as 35 percent of the shares, since he plans to marry the daughter of one of Bykov's former partners, Gennadyi Druzhinin, who owns another 10 percent of the aluminum producer's shares, according to the Boris Berezovskii-owned *Kommersant* on August 25. Russian Aluminum, controlled by Roman Abramovich and Berezovskii, plans to invest \$12 million in the Krasnoyarsk Aluminum Factory to upgrade production (*Kommersant*, August 30). Earlier this year, Abramovich became the majority shareholder of KRAZ (*Vedemosti*, August 25). Russian Aluminum already controls 80 percent of the Russian market and 7 percent of global production (See *EWI Russian Regional Report*, 3 May).

### **CENTER-PERIPHERY RELATIONS**

**STILL-HOMELESS PRESIDENTIAL REPRESENTATIVE PETR LATYSHEV MARKS 100 DAYS IN OFFICE.** This week, Presidential Representative to the Urals Federal District Petr Latyshev will celebrate his first 100 days in office. The Yekaterinburg media are quick to point out that, of the seven presidential representatives, Latyshev is the only one who still lacks a permanent office. While the federal authorities decided to allot the former Kharitonov estate (which was converted to a House of

Pioneers and Schoolchildren in 1937) to the presidential representative, Latyshev and his team are currently occupying a few small offices in the oblast administration building. The administration of the House of Schoolchildren, along with the schoolchildren themselves and their parents, have simply refused to evacuate the premises to make way for the new federal representative. This "housing issue" has become a serious political weapon in the battle between Latyshev and Sverdlovsk Oblast Governor Eduard Rossel. Latyshev announced at a press conference that he has evidence that the protesting schoolchildren are being paid 50 rubles a day to stay put, but he did not clarify who exactly is paying them and to what end. It is clear that prolonging the conflict any further will weaken Latyshev politically and play into Rossel's hands.

The local press has reported that relations between Latyshev and Rossel have been cool from the very beginning. They attribute this state of affairs to an article written at the beginning of this year in which Latyshev effectively accused Rossel of maintaining overly intimate relations with the criminal world. In addition, Rossel, who heads the Bolshoi Ural interregional association of republics and oblasts and has long been considered a regional powerhouse, will not be relegated to a secondary position without a fight. Another reason for distance, if not open confrontation, between the two politicians involves the question of Rossel's successor. As Latyshev's power grows, the chances of Rossel's hand-picked successor being elected in the next gubernatorial elections diminish accordingly – leading some political analysts to consider the possibility of pre-term gubernatorial elections if Rossel decides to resign and seek office again next year.

The recent press conference with Latyshev and the relatively detailed interview with him published in *Nezavisimaya gazeta* on 18 August provide a more detailed picture of what the presidential representative's work in the Urals will entail. In the interview, Latyshev relatively cautiously asserted his opinion on several political and economic issues, including the role of the presidential representative, the budget process, and the possible redrawing federal district lines.

In terms of Latyshev's own political role, he said that while economic effectiveness needed a boost, quality of life could not be improved by law alone. He named metallurgy, export, and the gas and oil industries as those most important to the Urals. In Latyshev's words, "The task of the presidential representative is to ensure that the rules are lawfully followed by all players in management." He added that all presidential representatives would pay meticulous attention to the lawfulness of the governors under their jurisdiction. "We should help the governors avoid making mistakes," he said.

As the federal statute on the presidential representatives provides for their control over the transfer and spending of federal budget resources in the new federal districts, Latyshev said that corresponding district structures would be set up within the Finance Ministry, the Treasury, etc. Latyshev intends to oversee both the regional and the local budgets, which he says will be subject to supervision by the Tax Police, the Tax Ministry, various departments of the Finance Ministry and Monitoring and Audit Department, and the Procurator's office. He said that audits of the oblast and local budgets would not be systematic, but occur at the presidential representative's discretion.

On the question of redrawing federal district borders, Latyshev said that, since Perm Oblast makes a compact region with Sverdlovsk Oblast, he would not be opposed to its inclusion in the Urals Federal District rather than the Volga Federal District to which

it currently belongs. It seems clear that Latyshev has an interest in this change, as he worked for many years at the Perm Oblast Department of Internal Affairs. As to the question of a possible change in status of the autonomous okrugs located in Tyumen Oblast, Latyshev said that this issue was being actively discussed, but that he wouldn't want to pedal the process of uniting them. - Sergei Pushkarev in Yekaterinburg

**NEW OKRUG COUNCIL MEETS IN NOVOSIBIRSK.** An organizational meeting of the Okrug Council -- a new consultative body operating under the aegis of the presidential representative to the Siberian Federal District -- recently met in Novosibirsk. The council includes the governors that comprise the new district, as well as the leaders of their legislatures. The governors were apprised of the project to set up the new council on 8 June, when they met with Presidential Representative to the Siberian Federal District Leonid Drachevskii in Moscow. At the 2 August meeting, they reviewed their regions' petitions and proposals, adopted a resolution, and held their first organizational meeting.

The Council plans to meet a minimum of once every two months. The governors are actively considering holding meetings in a variety of locales around Siberia, and it is possible that the next meeting will take place in Irkutsk immediately following the Baikal Economic Forum. It was decided that the agenda for the September meeting would include preparing the regions for winter and addressing transportation infrastructure problems.

At the meeting in Novosibirsk, Drachevskii introduced the governors to the federal inspectors who will be working in close collaboration with him to ensure that the president's directives are carried out in the regions. The head federal inspector in Irkutsk Oblast is Igor Tutevol.

Tutevol is already a familiar figure in Irkutsk Oblast. In the 1970s, he was the party committee secretary at a radio factory, and later served as the head of the industrial department of the Irkutsk Oblast Committee of the Communist Party. In the 1980s, Tutevol left Eastern Siberia to serve as secretary of the Eastern Kazakhstan Oblast Committee of the Communist Party, Deputy of the USSR Supreme Soviet, and member of the republican Central Committee. Later, Tutevol served in the Russian Ministry for CIS affairs, where he worked with Drachevskii.

The new general inspector began working in Irkutsk in mid-August. It is expected that Aleksandr Suvorov, the former presidential representative to Irkutsk Oblast, will be offered a position in another region.

It appears that the federal government will adopt decisive measures on streamlining the number of federal departments operating in the regions. Drachevskii asked the governors to prepare their proposals on minimizing expenditures on regional departments of federal agencies. Today several thousand people are working for the federal government in Irkutsk Oblast alone.

This streamlining will take two main forms: some federal functions will be given to regional officials, while others will be turned over to the federal district departments. The most significant changes will occur in the regional departments on fighting organized crime and corruption, which will be incorporated into the analogous federal district departments.

Irkutsk Governor Boris Govorin noted that the question of streamlining federal departments was discussed as far back as the Yeltsin administration. Nikolai Bordyuzha,

then-head of the presidential administration, admitted that the number of government officials in the federal budget working in the regions was catastrophically high and out of proportion with the tasks at hand. Govorin pointed out that the maintenance of a federal apparatus in such regions as Ust-Ordynskii Buryatskii Autonomous Okrug, where expenditures on government officials are comparable to the tax revenue collected, is especially inappropriate. - Teleinform in Irkutsk

**KURSK OBLAST GOVERNOR RUTSKOI IGNORES ARCHRIVAL.** Kursk Oblast Governor Aleksandr Rutskoï did not attend the inauguration of Major General Viktor Surzhikov as head federal inspector of the newly created Central Federal District on 17 August. Surzhikov is likely to be Rutskoï's most dangerous rival in this fall's upcoming gubernatorial elections.

Rutskoï was far from the only honored guest made conspicuous by his absence. Presidential Representative to the Central Federal District Georgii Poltavchenko was also nowhere to be found -- highly unusual behavior on the part of the presidential representative who personally introduced head federal inspector Vladimir Gerasimenko -- Surzhikov's new colleague and his equivalent in rank -- at the latter's recent inauguration in Belgorod. It was left up to Oblast Duma Speaker Viktor Chernykh to introduce Surzhikov, which he did with great enthusiasm, emphasizing the crucial need for cooperation between the Oblast Duma and the new head federal inspector.

Despite the non-attendance of some key figures, Surzhikov's inauguration was nonetheless a standing-room-only event. Among those present were the recently appointed Kursk Oblast Prosecutor General Aleksandr Babichev, Head of the Oblast Department of Internal Affairs (and long-time opponent of Rutskoï) Aleksei Volkov, and Kursk Mayor Sergei Maltsev. Various other Oblast Duma and City Assembly deputies attended, along with heads of raion administrations and local departments of the FSB, MVD, and border and customs guards.

Surzhikov is no newcomer to the region. Many government officials and journalists remember him from his days as head of the Kursk Oblast FSB and presidential representative under Yeltsin.

In a press conference following the inauguration, the new head federal inspector studiously avoided making any definite statement on whether or not he would run for governor of Kursk Oblast in October. A week later, on 24 August, the public found out that Surzhikov had notified the oblast electoral committee of his intention to run. Local media were quick to interpret this turn of events as evidence that Surzhikov's introduction back into the region as head federal inspector is merely the first step in a campaign to consolidate opposition against Rutskoï. It seems clear that the federal executive branch will not support Rutskoï's candidacy in the upcoming gubernatorial elections. - Sergei Sarychev in Kursk

## **PATTERNS OF REGIONAL DEVELOPMENT**

**GENERAL SHAMANOV APPEARS SET TO RUN FOR GOVERNOR OF ULYANOVSK OBLAST.** Commander of the 58th Army of the Northern Caucuses Military District General Vladimir Shamanov announced during a recent visit to Ulyanovsk that he would not rule out the possibility of running for governor of the oblast.

Shamanov said that he had been urged to run for governor by various groups in four different regions and was considering whether to pursue his successful military career further or enter the political arena. During a meeting with the press on 7 August, Shamanov announced that, were he indeed to run for office, he would do so only in Ulyanovsk Oblast. He has served in the area since 1993.

NTV showcased Shamanov's announcement as one of the most important news items of the day. Journalists believe that the general's hazy formulation of his intentions is simply a strategic maneuver and that he was in Ulyanovsk to gather information. Shamanov spent 8-9 August in consultation with Ulyanovsk municipal officials. It seems clear that a unified team is being created to stand up against incumbent Governor Yurii Goryachev.

Vyacheslav Nikonov of the Politika Foundation included Ulyanovsk Oblast on his list of regions where the Kremlin is attempting to oust the "red governors" (*Izvestiya*, 1 August 2000). A series of depressing economic indicators also work against Goryachev. Ulyanovsk Oblast is one of only four Russian regions where industrial production fell in the first half of this year (*Rossiiskaia gazeta*, 1 August 2000). A source in the City Duma indicates that Goryachev received an icy reception from Sergei Kirienko, to whom he turned for support. Following this unsuccessful meeting, Goryachev disappeared from public life for three weeks. The gubernatorial press service termed his absence a short vacation -- the fourth of its kind over the past six months.

Against this backdrop, the tough, athletic, teetotaling 43-year-old general looks like a serious contender for the post of governor. He has announced his devotion to democracy and freedom of the press, indicated absolute support for Putin, and emphasized the need for national order. He has three degrees, including a PhD in ethnic psychology. Sources indicate that Kirienko and Anatolii Chubais may support Shamanov's candidacy. - Sergei Gogin in Ulyanovsk

## **INTERREGIONAL COOPERATION**

**KARELIYA AND LENINGRAD OBLAST SIGN COOPERATION TREATY.** On 1 August, the republic of Kareliya and Leningrad Oblast signed a treaty on commercial, technological, and cultural cooperation. Leningrad Oblast Governor Valerii Serdyukov and Kareliya Prime Minister Sergei Katanandov signed the agreement, which covers collaboration in the spheres of the timber and fishing industries, road-building, tourism, and culture. The agreement also makes provisions for increased economic contacts and the development of a unified economic policy in a wide variety of industries.

"The time when we signed agreements based solely on good intentions and friendship has passed," said Katanandov. "It is time to consolidate our efforts in concrete spheres and balance our price and economic policies." The heads of the two regions plan to work together to address such issues as the pricing of timber products destined for export, investment in the timber industry, and the development of a border-area infrastructure to support the export of timber products. The governors also believe that the time has arrived to sort out the situation in the cellulose, pulp, and paper industry. "We are tired of engaging in empty competition," said Katanandov during a question-and-answer session with journalists. "We are one people and live on one territory."

A separate clause in the agreement is devoted to agricultural commercial and economic cooperation. Both sides indicated their willingness to develop unified laws on fishing rights for Ladoga and Onezhskaya lakes, organize joint fishing in the Baltic sea, and develop a joint strategy on building the necessary infrastructure for the reproduction of fish reserves and commercial fishing in joint reservoirs.

The two leaders devoted a special protocol to road building. They agreed on plans to build a new stretch of the Kola highway from Lodeinoe Pole to Petrozavodsk through Poporozhe, Tokari, and Pai, to develop the St. Petersburg-Sortavala-Petrozavodsk highway, and to renovate the Petrozavodsk-Oshta road. The Karelian government offered to provide the necessary quarries for building the roads. Both regions are prepared to petition the federal department of roads for financing. Leningrad Oblast has announced its readiness to develop the project and organize the building. Work on these routes may begin as early as next year. The heads of the two regions are also intent upon renovating the Petrozavodsk-Oshta road, 40 kilometers of which passes through Leningrad Oblast territory. This will allow for the improvement of Kareliya's ties to the neighboring Vologoda Oblast. A similar document on collaboration between Kareliya, Leningrad Oblast, and Vologoda Oblast is expected to be put together soon.

The collaborative agreement also includes a clause on the development of the St. Petersburg-Sortavala-Lemetti-Pryazha-Prizorsk route as part of the St. Petersburg-Sortavala-Petrozavodsk highway. The two sides plan to issue a joint initiative to include the St. Petersburg-Sortavala-Petrozavodsk road in the federal road network.

Other collaborative projects include the development of new tourist waterways on Lake Ladoga, with stops at Konevets, Valaam, and Staraya Ladoga. - Boris Matveev in Petrozavodsk

## **CROSS-BORDER COOPERATION**

**BELARUS, UKRAINE, AND RUSSIA INTERESTED IN FORMING 'EUROREGION' ALONG MUTUAL BORDERS.** During a meeting in Rostov-na-Donu, the Council of Leaders of Border Oblasts in Belarus, Ukraine, and Russia decided to approach their respective governments with a proposal to create a trilateral agreement on developing economic ties in the border regions. Representatives of the Russian Ministry of the Interior went even further, suggesting the organization of a "Euroregion" along the borders of the three countries.

The Council was founded in 1994. Up until 1997, it consisted of three Belarusian, seven Russian, and seven Ukrainian oblasts (plus Stavropol and the Autonomous Crimean Republic). The Council held its last meeting in 1997 and only resumed this year at the initiative of the Federation Council Committee on the CIS.

Top regional leaders were expected to attend the council, but -- perhaps made cautious by the three-year recess -- they sent their deputies instead. Despite the confusion over attendance and various political intrigues, the Council got down to business far more effectively than its participants had expected.

During his opening remarks, Head of the Rostov Oblast Legislative Assembly A. Popov pointed out that, following the signing of the Russia-Belarus Union Treaty, economic ties between the two countries rose dramatically. At the same time, the process of border demarcation -- which began after the fall of the Soviet Union and is now in full

swing -- serves to inhibit neighborly ties between the three countries. This is especially evident in the case of Russia and Ukraine. While these border zones are economically, ethnically, and historically linked, they have become prisoners to the political systems of the three countries that surround them.

While the agenda for the meeting included discussion of cross-border trade, it quickly became clear that such trade is in no way distinguishable from foreign trade, a fact that representatives of the three nations lament. Operating from the position that trading with one's neighbors should be easier than, say, similar operations with the U.S. or China, they decided to approach their respective governments with an initiative to develop national legislation that would create a special climate for cross-border commerce.

The most integrationist idea of all came from Russian Ministry of the Interior official Yevgenii Guzeev, who suggested creating a "Euroregion" along the three nations' borders. However, what exactly such a zone would entail was a subject of some confusion to the regional leaders. When asked to clarify, Guzeev explained that a "Euroregion" was an international community of territories that together resolved questions of collaboration and "would certainly be supported by the Council of Europe." The idea of finding a patron within the Council of Europe appealed greatly to the local leaders, who decided to approach their respective governments with this proposal. For those borderland Russian governors who will soon be ousted from the Federation Council, this is also an excellent opportunity to rehabilitate themselves politically.

It must be noted that the Ukrainian delegation to the meeting exhibited considerably less integrationist enthusiasm than did its neighbors. The Ukrainians thought it the better part of wisdom to sign three individual bilateral agreements rather than one trilateral one. Nonetheless, it appears that borderland leaders from all nations have an increased sense of the concrete economic need for mutual decisions, as well as the political advantage for them at home in being involved in this international process. - Andrei Miroshnichenko in Rostov-na-Donu

## **LUNCH WITH KATHRYN STONER-WEISS**

### **PUTIN HAS IDENTIFIED RUSSIA'S PROBLEMS, BUT SOLUTIONS "ILL-CONCEIVED."**

*On 10 August, we met with Princeton University Professor Kathryn Stoner-Weiss to discuss the significance of Putin's federal reforms. The following is a transcript of our conversation.*

#### **RRR: What is your overall view of President Vladimir Putin's reforms?**

**Stoner-Weiss:** Putin has a Soviet instinct in that he seeks to create new institutions rather than trying to make existing institutions work. There is still a lot in the Russian constitution that isn't working. His instinct is not democratic - he wants to reinstitute the hierarchy of authority that existed in Soviet times, and he is trying to do it in the absence of a party. He is trying to create a structure that is not a political party but that is his organization. The new seven presidential representatives are personally tied to him. That

is not the way to create an enduring institution, and it is not a good foundation on which to build a state.

This new system is ad hoc, and I predict that it will fall apart. It will fall apart when Putin leaves office, or before he leaves office. I would venture to say that it will be ineffective while he is in office because these are the wrong kinds of institutions.

Additionally, his instinct is to create a bigger state, so even though he cut the number of ministries from 30 to 23, the presidential administration is going to grow. Yes, they got rid of some eighty presidential representatives who had staffs of five, but now there are seven districts with presidential representatives that have much larger staffs, including envoys under the presidential representative in each region. So, in fact, what he has done is made the presidential administration larger. I don't really have a lot of confidence that these guys are going to have a lot of influence over the regional governors on the ground. I also don't believe that the new law that allows Putin to remove governors or errant legislators is going to be a particularly effective tool because I don't think that he is going to be able to do it very often. Yeltsin had the power to remove governors in the early nineties and I don't think that it solved any problems.

The problem is not who the governor is or who sits in the legislature. Rather it is the interests that control them, and that is not something that Putin has done anything to remedy. He needs to institute rule of law and address conflicts of interest. I have studied who sits in regional legislators and it is often the directors of large enterprises at the regional level. There are very strong network ties between the governors and large enterprises in each region. These guys are on the ground and Putin has done nothing to get rid of them. You can get rid of [Primorskii Krai Governor Yevgenii] Nazdratenko, but I'm not sure that prevent someone like that from being elected again.

I think that with these institutional reforms, Putin is like Heracles of Greek mythology. By removing a governor, he is cutting off one of the Hydra's arms, but it just grows back. Somebody new will be elected who is just as much for the region than for the center as was the previous governor. Just because Putin puts his man in, doesn't mean that this person is going to be more effective. His approach is not attacking the system. It is very Soviet and very Yeltsinesque. It is what he understands and what he thinks is going to work.

**RRR: Do you see the governors' ties with the enterprises as being one of the main bases of their power?**

**Stoner-Weiss:** Yes, and I think, moreover, that the enterprise directors are opposed to what the Kremlin wants to do, particularly in the area of macro-economic reform. That is why macro-economic reform has been stalled for five or six years. The enterprise directors don't want a transparent taxation system particularly because they don't want to pay their taxes. Also, their taxes are too high.

**RRR: What about the adoption of the second part of the tax code?**

**Stoner-Weiss:** I think that is much more promising, although I don't think that it takes as much power out of the regions as some observers have claimed. My views come from some of the survey research I did with regional bureaucrats. Somewhat surprisingly many indicate that fiscal transfers don't have as much influence over their decision making as do local conditions. Federal fiscal transfers are a bit of a clumsy instrument of control



over regional governments anyway. If they did prevent some regions from actually separating from Russia in the early 1990s as some would argue, they were far less successful in preventing less sensational, but almost as damaging forms of regional power grabs and pervasive regional noncompliance to the constitution and federal laws. At this point in time, as well, there isn't that much money flowing to regional governments in that way.

**RRR: Would you differentiate among regions? Some regions are much more dependent on the federal government than others.**

**Stoner-Weiss:** The recipient regions are not the ones that cause the trouble. On the tax code, I was surprised it does not emasculate the governors to the extent that I thought it would. I thought a far larger amount of money would be removed from their purview. However, I still need to look into the details more carefully and think more about how it might affect regional power concretely.

**RRR: Putin wanted to eradicate the Pension Funds. Is that important?**

**Stoner-Weiss:** It is important for the governors since it represents a significant amount of money. Additionally, in my own research, given how closely the pension funds appear to work with regional officials, when they are really not supposed to on paper, that is a significant amount of money that the governors can have access to (or at least influence). In the past some of the governors have diverted that money to other purposes. Presumably, if the Pension Fund keeps its current set-up, the governors will still be able to do so in the future.

Putin will try to reform the Pension Fund. There is a big spar over the issue now. Deputy Prime Minister Valentina Matvienko went so far as to tell the Duma not to vote on this. I don't think that she is supposed to be able to do that without going through Presidential Representative to the State Duma Aleksandr Kotenkov. Clearly there is a battle inside the government.

**RRR: Do you think that Matvienko is taking the side of the governors?**

**Stoner-Weiss:** Yes. I don't know if she is purposely trying to collude with them, but her position is closer to theirs than it is to Putin's.

**RRR: What about the seven federal districts?**

**Stoner-Weiss:** There is not yet very much detail on how their administrations will be set up. They seem to have been given a free hand. It is not clear to me from the decree what power they have vis-a-vis regional administrations as opposed to ordinary federal bureaucrats.

**RRR: According to Sergei Samoilov, the head of the Presidential Administration's Territorial Department, the seven representatives will have extensive powers (see *EWI Russian Regional Report*, 2 August). Additionally the ministries will have to set up offices at the federal district level.**

**Stoner-Weiss:** I think that that is a recipe for disaster because it removes them even further from the facts on the ground. So who are the representatives going to rely on for information? The information will come out of regional administrations. I definitely think

that the dependency of federal bureaucrats, who are based in the regions, on regional authorities is a problem and that Putin has to take action. But I think that there are pecuniary and non-pecuniary rewards that the federal government could provide for federal bureaucrats rather than going through a massive reorganization that nobody understands and that is almost certainly going to paralyze things for six months to a year. In that time the Russian economy could get worse, more people could lose their jobs, and the federal government might not provide the social services for which it is supposed to be responsible. People could lose faith in the process. That is why I think that this is not a good reform, and it reminds me of Soviet days when they used to test these things out, find out that they don't work, and then reverse the whole thing.

This also reminds me of the supposed job of the presidential representative under the reform of 1997. At that time they were supposed to move toward supervising federal bureaucrats. But that didn't work. Now, they are supposed to take a step further back by coordinating the work of probably 350-400 federal bureaucrats. People have the attitude of "Why should I listen to you? I live here in Nizhnii Novgorod. I don't care about what's going on in Moscow. What's more, you rarely pay my salary, or you do pay it, but it is nothing, and I get my apartment from the regional administration, so why am I going to give that up?"

I had some very interesting interviews with federal bureaucrats in the regions. In one particular region, I interviewed the head of the Pension Fund and I was taken out there by the head of the regional administration's Department of Social Welfare. They were friends, evidently. They have weekly meetings. The Pension Fund director's apartment was being provided by the federal government, but she turned to her friend in the oblast administration and said the governor was going to get her a new apartment. She explained how dependent she was on the governor for collecting pension payments from enterprises. There is a dependency created within the system. Putin wants to change the system and I understand that, but I think that he is going to meet a lot of resistance.

That said, I don't think that this set of reforms is going to do a lot. However, Putin obviously recognizes what the problems are. I think that a democratic state, a strong state, would come up with different solutions. So I am disappointed by his instinct. His reforms are not going to bring about the changes quickly. If the new tax code increases tax collections, as it should because it is much more transparent, then that is going to be great. That should be very encouraging for everybody. I think that it is encouraging that he is identifying the problems even if the solutions are ill-conceived.

One of the reasons that this set of reforms may be more successful than they seem is because of their timing. Perhaps people have mostly grabbed the property that they want to grab at this point. Now may be the time that some regional barons don't mind some regulation because it will protect what they got. This is the robber-baron thesis. If Putin strengthens the state and the judiciary and it turns out to protect what they got, great. He may be lucky in his timing even if his policies are not what the situation calls for.

**RRR: What would the right policies be?**

**Stoner-Weiss:** Have more elections. Have elections for judges. Have elections for governors more frequently. A recent federal law lengthened governors' terms from four years to five years. Pushing the elections closer together would increase accountability.

That is what is lacking here. More elections would strengthen institutions like political parties. Especially if you create a viable national party system where regional political elites are dependent on the national parties as an institution rather than on the president personally to get things done at the center. What I think is tremendously destructive is that Putin, like Yeltsin, has avoided joining a party. In the long run, Unity is as likely to be successful as Our Home is Russia was. If Putin set up a real party, it would be more likely to be successful in creating chains of accountability. The current reforms are rearranging the deck chairs on the Titanic.

**RRR: Do you think that the electorate will respond to that?**

**Stoner-Weiss:** Russians vote at an alarmingly high rate compared to Western democracies. OK, some elections have been invalid because voter turnout did not reach the required 25 percent. But they should remove this minimum turnout requirement. The US does not have such a requirement. If judges have to face elections, there is at least a hope that the voters will hold them accountable for their decisions later. The other recipe is the introduction of conflict of interest laws. This is obviously a huge problem. Some people are simultaneously heads of huge regional enterprises and sitting in the regional legislature. Putin has not made any attempt at those kinds of laws. But it is still early and he may try, however, I think that he will meet a lot of resistance.

**RRR: What are the main obstacles to implementing federal policy in the regions?**

**Stoner-Weiss:** There are very weak lines of accountability between federal bureaucrats at the regional level and at the central level. Therefore federal bureaucrats at the regional level have a tendency to become dependent on the regional administration for all kinds of things. For example, pension funds are dependent on regional administrations to get enterprise directors to pay into the funds. Federal bureaucrats at the regional level are not making a lot of money and they need certain things to do their jobs. They need housing. Frequently the federal government just abdicates that responsibility to regional governments. If somebody threatens to take your house away, who are you going to listen to? The governors pay for drivers, homes, cell phones. That is the gist of the problem. Also there is a lack of pecuniary rewards for the federal bureaucrats. Thus there is not a strong sense of purpose. There is not a strong institutional culture that instills a sense that "I work for the Russian Federation." They don't believe that the region is separate. Instead the federal employees and regional employees work together and see their situation as us against them. Moscow is far away. The federal government doesn't even reliably send information about changes in the laws. These beliefs have become pervasive in the last five years. Our interview results are consistent across regions.

Putin's creation of the seven new districts creates another layer of the state. The size of the Russian state has increased since 1994, not decreased. There is no positive correlation with the size of the state and effectiveness in the rest of the world. The state has become larger in terms of number of bureaucrats in both the presidential administration and the government, but less effective.

**RRR: How would you characterize the presidential administration?**

**Stoner-Weiss:** Its size increased under Yeltsin, then shrunk in recent years, but the apparatus is obviously going to grow because of the large staffs in each of the seven

federal districts. The big challenge will be managing information. I have a hard time understanding how their information is going to be better than what they have now. I also have a hard time understanding how federal regional officials can ensure the compliance of regional authorities when the regional authorities have a lock on the information.

**RRR: What about the reform of the Federation Council?**

**Stoner-Weiss:** I don't think it will make a big difference in the long-run. It certainly won't have a big impact in the short-run. The governors will still be able to appoint their agents.

**RRR: But the reform serves Putin's purpose of getting the governors out of Moscow.**

**Stoner-Weiss:** But then we have the creation of a State Council. It is not clear what is going on with that. It is unclear if the State Council will be a legislative body, which is what I think that the governors want. But then what is the point of the Federation Council? Putin wants it to be an advisory body. Overall, the reform of the Federation Council could increase the influence of the regions in federal policy. The reform does not hurt the governors that much because membership in the Federation Council was a part-time job. Now his representative will make it a full-time job and that person will be dependent on the governor.

**RRR: What about the relationship between the seven federal districts and the eight interregional economic associations?**

**Stoner-Weiss:** There are debates about how effective the eight interregional associations were. But I do think they are effective in information sharing. Compared to the early 1990s, regions tend to have a better sense of what is going on with their neighbors. That could be a function of the associations or other causes like the Internet and regional websites. The regions were never very cooperative to begin with, so this will not be a big change. Maybe the governors will be out of Moscow more, but now they may spend more time in their regions, which may not be a good thing. On the other hand, the governors may be coming to Moscow more often to talk with their representatives in the upper chamber.

[Columbia University Professor] Steve Solnick is right when he says that the goal of the reform is to get the governors out of Putin's office. But if the presidential representatives are not in a position to hand out money, then what can they offer the governors? How is Presidential Representative to the Volga Federal District Sergei Kirienko going to stop Tatarstan President Mintimer Shaimiev from going to Moscow whenever he pleases. Again, Putin seems to be creating the wrong kinds of institutions.

**RRR: You said earlier that you thought business associations were important. How?**

**Stoner-Weiss:** They don't have as much direct influence on federal bureaucrats as do the governors and even regional legislators. But they do show up as helpful in implementing policy. These associations bring together businesspeople representing small, medium, and large businesses. They influence the governor who, in turn, influences the federal bureaucrats at the regional level. They are pushing their own regional agenda, which does not always coincide with the Kremlin policies. They tend to interfere more on economic

policy than on social policy on the regional and federal levels. They are far more interested in regional bureaucrats who control economic policy as opposed to things that do not involve a lot of money or that do not affect how their businesses will be run. They are more interested in the finance department of a regional government than educational policy.

**RRR: What kind of policies do they pursue?**

**Stoner-Weiss:** They are trying to stop fair business competition. These organizations seek a personal relationship with the governor so they can have special access to privileges and prevent the implementation of federal policy that regulates their activities.

It is wrong to say that civil society in Russia is universally weak. Mass civil society is weak in Russia, sure. But there are very narrow, particularistic sectors of society that are very strong. Basically they work to maintain the status quo. They are not interested in giving money to build political parties because that makes their agent, the regional governor, accountable more broadly to the electorate. They don't want that. They want him accountable to them and their interests. Often there is overlap between the background of the regional governor and these guys, so the governor comes out of the oil industry or Uralmash or something like that. It is not universally true. Joel Hellman wrote a very interesting article about how business elites work to stall an economic transition (see "Winners Take All: The Politics of Partial Reform," *World Politics*, no. 2, 1998). That argument is very effective in showing how they stall the development of political institutions as well. Business groups don't want more elections, they don't want conflict of interest laws, they don't want things that are going to regulate or broaden their accountability. So those things don't exist. I would push for conflict of interest laws. It will be very difficult to get those passed. We have such laws in the US. They don't work perfectly, of course, because it is a very serious issue to solve. - Interview conducted by Robert Ortung and Danielle Lussier

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**BREAKING NEWS**

**TATARSTAN BEGINS SWITCHING TO LATIN ALPHABET.** Just before the beginning of the new school year, the Tatarstan government authorized some schools to start using Latin letters instead of Cyrillic to write the Tatar language. The republic plans to switch

entirely to the Latin alphabet by 1 September 2011. *Nezavisimaya gazeta* (30 August) declared that measure reflects separatist tendencies in Tatarstan. The decree cites a desire to revive the "blossoming state and culture" of the republic that existed before 1552, when Ivan the Terrible sacked Kazan. The paper warned that the republic saw itself as a leader for Russia's other Turkic peoples (such as those in Gorno-Altai, Tyva, Khakasiya, and Bashkortostan), as well as other Muslims. The paper also claimed that the republic is trying to develop further ties with Turkey, which already uses the Latin alphabet. Students in the republic now spend equal time learning Russian and Tatar. The republic's population is 48.5 percent Tatar and 43.3 percent ethnic Russian.

**PAPER PUBLISHES REPRESENTATIVES' SCHEDULES.** While the overall effectiveness of the seven presidential representatives to the federal districts remains unclear, they have garnered considerable media attention. In one example, the official *Rossiiskaya gazeta* on 2 September published the seven representatives' weekly work schedules, listing their main meetings for each of five days between 28 August and 1 September. What is striking is that, based on the information in the newspaper, the seven representatives spend a considerable amount of their time meeting with representatives of the Federal Security Service (FSB) and other law enforcement agencies. Of course, this situation is not surprising given the career background of the seven representatives (see *EWI Russian Regional Report*, 24 May). In the Southern Federal District, Viktor Kazantsev went to a meeting at the headquarters of the North Caucasus Military District on 30 August, North-West Representative Viktor Cherkesov met the St. Petersburg and Leningrad Oblast FSB leadership on 1 September and heard a report on organized crime on 30 August. Far Eastern Representative Konstantin Pulikovskii spent two days dealing with military issues during the same week. Urals Representative Petr Latyshev met with FSB Director Nikolai Patrushev in Moscow on 31 August.

The representatives also apparently spend a considerable amount of time traveling around their large districts, familiarizing themselves with life in the regions in their jurisdiction. They have broad-ranging interests. Cherkesov, for example, used at least part of 29 August meeting with the district's commercial bankers to discuss the district's social problems.

**PUTIN ATTACKS EXPIRED AUSHEV DECREE.** On 1 September President Putin overturned a decree issued by Ingushetiya President Ruslan Aushev that prevented people not registered in Ingushetiya from obtaining housing there (*Rossiiskaya gazeta*, 5 September). This was the second Aushev decree Putin overturned, following a 11 May presidential order to cancel a republican decree on collecting payments for gas and electricity and the security of foreign workers (see *EWI Russian Regional Report*, 17 May). Aushev has sharply criticized Putin's conduct of the Chechen war and federal reform and has become a target of presidential ire. However, in this case, Aushev said that he had already cancelled this decree on 10 June (*Vremya novostei*, 5 September). Head of the presidential administration's Main State-Legal Department Larisa Brycheva said that her office had no evidence of the cancellation.

**FORMER NOVOSIBIRSK GOVERNOR UNDER CORRUPTION INVESTIGATION.** Siberian Federal District Procurator General Igor Bobrovskii is

investigating former Novosibirsk Governor Vitalii Mukha and his assistant for corruption, questioning how a 19.5 percent share of Novosibirskenergo, controlled by the oblast, ended up in the hands of the Moscow-based United Russian Fuel and Energy Company (ORTEK). The Novosibirsk Oblast Soviet initiated the investigation, according to *Vremya novostei* on 1 September. The shares are in fact federal property and the former governor simply issued an instruction transforming them into oblast property. The federal government has protested the oblast's property grab.

## **CENTER-PERIPHERY RELATIONS**

**PUTIN ESTABLISHES STATE COUNCIL.** On 1 September, President Vladimir Putin set up the State Council of the Russian Federation as a consultative body to work out compromise solutions on important national problems and enhance the interaction between federal and regional state institutions (*Rossiiskaya gazeta*, 5 September). The Council will particularly monitor the implementation of federal law. The president can recommend that the body consider draft laws and decrees. According to Putin's decree, the body will also discuss the federal budget, its implementation, and other important issues.

The Russian president is the chairman of the Council and the governor of each of Russia's 89 regions is a member. There is a seven-person presidium whose membership is determined by the president and includes one governor from each of the federal districts. The presidium membership rotates once every six months. The presidium sets the agenda for the Council's meetings and tracks the implementation of its decisions. The presidium meets whenever necessary, but at least once a month. The seven members of the presidium are: Khabarovsk Governor Viktor Ishaev, Tomsk Governor Viktor Kress, Moscow Mayor Yurii Luzhkov, Dagestan State Council Chairman Magomedali Magomedov, Tyumen Governor Leonid Roketskii, Tatarstan President Mintimer Shaimiev, St. Petersburg Governor Vladimir Yakovlev.

Overall the presidium members are influential governors. Luzhkov, Yakovlev and Shaimiev were leaders of the Otechestvo-Vsya Rossiya bloc that opposed the Kremlin in the 1999 State Duma elections. Prominent governors missing from the body include Sverdlovsk Oblast's Eduard Rossel (see article elsewhere in this issue).

The president decides when and where the Council and its presidium meet, but it must meet at least once every three months and the meetings will generally be in the Kremlin. He also sets the final agenda with input from the presidium. The secretary of the State Council is one of the presidential administration's deputy chiefs of staff. He is in charge of all the logistical questions. As the first secretary, Putin appointed Aleksandr Abramov, a former banker at MENATEP, Rosprom, and Alfa Bank who joined the administration in December 1999 (Panorama, [www.panorama.ru](http://www.panorama.ru)). The question of whether the State Council will have a staff is still being discussed, according to Abramov.

The State Council takes decisions on the basis of "discussion" and "consensus." Putin's decree does not make provision for votes with a simple or expanded majority. To approve legislation, the State Council must ask the president to submit a bill to the State Duma. According to Abramov, citing Putin's discussions with governors in Samara on 31 August,

decisions about the federal structure, changing regional borders, and the interests of Russia's small-numbered peoples must be adopted by consensus, while different procedures could be used for other issues (*Izvestiya*, 5 September). For example, Abramov noted that 90 people would have difficulty coming to a consensus on the budget.

In the form laid out in Putin's decree, the State Council gives the governors much less power than they had in the Federation Council, the upper house of the national legislature. The Federation Council played a role in making or stopping legislation, whereas the State Council is merely a consultative body. However, since the governors and regional legislatures control their representatives to the reformed Federation Council, the overall impact of these reforms does not take much power from the governors. Most importantly, the governors will now have a formal excuse to come to Moscow once every three months, whereas the Federation Council gave them such an excuse once a month. Of course there is nothing to stop the governors from coming to lobby federal institutions as often as they want even now. Looking at the new body in the best light, some analysts see the State Council as providing a source of alternative information for the president and a way for the governors to make their opinions known at the highest level of the Russian government (*Vremya novostei*, 1 September). - Robert Ortung

**STATE COUNCIL FORMATION CAUSES STIR IN YEKATERINBURG.** Regional politicians in Sverdlovsk Oblast accepted the founding of the new State Council and its presidium calmly. "The State Council... has no influence over what decisions are ultimately made," said Yekaterinburg Mayor Arkadii Chernetskii. "The presidium will change every six months, and all governors will eventually participate," added Interim Head of the Sverdlovsk Oblast Duma Valerii Trushnikov. Nonetheless, Vladimir Putin's decree has caused a stir in the region.

The selection of the governors who will participate in the State Council presidium came as a shock to many politicians in the Urals Federal District. Most surprising was that Sverdlovsk Oblast Governor Eduard Rossel was not among the governors invited to join the first session of the presidium. This decision seems counterintuitive for two reasons: Yekaterinburg was recently declared the capital of the Urals Federal District, and Rossel was traditionally considered the most influential politician from the Urals in the Federation Council. While the other federal districts will be represented in the new presidium by either leaders of the eight interregional associations or the most influential politicians within a given district, the Urals Federal District will be represented by Tyumen Oblast Governor Leonid Roketskii.

Roketskii himself, according to his press service, viewed his appointment as an honor for all residents of Tyumen Oblast. In his opinion, "The authoritative regional leaders who have joined the presidium have held onto their ability to influence federal policy toward the regions."

Rossel's press service is keeping silent on the issue, ostensibly because Rossel is currently leading a Sverdlovsk Oblast delegation to Vietnam.

Rossel's traditional political rivals have been relatively cautious in their commentary. Trushnikov, Rossel's main opponent in the 1995 gubernatorial elections, said that, "From the very beginning, there were two contenders from the district for the presidium seat. For whatever reason, the president picked Leonid Roketskii." Trushnikov himself had two theories to explain the president's choice: "Tyumen Oblast is the largest in the region. The president's opinion could

also have been swayed by the Sverdlovsk Oblast governor's opinion on recent bills." (As is widely known, Rossel was a less than enthusiastic proponent of many of Putin's legislative initiatives.)

It is also entirely possible that the decision to appoint Roketskii had something to do with Presidential Representative to the Urals Federal District Petr Latyshev, who may have wished to exert pressure on Rossel. The Sverdlovsk Oblast governor apparently has yet to come to terms with the secondary political role in the region forced upon him by Latyshev. The presidential representative, during his most recent press conference on the status of his residence and offices in Yekaterinburg, indicated his dissatisfaction with the situation and said that he might report this matter to the president (see *EWI Russian Regional Report*, 30 August).

Chernetskii, another long-time political rival of Rossel, refrained from making personal remarks regarding the appointment, saying simply, "It is a real shame that Sverdlovsk Oblast's opinions will not be heard." - Sergei Pushkarev in Yekaterinburg

**DAGESTANI LEADER JOINS STATE COUNCIL PRESIDIUUM.** By including Dagestani State Council Chairman Magomedali Magomedov in the State Council of the Russian Federation, Putin strengthened the role of Dagestan in the reform of Russia's state institutions. Magomedov said that Putin had discussed the creation of the State Council at his recent meeting with North Caucasus leaders in Mozdok. All of the regional leaders supported the idea. The Dagestani leader said that he liked the idea that the new Russian institution had the same name as Dagestan's own leadership body. Even though the State Council is only a consultative body, the very fact that the regional executives will meet once a quarter and have the opportunity to convey their opinions to the president will be significant in coordinating the actions of federal and regional elites, Magomedov stated.

Two weeks ago Shikhabutdin Akhmedov was appointed chief inspector of the southern federal district for Dagestan and is currently assembling his staff. Before this job, he headed the municipal enterprise Makhachkala-kontrol, which licensed and certified enterprises and trading centers in Makhachkala.

Before Putin's reform, Dagestan, like many other regions, had a presidential representative. One of the supposed benefits of the seven federal districts is a reduction of in the size of the bureaucracy. Unfortunately, however, any bureaucratic reform, even one aimed at reducing the number of bureaucrats, inevitably increases them. - Nabi Abdullaev in Makhachala

**KARELIYA'S KATANANDOV BACKS STATE COUNCIL.** Kareliya Prime Minister Sergei Katanandov gave his full support to Putin's decision to establish the State Council. "The governors of the north-west had discussed this question earlier and came to the conclusion that such an institution should exist and I am glad that a decision has been made," Katanandov said. "If the president said that he would reform political institutions in the interests of society, then the decision he takes in accordance with this should be accepted as means for working, not endless discussions. Katanandov also expressed the hope that society would properly understand the reform adopted by Putin. "The most important thing is that the executive branch start to function normally." - Boris Matveev in Petrozavodsk



**BASHKORTOSTAN LEADERS ACCUSE PUTIN ADMINISTRATION OF CONSTITUTIONAL VIOLATIONS.**

At the beginning of his 31 August Samara meeting with the heads of the Volga region republics and oblasts, Vladimir Putin could scarcely have suspected that the meeting would draw to a close without the presence of one key player: Bashkortostan Republic President Murtaza Rakhimov. It appears that Rakhimov, unlike his colleague Tatarstan President Mintimer Shaimiev, is largely uninterested in the formation of the new State Council. Rakhimov was one of the few members of the Federation Council to immediately cast a vote in favor of the new presidential law reforming the upper house of the federal legislature. In doing so, Rakhimov clearly indicated that he was comfortable serving simply as president of a sovereign Bashkortostan.

The main question that interested the republican president -- and the one that he planned to discuss with Putin and Shaimiev -- was that of discrepancies between the federal constitution and Bashkortostan legislation. On the eve of the meeting in Samara, Rakhimov and Shaimiev came to an agreement on these issues. They then prepared a message for Putin, which they sent to him via the parliamentary chairmen of Bashkortostan and Tatarstan. The message contained a proposal to set up a conciliatory commission, with equal participation from federal and republican representatives, to analyze federal and regional legislation and, using conciliatory measures, work out a compromise between them.

At the same time, specialists from Ufa and Kazan began working on developing a proposal to amend the federal constitution. In particular, they recommended constitutionally strengthening the statute requiring republican presidential candidates to be fluent in two languages: Russian and the state language of the republic in question.

Another issue dear to the hearts of the two republican presidents was raised in the proposal: that of the new federal passport, which lacks the Soviet "fifth line" on which the passport bearer's ethnicity was listed. Rakhimov believes that the lack of the fifth line in the new passports is in violation of Russian Federation citizens' right to determine and claim their ethnicity. The Bashkortostan State Assembly has adopted a special statute placing a moratorium on issuing new passports until the federal government agrees to create a special passport page for the republics that would bear their republican seals, contain a line for the ethnicity of the passport bearer, and print information on both ethnicity and citizenship in Russian and the republic's state language.

During the tenth anniversary celebration of the sovereignty of Tatarstan in Kazan, Rakhimov and Shaimiev agreed to work together to get Putin's seal of approval on these two issues. Their efforts were unsuccessful, as were those of Bashkortostan State Assembly Chairman Konstantin Tolkachev and his counterpart, Head of the Tatarstan Legislative Assembly Farit Mukhammetshin, to secure the support of Presidential Administration Chief of Staff Aleksandr Voloshin. Some sources indicate that the State Assembly will raise the passport issue as early as the beginning of its autumn session. For now, Russian passports have been forbidden in Bashkortostan.

In the words of Deputy General Procurator Aleksandr Zvyagintsev, who covers the Volga Federal District, the republics of Tatarstan and Bashkortostan are home to the largest volume of legislation in violation of federal norms: 68 laws each. During one protest on the part

of the Bashkortostan procurator alone, more than 44 articles in violation of federal law were found in various amendments to the republican constitution. In Zvyagintsev's opinion, several factors are slowing down the process of bringing local legislation in line with federal norms. But the main factor, in his opinion, is that "Regional elites are placing their hopes on conciliatory procedures and a political dialogue with the national leadership." So far, they appear to be hoping in vain. - Igor Rabinovich in Ufa

## **GOVERNORS' ELECTIONS**

*By the end of the year, 35 Russian regions will hold gubernatorial elections (Nezavisimaya gazeta, 6 September). Below we offer reports from some of the regions describing the situation on the ground.*

**STAVROPOL: LARGE NUMBER OF CANDIDATES SHOW SPLIT IN KRAI ELITE.** Before the 2 September deadline, twenty-two candidates announced that they would seek to become governor of Stavropol Krai in the 3 December elections. In addition to incumbent Aleksandr Chernogorov, the list includes a wide variety of politicians, businessmen, journalists, and military figures. Local observers believe that the unprecedented number of candidates does not bode well for the governance of the region or the election campaign.

Most local observers believe that the long list of candidates demonstrates that the authorities do not form a strong block within the region. First Deputy Governor V. Khorunzhii, who recently took over the leadership of the krai Communist Party, and Krai Duma Deputy Chairman Yu. Gontar both recently jumped into the race, demonstrating that there are deep cleavages within the krai's top leadership. If the krai elite were more united, there would be fewer candidates and they would not be as important as they are. Since each candidate must collect 37,000 signatures, only 6-7 contenders are expected to survive past the filing deadline on 27 October.

Until just recently Governor Chernogorov seemed to be the favorite, especially given his incumbent status and the support of the Communist Party of the Russian Federation. The decision of Khorunzhii, the governor's right-hand man and closest party comrade, to run was the greatest surprise of the race so far. However, the party had split even earlier and some Communists announced that they would not support Chernogorov. Observers reject suggestions that Chernogorov and Khorunzhii are somehow working together to win the governor's reelection, pointing out that their current conflict helps neither of them. Moscow's role in the elections remains unclear. Some believe that the large field of candidates will simply discredit the elections, as the worthy candidates divide the votes among themselves and open the way for a "non-professional" to win. - Olga Morozova in Pyatigorsk

**VORONEZH: GOVERNOR FACES TOUGH CHALLENGE IN FSB CANDIDATE.** At the end of August and following a long debate, the Voronzh Oblast Duma adopted a new electoral law for the region's gubernatorial elections. Most analysts believe that incumbent Governor Ivan Shabanov won most of the battles over the law. The governor and his staff were

able to block numerous amendments to the law in the two conciliatory committees (*Bereg*, 1 September).

Despite these victories, the governor lost on a crucial point of the legislation. Against the governor's wishes, the elections will be held in two rounds. This clause will likely hurt Shabanov, whose popularity continues to fall in the region. The oblast Duma will most likely set the first round of the elections for this cycle either on 7 or 13 January 2001 (*Izvestiya*, 1 September).

Despite his successes with the electoral law, Shabanov is so unpopular in the region that he is unlikely to win another term. Most importantly, Shabanov was not able to win the support of the pro-Putin Yedinstvo party. Putin remains extremely popular in Voronezh, so his party's actions are very important. Yedinstvo party leader Sergei Shoigu announced at the end of August that Yedinstvo would back Voronezh Oblast Federal Security Service Chief Vladimir Kulakov as its candidate for governor. Shabanov, of course, strongly denounced this move. With the decision to support Kulakov and not Shabanov, Yedinstvo likely took away Shabanov's last hope of holding on to his seat. - Yulia Fedorinova in Voronezh

**KALININGRAD: ADMIRAL LEADS GOVERNOR, MAYOR.** There are three clear leaders in the field of 17 candidates going into the Kaliningrad gubernatorial elections, the first round of which will take place on 5 November. Incumbent Governor Leonid Gorbenko is in a difficult position since 58 percent of the voters do not want him reelected, while only 13 would support another term for him. Gorbenko is most popular in the rural parts of the oblast, but in the city of Kaliningrad itself, he faces opposition from Mayor Yurii Savenko, who has 19 percent support. Savenko's efficient management style contrasts sharply with the unpopular Gorbenko and gives him a strong chance to win, but he has yet to announce that he will run.

The most popular candidate in the region is Baltic Fleet Commander Vladimir Yegorov, who now boasts the support of 27 percent of the voters. Yegorov's popularity has grown quickly. In May, Savenko led the opinion polls, followed by Gorbenko, while Yegorov was an outsider.

Several events led to the growth of Yegorov's popularity. On 22 July, the founding congress of the regional movement Sozdanie, which unites the oblast's political and economic elite, chose Yegorov as its top candidate. When Putin visited the oblast on 30 July he paid special attention to Yegorov, while generally ignoring Gorbenko. That visit made clear that Moscow backs Yegorov and will support him in the campaign. Since securing the election of his own candidate could help improve Putin's difficult relations with the governors, "Kaliningrad's elections are gaining national significance and are turning into a litmus test of the political skill of the new president" (*Obshchaya gazeta*, 14 August).

Savenko is seen as the spoiler in the race since he has a stable electorate in the city of Kaliningrad and has maintained his silence about whether he will actually participate in the contest. If he backs Yegorov, the admiral will surely reach the second round. If he decides to run himself, he may take some votes away from Yegorov, perhaps helping Gorbenko enter the runoff or even win the runoff.

Another potential force in the race is State Duma Deputy Vladimir Nikitin, who easily won his December 1999 State Duma race with Gorbenko's support. Although his work as a deputy is constantly criticized, he has a stable 11 percent of voter support. Nikitin had the

support of the Communist Party, which is considered consistent in its voting habits. If Nikitin backs Gorbenko, their combined 24 percent would be competitive with 27 percent for Yegorov and 19 percent for Savenko. The battle is expected to be tough with the outcome difficult to predict. - Yekaterina Vasileva in Kaliningrad

**GUBERNATORIAL CAMPAIGN IN VOLGOGRAD IN FULL SWING.** This autumn promises to be a tense one for regional elites, both because of new federal reforms instigated by the Kremlin and also because of the upcoming gubernatorial elections in many oblasts across the country.

Tensions have been rising in Volgograd Oblast since the parliamentary elections last December. A series of decisions that will affect the electoral campaign took place this summer during what is usually the political "dead season".

In mid-August, the Communist-dominated Oblast Duma passed a law on the gubernatorial elections in which it replaced the current two-round system with a single-round system that would favor the current governor. This indicates that the Volgograd Communist party has bonded together to support the current governor, Communist Nikolai Maksyuta. Just six months ago, serious rifts between Maksyuta and the leader of the local Communists, Alevtina Aparina, appeared to presage the governor's renouncing the party and the Communists' nomination of an alternative candidate.

Moscow obviously has played a role in the Communists' decision to unite. Maksyuta must have realized that he would not be able to count on support -- or even neutrality -- from the Kremlin, and the Communists, similarly, concluded that they had no serious candidate with which to fight the politicians who had already declared their intention to run for governor. The time when a Communist party affiliation alone could guarantee gubernatorial victory in the oblast has passed.

While the electoral campaign will only officially commence toward the end of September, and elections themselves are slated for December, Volgograd Oblast is not suffering from a lack of candidates. They are:

Nikolai Maksyuta. Single-round elections would provide the incumbent with an advantage, as do this year's good harvest and the reviving economy. Were the new law on single-round elections to go into effect, chances are excellent that Maksyuta would hold onto his office. However, were he forced to compete in run-off elections, it is likely that Maksyuta would lose to any opponent. The governor is not a popular figure in the oblast, nor is he a politician of national renown.

Oleg Savchenko. The 34-year-old head of the board of directors of the Volzhskii Ball-bearing Factory is the strangest candidate in the upcoming elections. While he is a relative newcomer to Volgograd Oblast, he has mounted an impressive campaign. His candidacy is an obvious attempt on the part of Moscow business circles to gain a foothold in Volgograd Oblast and is the latest in a series of attempts to shore up a number of successful regional businesses. Savchenko took control of the propaganda machine created last year by Yevgenii Ishchenko, yet another newcomer to the local political stage who, as a result of a highly organized and expensive

campaign, came in second in the Volgograd mayoral elections in October 1999 and replaced Alevtina Aparina as State Duma member in December. Currently, a free newspaper, a personal television show, and a series of established Volgograd publications are actively promoting the largely unknown newcomer to the oblast. According to several surveys, Savchenko is already running second in the polls. Maksyuta's strategists will probably counter Savchenko by calling for an end to "Muscovite expansion" in the region.

It must be noted that many of Savchenko's pronouncements provide cause for concern. They are rife with sympathy for nationalist movements, calls to rid the oblast of Chechens, and criticism of the current authorities for maintaining ethnic peace in the region, which Savchenko terms "the toleration of Chechen terrorists."

Yurii Chekhov, Volgograd City Mayor. Chekhov participated in the last gubernatorial election, coming in third in December 1996. His chances of winning are slim, but the upcoming elections provide one of the few opportunities for the mayor to climb to the next political rung. Chekhov has made several serious mistakes in his career by forming the wrong political allegiances. In 1996, his support of the unpopular presidential administration, headed by Anatolii Chubais, ruined his chances of victory. In 1999, Chekhov was quick to declare his allegiance to the Otechestvo party, a move that robbed him of support in Moscow's corridors of power. His run of bad luck is unlikely to change this winter.

Vasilii Galushkin, Duma Deputy and former First Deputy Governor. Galushkin is the Yedinstvo party's choice for governor, a fact that allows him to announce that he is supported by Putin (Savchenko's supporters make the same claim). Following his election to the Duma, Galushkin was touted as one of the main contenders for governor, but his popularity has taken a nosedive this year, reflecting his lack of sufficient resources to mount an effective campaign.

Anatolii Popov, Muscovite and president of the Volga Region Support Fund. In December 1999, Popov was removed from the Duma ballot a mere 24 hours prior to the election, leading to a high percentage of "Against all" votes in his district. Now, Popov is determined to run for governor, and he has already appeared as a guest on the morning show of ORT television station to criticize the oblast government. His chances of winning are slim indeed, giving rise to the suspicion that Popov has ulterior motives for participating in the gubernatorial campaign.

None of the other candidates in the running may be viewed as serious contenders. The only factor that could seriously affect the status quo would be the Communists' decision to abandon Maksyuta in favor of an alternative candidate or else the Putin-backed choice. One scenario involves presidential support for General Valerii Napalkov, who recently left his post as head of the Volgograd Tax Police to become chief federal inspector of Volgograd, Astrakhan and Kalmykiya. - Ivan Kurilla in Volgograd

**KRASNODAR KRAI GUBERNATORIAL ELECTIONS UNDERWAY.** The gubernatorial campaign in Krasnodar Krai has started with a bang. On 24 August, the legislative assembly set the date of the elections for 3 December. A week later, on 1 September, local

media announced that Krasnodar Krai Governor Nikolai Kondratenko, citing poor health, had officially withdrawn from the electoral race. While Kondratenko had hinted to this effect prior to dropping his bombshell, neither his supporters nor his opponents had taken him seriously. The governor was in a position of unprecedented strength and stability from which to run for office. Over the past year, the krai has enjoyed economic growth, increased investments, and the resolution of many of the social problems that had plagued it. Unlike many of his counterparts, Kondratenko has seen his ratings rise steadily during his four years in office. This summer, sociologists estimated that he could expect to win 50-60 percent of the vote in the krai's cities and 70-80 percent in its agricultural regions. In addition to the administrative resources at his disposal, the governor would also be able to call upon various local social-political movements, such as Otechestvo (a local organization predating the political party founded by Yurii Luzhkov) and the Kuban Cossack Host. Neither the 60-year-old governor's age nor his physical appearance gave rise to any concerns about his health.

In other words, prior to 1 September, the governor seemed to have another term sewn up. Kondratenko's supporters will doubtless decide that pressure from the federal center must have been a factor influencing his decision. Kondratenko, who himself has admitted to signing more than 50 legal acts that contradict federal legislature, has become persona non grata to the federal government. Many of his pronouncements, such as those on the "Zionist Mafia" or his threats to blow up the Tengiz-Nosorossiisk gas pipeline, have not only departed from diplomatic protocol but could even be considered criminal offenses under the relevant Criminal Code statutes on inciting ethnic hatred and terrorism. [American Jewish groups describe Kondratenko as "one of Russia's most notorious anti-Semites."]

Kondratenko is the epitome of a charismatic, highly popular politician. This is what makes it so difficult to believe that he is being subject to pressure by the federal government. It is thus hard to see why Kondratenko is not seeking another term.

By refusing to run himself, however, Kondratenko is in a position to anoint a like-minded individual his successor, providing the latter with a strong advantage during the upcoming election. Just who this successor might be will be the central issue facing the krai over the next few weeks. Some potential candidates immediately come to mind: Head of the Krasnodar Krai Legislative Assembly B. Beketov, State Duma Deputy A. Tkachev, and Deputy Governor N. Kharchenko. Among those potential successors who are not a part of Kondratenko's inner circle and the krai's Otechestvo movement are Head Federal Inspector for Work with the Authorities in the Southern Federal District V. Krokhmal and Vladimir Zhirinovskiy, who during his August visit to the region announced his possible candidacy for governor. - S. Danilchenko in Krasnodar

## **DEVELOPMENTS IN THE SEVEN FEDERAL DISTRICTS**

**KIRIENKO FACES NUMEROUS PROBLEMS IN VOLGA REGION.** The Volga Federal District is presenting Presidential Representative Sergei Kirienko numerous difficulties. This "gathering of the lands" based on the Volga military district is extremely diverse, and horizontal ties between regions are often lacking, particularly with Perm, Orenburg, and, to some extent, Bashkortostan.

Even in foreign economic activities, the various regions have different priorities. Saratov Oblast is interested in transportation projects, particularly those that connect with Kazakhstan. Orenburg favors the formation of North-South transportation corridor that would, among other results, increase trade between Russia and India.

The price of bread varies up to 50 percent among the various regions, while transportation costs differ by up to 100 percent. Kirienko admits that in creating the federal district "macroeconomic borders were violated." For the time being, he is trying to build horizontal ties, one of which is the establishment of a "united Volga information space." Currently the residents of the Volga federal district have little idea what is going on in Volga regions besides their own. - Yuri Rodygin in Nizhnii Novgorod

**SOUTHERN INSPECTOR FINDS MANY PROBLEMS.** General Valerii Napalkov, who was recently appointed federal inspector of the Southern Federal District for Volgograd, Astrakhan, and Kalmykiya, held a press conference in which he described the problems of the three regions in his jurisdiction. Kalmykiya's main problems are a lack of sufficient water supplies, desertification of the land, insufficient energy supplies, poor housing, and a wide spread tuberculosis infection. In Astrakhan, the number one problem is the completion of a Caspian Sea port that would facilitate greater trade between Europe and Asia. Napalkov is also worried about the status of the Caspian Sea, which has yet to be defined in an international treaty. A common problem for Astrakhan and Volgograd is the presence of numerous military units, which creates an enormous strain on local budgets.

Finally, the former head of the Volgograd tax police believes that the most serious problem for the area in general is the long, porous border with Kazakhstan, over which enormous amounts of contraband are imported. Additionally, Napalkov said that he would work with the procurator and justice department in analyzing local laws, many of which violate federal norms. He said that there would be plenty of work to "level the legal field." - Ivan Kurilla in Volgograd

**NEW FEDERAL INSPECTOR APPOINTED IN IRKUTSK.** At the end of August, Irkutsk Governor Boris Govorin presented the new federal inspector for the region, Igor Tutevol, to his assistants. In comments to journalists, Tutevol said that he did not want to make a sensation of his appointment. He said that he was currently familiarizing himself with the work of the more than 80 federal agencies in the region. He said that he has yet to meet with any attempts to hide information from him. Rather, all agencies have tried to cooperate.

Tutevol said that the functions of the governor were limited to managing his particular region. In contrast, he saw his job as being much broader: coordinating and interacting with all federal institution and uncovering possible violations and unfulfilled obligations.

For the time being he will simply use the staff he inherited from the former presidential representative. However, he noted that next year's federal budget should include money for the federal inspectors to have larger staffs to address the problems they face. - Teleinform in Irkutsk

## **KAZANTSEV CREATES "DISTRICT GOVERNMENT" IN SOUTHERN**

**FEDERAL DISTRICT.** Presidential Representative to the Southern Federal District Viktor Kazantsev has created a Territorial Collegium, which includes district representatives of federal agencies working in the southern district. This innovation is the first such body in the seven new federal districts. According to Kazantsev, the body "will examine the most difficult and important problems of the district and become the main coordinating mechanism in implementing the authorities' decisions." Kazantsev himself will head the body. Local observers are already describing the body as a district government. The only thing that needs to be done now for the body to become a real government is to create a consolidated district budget.

Federal officials included in the body include the district heads of agencies such as the customs service, tax police, border guard, Justice Ministry, Ministry of Internal Affairs, the North Caucasus military district, the railroad, the Main Oversight Administration, and others. The membership includes several of Kazantsev's assistants and Rostov Oblast Governor Vladimir Chub. Chub became a member as the governor of the region where the district capital is located and as the head of the North Caucasus Interregional Association.

Several officials are not formal members. For example, Deputy General Procurator for the Southern District Sergei Fridinskii did not join the body because the procurator cannot join an institution of the executive branch. However, he will participate regularly as an invited guest. Such a system allows Kazantsev to coordinate practically all federal agencies in the district.

At the first meeting, Kazantsev set up a council of elders for the Southern District. Being well acquainted with Caucasus traditions, he thought that members of the older generation could help solve numerous problems. Although the regulations for the council are still being drawn up, it is already known that 13 of the most respected elders from each region in the federal district will become members of the council. The head of the council will be legendary former Rostselmash General Director Yurii Peskov. - Andrei Miroshnichenko in Rostov-na-Donu

## **HEALTH CARE REFORM**

### **SAMARA LEADS THE WAY WITH INNOVATIVE MEDICAL PRACTICES**

By Judyth Twigg, Virginia Commonwealth University

Samara has won wide recognition as a trailblazer in the area of health care reform. Its success flows from the confluence of several important factors. Particularly striking is the region's emphasis on a compulsory medical insurance program. Samara was one of the first to begin to implement the program in December of 1993. As of August 1997, 3.01 million of the region's 3.3 million residents were insured; since then, 100 percent coverage has been reached. During the first two fiscal quarters of 1999, for the first time, tax collectors secured 100 percent of insurance taxes. This success resulted from the regional insurance fund's diligent efforts to collect from enterprises and, more importantly, a 1998 decision by the oblast Duma to wrest responsibility for payments on behalf of non-workers from the municipalities, and to make those payments a protected line item in the oblast budget. This situation is unique in Russia. Literally every other Russian region struggles with municipalities that either do not fully pay their



insurance bills or make payments late, leaving their health insurance funds underfinanced and therefore their universal coverage promises impossible to fulfill. Because of a bold political statement by Samara's oblast-level officials, the region is able to offer its citizens not only the federally-mandated package of basic compulsory insurance benefits, but also coverage of ambulance calls, treatment for diseases labeled as "socially significant" (mental health illnesses, sexually-transmitted diseases, other infectious diseases, and others), and most pharmaceuticals. While most regions fail to offer even the legally mandated basic package of care because of financial shortfalls, Samara has voluntarily added benefits to the list.

Samara's success also stems from its efforts to spend each health care ruble efficiently and effectively. The region has abandoned the Soviet-style mechanism by which the state financed health care providers, a system that generally remains in place throughout the country. Instead, Samara now funds clinics on a per-person basis, currently providing 40 rubles per month per person in a clinic's geographically assigned area. The clinics are then solely responsible for decisions about referring patients for inpatient care, and for paying for that care. If the budgets based on per capita payments cover all inpatient costs each month or quarter, then the clinics are free to keep any extra cash on hand. If hospital expenses exceed those budgets, then the clinics are forced to make up the shortfall. Clinic physicians are unanimous in stressing the effectiveness of the new incentive structure in curbing unnecessary hospital admissions. The results are unmistakable: in Soviet times, the region spent 80 percent of its health treatment resources on inpatient care; in mid-1997, that figure stood at 54 percent.

Of course, this dynamic raises concerns about restricted access to necessary inpatient care. Do polyclinic physicians deny patients hospital admissions solely on financial grounds? Most physicians, of course, deny that this is taking place, but one doctor at Samara City Polyclinic Number Two admits that she has frequently tried to convince patients to pay for referred diagnostic tests or inpatient care themselves. Virtually all clinics have recently adopted the "day hospital" form of organization, where patients needing only intravenous medication or other interventions requiring just a few hours per day of care come to the polyclinic (rather than being admitted to a hospital), receive their treatment, and then go home for the night. That same physician at the Samara city polyclinic said that, after two months in service, her facility's day hospital (literally just a small room with six beds in individual cubicles, each equipped only with IV stands) now services fifty percent of the patients that formerly would have been referred for inpatient care. Outpatient surgical practices are also being developed, with Samara oblast health administration director Rudolf Galkin trumpeting the recently opened Samara Surgical Day Hospital, whose ten beds served more than 1,300 patients on an outpatient basis last year.

Samara has also been aggressive in its training of general practitioners. Organized in groups of three physicians – a family doctor, an OB/GYN, and a pediatrician – these general practice offices are intended to offer families a "one-stop shopping" form of health care delivery. A department of family practice was opened in 1994 at the regional medical university, and now, one-third of Russia's 1,500 general practitioners are located in Samara. These new forms of practice will offer patients continuity and presumably higher quality of care, greater freedom of choice among physicians, and most importantly to Samara's health administrators, provide sufficiently comprehensive services to avoid unnecessary referrals to expensive inpatient facilities.

Samara also permits private practice physicians to be reimbursed by compulsory medical insurance, and encourages state physicians to offer paid services within regular polyclinics and hospitals. Therefore, while the region's population still does not enjoy freedom of choice of state physician, clinic, hospital, or insurance company within the compulsory insurance mechanism – all of these are still assigned according to strict, geographically-based areas – privatization has permitted the limited introduction of competition. Due to high start-up costs, there is still a relatively small number of physicians in private practice. But many state clinics and hospitals now offer private, fee-based services alongside those covered by the state, and patients can choose to make these legal additional payments either for treatments not covered by compulsory insurance, or for higher-quality or more comfortable provision of state-mandated services.

One clinic physician explains that this mechanism has now, for the first time, provided physicians with an incentive to work harder and offer higher standards of care, despite the fact that their state salaries are still mandated according to rigid salary scales. They compete for the opportunity to provide these paid services, and they keep a portion of the proceeds earned from the business they attract. Visits to some of Samara's clinics that offer paid services and therefore enjoy this additional income, and those that do not, offer a striking comparison. The former contain at least some modern, Western equipment, and are undergoing significant capital repair, with evident new construction and remodeling. The latter continue to exhibit the shoddy construction and technical standards that were a hallmark of meager Soviet health care quality.

Of course, these paid services raise important questions of access. In time, will Samara's citizens be faced with a two-tiered system of health care, one for those with the resources to pay for higher-quality, private services, and the other constantly growing poorer and poorer due to neglect? Conversations with "ordinary" Samarans reveal that this problem already has developed, with even the old Soviet-era demands for payments by physicians for supposedly "free" service continuing. Despite full financing of the compulsory insurance budget, access to health care by marginal populations therefore remains problematic due to demands for bribes and side-payments. Overall, however, the success of Samara's reforms is difficult to dismiss, with dramatic reductions in infant mortality rates in recent years and an undeniable greater return on each health care ruble.

## **ENERGY ISSUES**

**KURSK OBLAST ADMINISTRATION ISSUES ULTIMATUM ON ENERGY CRISIS.** Until this August, the issues of electricity and heat were not at the top of the Kursk Oblast agenda. Thanks to its nuclear power station, Kursk Oblast enjoyed an energy surplus and even supplied electricity to Bryansk, Orel and Belgorod oblasts, as well as to Ukraine and Belarus. The oblast also hosts important gas and oil pipelines.

Despite this favorable climate, in mid-August consumers across the oblast faced short, but wide-spread, blackouts. Whole raions, including industrial enterprises, hospitals, educational institutes, and telecommunications centers, were cut off from their electricity supplies. Kurskenergo, the local electricity provider, cut power to private citizens who had been paying their bills on time and in full.

While the crisis lasted only two hours, the energy suppliers succeeded in their goal of frightening and angering the local population. The oblast government demonstrated remarkable efficiency in solving the problem, immediately forming a task force to facilitate utility payments. While questions on current debt were quickly resolved, those regarding older debts -- some stretching as far back as five years -- remain.

New problems arose on 1 September, when the federal wholesale energy market decreased supplies to Kursk Oblast by 50 megawatts, making it all the more obvious that, with a smaller energy pool, debtors will have to be cut off. The main energy debtors, as was revealed during the meeting of the oblast task force, are organizations operating under the aegis of the federal government: the military, border and customs guards, fire fighters, and educational institutions. Their combined debt exceeds 100 million rubles. This sum is roughly what Kurskenergo owes the federal budget. In 1999, such a situation would be easily resolved: the Russian government, with mediation by the governor of the region in question, would simply arrange for mutual debt cancellation. This year, however, the Russian government has rejected such practices.

The situation is further complicated by the fact that Unified Energy System (RAO EES) and the Russian government have provided Kurskenergo with differing instructions on whom to cut off first. The organizations slated for cuts by Anatolii Chubais are, according to a letter from the federal government signed by Prime Minister Mikhail Kasyanov, not to be cut off under any circumstances. Whose side should Kurskenergo take? This was the question the oblast task force attempted to answer during its recent meeting, chaired by Governor Aleksandr Rutskoi. According to the state-owned Kursk television and radio company, on 1 September Rutskoi suggested sending an ultimatum to Moscow that would say: "Don't play dumb (*ne valyaite duraka*)." It appears that such a letter would need to be sent both to UES and to the federal government. However, Rutskoi himself says that such an ultimatum is only a temporary measure, and that realistic mechanisms for paying for electric energy on time and in full must be found. - Sergei Sarychev in Kursk

## **POLITICAL ECONOMY**

**BASHNEFT RECEIVES STATE AID -- FOR A PRICE.** On the eve of Oil and Gas Worker Day, the Bashkortostan republican government decided to award Bashneft oil company a credit worth 680 million rubles on privileged terms for the implementation of reforms developed by the company's leadership. Bashneft is the main supplier of raw materials to Bashkortostan's oil refiners and petrochemical producers, as well as the republic's main supplier of fuel. Its production comprises one fifth of all industrial production in the republic.

The governmental aid package to Bashneft also includes exempting its payments to the republic's amortization and agricultural support funds, canceling its most hopeless arrears, and providing it with an installment plan for current payments. The republican government will also shoulder the burden of regulating relations between the company and its largest debtors, Bashkirenergo and Bashkirnefteprodukt.

In turn, the government wishes to receive -- as soon as possible, given the worsening conditions on the world oil market -- all of the back taxes that Bashneft owes. Bashneft's

willingness to agree to this strict debt liquidation schedule, which differs dramatically from the proposal issued by the company's own management, was the main condition for the firm's inclusion on the list of companies that are guaranteed state aid.

The decision to provide aid to Bashneft came after the most recent annual stockholders' meeting, at which several of the company's top managers were removed. Midkhat Shakirov, Bashkortostan deputy prime minister and the former head of Bashneft's board of directors, was replaced by Nur Saifullin, president of the Bashkir Fuel Company (BTK), which, with a 64 percent stake, is the largest shareholder in Bashneft. BTK was the brainchild of the republican president and government, and the republican cabinet has transferred to it all state shares in Bashneft, Bashkirenergo, Bashkirskaya Nefetekhimicheskaya Kompaniya, Uralo-Sibirskie Magistralnye Nefteprovody imeni D.A. Chernyaeva, and Uraltransnefteprodukt. Effectively, BTK enjoys a monopoly on the strategically important spheres of oil drilling and refining, petrochemical production, fuel and energy, oil transportation, and oil products (see *EWI Russian Regional Report*, 23 September 1998).

This personnel shuffle left Bashneft management only five seats on the 11-member board of directors. Another five went to BTK representatives, and the eleventh seat was taken by Shakirov, who represents the government's 1.34 percent share in the company.

The changes seem to reflect nothing more than BTK's increased share in Bashneft's capital. In reality, however, the transformation stems from another source. Paradoxically, the question of reforming the company arose while Bashneft's financial conditions were steadily improving in a manner not seen since 1995. According to the annual report on company activity issued by Bashneft General Director Ampir Syrtlanov, confirmed oil reserves rose in 1999 to 7 million tons, including 2.8 million tons on the territory of Khanty-Mansiiskii Autonomous Okrug. Sales of oil and oil products brought in almost 18 billion rubles, and total revenue was calculated at 23 billion rubles. Wages for company workers more than doubled. Resources allotted to the paying of dividends also more than doubled.

Syrtlanov says that the exploitation of new oil wells in Western Siberia and the whole program of company restructuring that has been in operation since 1995 are being funded solely with company funds. In 1999 alone, the company invested 1.66 billion rubles toward this end. Company policy on halting the decline in oil production and stabilizing it at 9.4 million tons by the end of 2005 will demand further large-scale investments. However, the republican government believes that the time has arrived for Bashneft to share its profits with the local budget, reminding the company that it is thanks to Bashkortostan's economic independence that it has been able to enjoy a special excise discount on oil drilling: 15 rubles per ton rather than the 55 rubles per ton rate set by the federal government. Changes to Bashneft's board of directors should allow the managers of BTK to more effectively influence Bashneft company policy. - Igor Rabinovich in Ufa

## **BUDGET ISSUES**

### **2001 BUDGET GIVES REGIONS NO INCENTIVE TO INCREASE TAX**

**REVENUES.** The Russian government approved the 2001 budget on August 23. It has no deficit and is premised on an average of 4 percent annual growth, an exchange rate of 30 rubles

to the dollar, and 12 percent annual inflation. On 28 August, the draft was handed over to the State Duma for consideration. The first reading of the budget is scheduled for 22 September, and it must be passed in its entirety by 15 December.

The 2001 budget hits the governors hard (*Rabochii Put'*, 26 August) by reassigning decisions about social expenditures to the federal level and then considering these federal transfers to be regional income. Governors, especially from the donor regions, are opposed to listing federal transfers as income because they doubt that they will receive all that is promised to them in the federal budget (*Kommersant*, 22 August).

The governors also are unhappy about the division of revenue between the center and the regions. According to the Budget Code, the government must divide revenue evenly with the regions. However, the governors claim that the required 50-50 division actually is a 70:30 split in favor of the federal budget, since the federal authorities will take an additional 15 percent of the value-added tax for federal benefits payments. Deputy Finance Minister Yevgenii Bushchmin believes that the 15 percent of VAT will be insufficient to cover the cost of federal benefits payments. The co-chairman of the working group on inter-budgetary relations, Maksim Vasilev, contends that a 60:40 division of revenue would be optimal. Many deputies think that the proposed division of revenue in the 2001 budget will not encourage the regions to increase their own tax base. - Arsentii Ledovskoi in Smolensk

**KOMI GOVERNMENT FIGHTS TO CHANGE TAX LAWS.** As a result of changes in federal tax and budget legislation, as of 1 January 2001 the Komi Republic will see its tax base shrink significantly. Whereas in 2000 the republic held onto 15 percent of value-added tax (VAT) revenue, next year all such revenue will be redirected into federal coffers. In addition, road and personal income tax will be reduced, and the housing fund tax will be scrapped altogether. All in all, the republic stands to lose some 2.1 billion rubles, as became clear during a 21 August meeting of the trilateral working group on interbudgetary relations at the White House.

Komi Republic Finance Minister Aleksandr Zakharov, who participated in the meeting, said that the federal center, as a way of compensating for the republic's shrinking tax base, would finance 80 percent of the republic's federal payments -- to veterans', invalids', and children's funds respectively. The republic would be responsible for coming up with the remaining 20 percent. It appears that the federal government will provide compensation for the 900 million rubles that would have been generated by the now-defunct Roads Fund by financing a program for the development of road construction that will grant the republic 230 million rubles -- a drop of 670 million rubles from the previous year. Zakharov also said that the donor regions (those that contribute more to federal coffers than they receive from them) had not been successful in their attempts to keep half this surplus in the region. For the time being, they will be allowed to hold onto 44 percent of their revenue, turning the remaining 56 percent over to the federal government. Those regions that receive federal subsidies will thus be better off than in the past, but Komi will not be among them, as in 2001 it will join the ranks of the donor regions (*Respublika*, 30 August).

Naturally, such financial manipulation raises some concern among regional leaders, who are searching for ways to change the situation to their advantage. On 29 August, Komi Republic

President Yurii Spiridonov met with Vladimir Putin to discuss the socio-political and economic situation in his republic. Spiridonov highlighted the important role of the northern regions in exploiting Russia's natural resources and generating revenue for the federal budget. Putin agreed that the northern regions required special attention. Toward this end, the republican government suggested that a motion be introduced on developing a new tax system that would provide Komi industries specific advantages (*Molodezh severa*, 31 August). It is clear that the fight to redistribute taxes and change the principles behind tax collection will be a difficult one, given the political and economic interests at stake. - Yurii Shabaev in Syktyvkar

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**BREAKING NEWS**

**LEBED ORGANIZES PROTEST AGAINST NEW TAX POLICY, INTERBUDGET RELATIONS.** On 9 September, at the initiative of Krasnoyarsk Governor Aleksandr Lebed, various bureaucrats, industrialists, and legislators gathered to protest the federal government's new tax policies and plans for sharing revenue between the federal and regional governments. The group created a new Union of Krasnoyarsk Residents to oppose the federal policy. They believe that Krasnoyarsk will lose a large amount of its income under the new plan. A report in *Vedomosti* (11 September), however, suggested that Krasnoyarsk, which it described as the only donor region in the Siberian Federal District, would benefit from the new legislation. According to *Izvestiya* (12 September), the Lebed meeting was the first mass action of

politicians and businessmen against the new policy of the Kremlin to centralize management of finances and property.

**DUMA DEPUTIES, DONOR REGIONS GOVERNORS REJECT MAIN BUDGET CONCEPTS.** The government will have a hard time getting its 2001 budget through the State Duma. Many members of the lower house reject the main point of the budget, which is to strengthen central control over the flow of money between the center and the regions (*Kommersant Daily*, 12 September). Additionally, members of the parliament want to increase spending in key sectors, such as the military, industry, agriculture, and education. They believe that the government is drastically underestimating the income it will receive during the next year.

Leaders of donor regions also met in Moscow on 12 September to express their opposition to the budget. The governors, including Moscow Mayor Yurii Luzhkov, want the Duma to send the budget to a conciliatory commission immediately after the first reading vote on the document. Luzhkov warned that the current draft budget would transform Russia from a federation into a unitary state. Federation Council Budget Committee Chairman and recently re-elected Samara Governor Konstantin Titov called on the governors to work with the State Duma deputies to vote against the current budget draft.

The governors are particularly angry over the provision in the recently adopted second part of the tax code by which the 15 percent of the value-added tax (VAT) that used to go to regional coffers will go to the federal government as of 1 January 2001. The federal government will control 100 percent of VAT revenue. According to the Ministry of Finance, the regions will lose 71.1 billion rubles as a result of this change, with the donor regions losing 41.8 billion rubles of this total (*Vremya novostei*, 13 September). The regions also will lose income through the introduction of the flat income tax and the cancellation of other taxes. Even when new regional taxes and additional federal compensation are added, the reforms will cost the regions about 48 billion rubles, according to Finance Ministry estimates. Of these losses, 44.7 billion will come from the donor regions.

The governors are also angry that the changes violate the provision in the Budget Code by which state revenues should be divided between the federal government and regions 50:50. Estimates of how the new breakdown will work vary. Government sources say the divide will be 52:48 in favor of the center, while Luzhkov asserts that it will be 60:40. Perm Governor Gennadii Igumnov said it "should not be 70:30 in favor of the center (*polit.ru*, 12 September)."

In addressing the governors First Deputy Finance Minister Aleksei Ulyukaev said that the governors were in a "stupid position," since they had adopted the second part of the tax code and now he was only trying to implement it. He stressed that the main point of the reform was to more justly divide state income between the various regions. Overall, the government seemed inclined to make few concessions. The governors, however, suggested ensuring that the regions retained 50 percent of state revenue, sought to keep the 15 percent of the VAT they will lose, and proposed other ways to increase regional income.

**UTILITY CUTS OFF MILITARY INSTALLATION.** On 11 September, Russia's electricity monopoly, Unified Energy System which is headed by Anatolii Chubais, shut off electricity to a Strategic Rocket Forces base in Ivanovo. According to a report in *polit.ru*, the

utility was seeking repayment of 15 million rubles in arrears. The utility claims that it only cut off such buildings as the cafeteria and did not threaten the base's military operations (*Izvestiya*, 13 September). On 12 September a military unit took control of the utility's nearby substation, a move the utility protested. Government officials noted that the base was on a list of sites, which could not be subjected to blackouts.

The incident will only add fuel to a battle within the government. Deputy Prime Minister Ilya Klebanov has warned that the utility cannot shut of bases vital to national security. However, the government has appeared to support Chubais in his battle to force electricity customers to pay their bills, including the military.

### **FEDERAL DISTRICT HEADS BUILD STAFF, ATTACK REGIONAL**

**LEGISLATION.** At a 7 September press conference, Presidential Representative to the Far Eastern Federal District Konstantin Pulikovskii said that his first success during the four months in his new position was hiring about 80 percent of his staff. Pulikovskii has hired 18 people from an applicant pool of 800 that applied. Pulikovskii has found 61 laws and other measures in the regions of his territory that violate the constitution, but he does not expect them to be fixed until the middle of next year (*Nezavisimaya gazeta*, 8 September). Head of the Presidential Administration's Main Territorial Department Sergei Samoilo, however, said that most regional laws should be brought into line with the constitution by December (*Nezavisimaya gazeta*, 7 September). In the Volga Federal District, inspectors have found 567 regional acts that violate the constitution and federal law (*Rossiiskaya gazeta*, 9 September).

In the Central Federal District, Georgii Poltavchenko has named federal inspectors to 14 of his 18 regions. He has narrowed the field of potential candidates in Moscow, Vladimir, Tver, and Yaroslavl and will make appointments soon.

In other comments on the State Council, Samoilo said that there would likely be a law defining its status, but that there was no reason to amend the constitution. The State Council will not have a staff and the presidential administration will handle its logistical questions.

**VORONEZH EFFECTIVELY CREATES OWN CURRENCY.** The Voronezh Oblast Main Financial Department has cut a deal with Moscow Industrial Bank under which the oblast will accept the bank's veksels as payment. The authorities have also told local industries, utilities, and agricultural units to use the veksels in addition to cash payments, *Vremya novostei* reported on 8 September. As a result, the oblast's financial policy is diametrically opposed to federal policy, which is trying to encourage the use of money for all exchanges. Using such money surrogates creates a breeding ground for corruption and inefficient management. However, the deal may help the unpopular Governor Ivan Shabanov spread financial resources to his allies as he mounts a re-election bid later this fall.

**TRAIN FEES HIKED.** On 10 September, Russia raised its prices for freight and passenger trains making long-distance trips by 25 percent. This hike is far from the last and the Railroads Ministry predicts that prices will rise an additional 60 percent (of the August prices) by the end of the year. Prices for Moscow suburban trains went up 20 percent. Until yesterday the price for suburban train tickets made up 22 percent of their actual cost and tickets for long-distance

travel made up 43 percent of the cost. Further increases are expected so that the trains will not operate at a loss. (*Izvestiya*, 11 September)

## **CENTER-PERIPHERY RELATIONS**

**FORMER KARELIYA PRESIDENTIAL ENVOY SEES SUCCESSOR AS LESS POWERFUL.** Former Presidential Representative in Kareliya Vyacheslav Ushakov gave a final press conference on 8 September. He is returning to a post in the Federal Security Service (FSB), although he refused to say exactly what kind of work his new duties entailed. Of his old job, he said, "As soon as the system of presidential representatives was changed, I understood that they would not leave me here. A federal inspector, the position in Kareliya now filled by Valentin Aleksandrovich Shmykov and the former presidential representative, the position in which I served, have completely different ranks. The inspector's salary is only one-third of what I received, and he has only one-third the staff. Moreover, he is subordinate to the presidential representative to the North-West Federal District rather than directly to the president, as I was. Plus he has much more work. Frankly speaking, I feel for Valentin Aleksandrovich." - Boris Matveev in Petrozavodsk

**KURSK FEDERAL INSPECTOR BUILDS POPULARITY BY SOLVING TRANSPORTATION PROBLEMS.** For the spring and summer, transportation problems have bedeviled Kursk. The gist of the problem is that federal and local authorities try to reduce the problems of low-income citizens by providing them with free access to the public transportation system. Now about two-thirds of the population has access to such benefits. Unfortunately, the federal and local authorities do not compensate the transportation system for such costs, so it has no source of income.

The main solution to the problem was the appearance of private buses, which run the same routes as the public buses. The fare is three rubles instead of the two charged for the state buses and the business is profitable. Some entrepreneurs in Kursk own 3-10 buses and hire drivers to work for them. Such private buses now carry 56 percent of the passengers in Kursk, according to the Transportation Department. The private buses charge everyone the same price.

In the city of Kursk, all electric forms of transportation (tramvais and trolleybuses) are controlled by the city-owned enterprise Kurskelektrotransport. Since the first of April, Kursk Mayor Sergei Maltsev ordered the placement of signs in every fourth tramvai and trolleybus saying "Special Route. All Customers Must Pay." The mayor explained his action by pointing out that the city had no revenue to pay for electricity or new equipment because neither the federal nor oblast budgets provided funds to the public transportation system to compensate for all the passengers who were riding for free. Only the city budget did so. At first, citizens thought that the signs were an April Fool's joke, but the policy has remained in effect for five months.

Kursk Governor Aleksandr Rutskoi said that he wanted to send the originators of the policy to Siberia, but his threats had no impact. Rutskoi also tried to set up a "veteran" transportation system that would carry only people entitled to free transportation, but that system did not work. Rutskoi's concerns are clear because the 400,000 area pensioners affected make up about one-half of the electorate and are the most likely to vote.



Kursk Federal Inspector Viktor Surzhikov, who is also running for governor, has been much more effective in his actions. On 5 September, a group of citizens who should have had free transportation visited Surzhikov's office and laid out their complaints about the mayor's policies. That very day, Surzhikov announced on the local TV station Takt-novosti that "I will talk with Mayor Maltsev, he is a rational leader. I have a suggestion and we will reach a positive outcome." Their meeting took place on 7 September and the mayor restored all of the previous rights to free transportation as of 10 September. Maltsev said that Surzhikov offered him federal financial support, which solved the problem. "However, the federal inspector's political argument had a more powerful effect on me: today they are criticizing the city of Kursk's leadership for one problem, transportation. The governor's team in particular is playing this card, charging that the mayor does not care about the welfare of his citizens," Maltsev said.

Thus the federal inspector quickly revealed the extent of his power (in obtaining federal funding), his ability to win the sympathy of the electorate, and made clear his anti-Rutskoi position. - Sergei Sarychev in Kursk

**INSPECTORS VISIT KALMYKIYA.** At the orders of Southern Federal District Presidential Representative Viktor Kazantsev, a group from the district's Main Control Administration arrived in Kalmykiya and began auditing the work of the regional executive branch authorities, examining how effectively they are using the local sea and river resources (*Vremya Kalmykii*, 9 September). Additionally, the inspectors are studying the law enforcement organs, the republic Fishing Committee, the Fish Conservation Inspectorate, and fishing enterprises. They are checking whether regional legislation on preserving and rationally using biological resources and developing the fishing complex meets federal standards. In particular, they are monitoring the implementation of a federal government decree dealing with the activities of ships using Russian waterways.

This is the second delegation of inspectors in the region in the last 10 days. Earlier visitors to Elista included Chief Federal Inspector in the northern area (Kalmykiya, Astrakhan, and Volgograd) V. Napalkov and Federal Inspector V. Novikov. The goal of their trip was to coordinate the work of Kazantsev's staff with the regional authorities and the heads of federal agencies working in the region. The federal inspectors met with republican Vice President V. Bogdanov and Prime Minister A. Dorzhdeev. The republican president's press service said that the meetings were constructive (*Izvestiya Kalmykiya*, 1 September). - Vladimir Volgin in Elista

## **GOVERNORS' ELECTIONS**

**KALININGRAD MAYOR SEEMS TO BACK CHALLENGER.** On 8 September Kaliningrad Mayor Yurii Savenko announced that he would not seek the governorship in the region's elections on 5 November (for additional background on the Kaliningrad elections, see *EWI Russian Regional Report*, 7 September). Savenko did not make clear whom he would support in the race, although he was clearly leaning toward Baltic Fleet Commander Admiral Vladimir Yegorov. He said that he was prepared to cooperate with Sozidanie, a local group that has already decided to back Yegorov in the race to defeat incumbent Governor Leonid Gorbenko, but that he does not agree with all of its official positions.

Savenko said that among the candidates there was a group of serious people and he would decide whom to support 7-10 days before the election. He said that the future governor should be orderly, not have ties to business, but command good connections in Moscow. It is not difficult to see that Yegorov fully meets these criteria. According to some sources, Savenko's team of image consultants is already actively supporting the admiral's campaign, thereby significantly increasing his chances of winning. The mayor will now seek a seat in the Kaliningrad Oblast Duma, which will also be elected on 5 November. - Yekaterina Vasileva in Kaliningrad

**PARTIES DEFINE ROLE IN STAVROPOL ELECTIONS.** On 6 September the national political councils of Otechestvo and Yedinstvo discussed which candidates they would support in the Stavropol gubernatorial elections (for additional background, see *EWI Russian Regional Report* 7 September). Moscow Mayor Yurii Luzhkov's Otechestvo will back Yu. Gontar, the head of Otechestvo's Stavropol branch, in the election. Luzhkov made clear that he no longer sees Otechestvo as a party opposed to the Kremlin. Thus, it is more or less obvious what Gontar's positions will be.

The pro-Kremlin Yedinstvo, on the other hand, is much less clear about whom it will support. The party has yet to identify its candidate. The only clear statement was party leader Sergei Shoigu's announcement several days ago that the party would not back the incumbent governor, Aleksandr Chernogorov. The local branch of the party is also divided and it remains unclear which candidate the party will ultimately support. Yedinstvo party members admit that their party currently has little public support in the region.

The Communists are also in disarray. Krai Committee First Secretary V. Khorunzhii has announced that he will run, but only after the last plenum of the krai party voted to back Chernogorov. The Communists have been careful to avoid discussing this apparent split with the media, but clearly it does not bode well for the party. - Olga Morozova in Pyatigorsk

## **PATTERNS OF REGIONAL DEVELOPMENT**

**FEW CANDIDATES FOR TVER MAYOR.** Only a few candidates are competing for the office of Tver mayor, who will be elected in six weeks. Although the office may be useful for many business groups, none seem to be interested in joining the political fray. Observers cite three favorites in the race: incumbent Mayor Aleksandr Belousov, City Duma Chairman Valerii Pavlov, and Deputy Governor Sergei Bystrov (*Veche Tveri*, 6 September). While the first two are declared candidates, Bystrov has yet to make his intentions clear.

Most believe that Belousov, who has ruled the city for 13 years, will win. Although during the last year, Tver residents have become used to having their water, heat, and electricity shut off, most journalists think that the voters will not hold it against Belousov. In fact, in the past weeks, Belousov has succeeded in winning over many influential Tver politicians and businessmen (*Veche Tveri*, 5 September).

Nevertheless, Pavlov, a former secretary of the university party committee and then head of one of its colleges, and Bystrov, a success in the Moscow business community who was then appointed deputy governor, think that they can win. Bystrov has noted that Belousov

should be in the Guinness Book of World Records for longest term in office without producing any results. - Boris Goubman in Tver

## **POLITICAL ECONOMY**

**NIZHNI CONFERENCE HIGHLIGHTS SORRY STATE OF RUSSIAN EQUIPMENT.** One of the main problems facing Russian industrialists is their out-dated and worn-out equipment. In recent years, factories have bought almost no new equipment because most of them have seen production levels drop. Using the out-dated equipment means that the factories are producing only low quality goods. The level of machine-tool production now is just 11 percent of the 1991 level. The output of steel production equipment is 5 percent of 1991 levels, wood processing equipment, 24 percent, and metal-cutting, 27 percent. The number of workers employed in machine-building has dropped by 50 percent, and only one quarter the number of workers developing new equipment in 1991 remain at their job. Only 2.5 percent of the Russia's industrial equipment can be considered "new," while this number was 40 percent ten years ago.

Most plants simply do not have the funds to buy the new equipment they desperately need. During the discussion at the forum, it was obvious that no one knows where to find this money. Any funds that are available are generally too expensive for the factories to use. Nevertheless, President Representative to the Volga Federal District Sergei Kirienko closed the conference by describing it as a "success." During the meetings, more than 2 billion rubles worth of contracts were signed. - Yurii Rodygin in Nizhnii Novgorod

## **ROSTOV CAUTIOUS ABOUT EXPANSION OF MOSCOW FINANCIAL GROUPS.**

In the beginning of September, the Rostov Oblast administration signed a cooperation agreement with Alfa-bank, which opened a branch office in Rostov earlier this year. Former Deputy Prime Minister Oleg Sysuyev, who is now one of the bank's top administrators, represented the company at the meeting. While welcoming the arrival of one of Russia's largest banks to the region, Rostov Oblast Governor Vladimir Chub was quick to defend local industrialists in their fight against the Alfa-group for the Taganrogskaa Metallurgical Factory (Tagmet). During the last year alone, influential Moscow investors have gained controlling shares in the Sulinskii and Belokalivenskii metallurgical factories and Rostselmash. Alfa-group is the latest in a long line of powerful investors from the capital to expand their spheres of influence in the regional economy.

During his speech at the meeting with Alfa-bank, Chub announced the oblast administration's new priorities regarding outside investment. In the past, the governor espoused rather strong protectionist policies and rebuffed outside investors who sought to gain shares in local companies. He still believes this stance was justified because it allowed the region to preserve its political and economic stability.

By the end of 1999, the oblast administration's position had softened to the point that it announced it would welcome all reliable investors to enter the Rostov market. The first such investors to arrive on the scene received high marks from the governor, who went as far as to say that the positive economic tendencies in the region would not have been possible without an

injection of outside capital. Be that as it may, Chub continues to stress the need for reliable and responsible partners, adding that while he rejoices at the successes of outside investors, he takes greater pleasure in the successes of local ones. This stance has been termed "cautious openness" by the Rostov business weekly *Gorod N*.

That the meeting with Alfa-bank should spark such active debate was no coincidence. In addition to opening its own branch, Alfa-group also attempted to buy the largest metallurgical company in nearby Taganrog. Tagmet's director -- young, dynamic entrepreneur Sergei Bidash -- is a deputy in the oblast Legislative Assembly and maintains strong ties to the local powers-that-be. The Shelf group, which Bidash controls, owns 35 percent of Tagmet. Under his leadership, the once stagnating factory is now growing. Today, Tagmet's profits are comparable to those of the local city budget, and the factory has become one of the largest taxpayers in Rostov Oblast.

In July, when a then-anonymous investor began cornering the market on Tagmet stock, demand rose dramatically and stock prices increased ten-fold. Bidash was able to fend off this first attack by initiating an additional stock emission. Additional shares will be sold at the new price, allowing current stockholders to increase their revenue accordingly.

Over the summer, Alfa-group bought an estimated 12 percent of Tagmet stock. Commenting on this state of affairs during the meeting with Alfa-bank, Chub urged Sysuyev to give up the idea of purchasing Tagmet, as the thriving company does not need new leadership. Instead, Chub suggested that Alfa-bank focus its attention on the local agricultural machine-building industry, which is in desperate need of a powerful and effective investor. As for Tagmet, in which Alfa-group has gained a share, Chub proposed creating a mechanism for cooperative management of the company.

Sysuyev, responding to Chub's remarks, said that his entourage at the meeting consisted of banking specialists whose competence did not cover the situation with Tagmet. In his turn, Bidash, in an interview with *Gorod N*, said that he did not consider cooperation with Alfa-group feasible. Thus it remains unclear who will win the battle for Tagmet -- or if Chub will be able to declare a truce. - Andrei Miroshnichenko in Rostov-na-Donu

**LUCRATIVE TRADE FLOWS BYPASS VOLGOGRAD.** Volgograd boasts an excellent position to take advantage of freight trade. The oblast has the shortest routes between Kazakhstan and Ukraine, from the Caucasus to Siberia, and waterways from the Caspian to the Black Sea. But, due to a lack of infrastructure, the region makes very poor use of these trade routes. Most truck and railroad freight from Kazakhstan and Central Asia goes through Saratov Oblast. Volgograd tried to attract some of this trade by building a new bridge across the Volga in the last months of former Governor Ivan Shabunin's term, but that project ended in failure. The foundations of the bridge stand in Volga resembling the aftermath of the Stalingrad battle more than a contemporary highway.

Another transportation route - from the Urals and Siberia to the North Caucasus - also goes around Volgograd. Only passenger trains use this route. Freight trains go through Samara and Voronezh, depriving Volgograd of considerable profit and increasing shipping costs. The trains avoid Volgograd, which provides a more direct link, because a large section of the Volgograd track is not electrified.

In the last several months, the oblast has begun several projects to modernize its infrastructure. The Volga-Don canal has been included in a federal transportation program. Additionally, the railroad has begun to electrify some of the key sections of track for freight transportation. The costs are estimated at 6 billion rubles and the work should take 2.5 years to return the money invested. Once the construction is complete, freight transit through the oblast should increase 25-30 percent. The new electric tracks should also reduce the amount of environmental destruction around the track since electricity is less polluting than other fuels. The oblast hopes to electrify all 650 km of track currently without electricity by 2003. - Ivan Kurilla in Volgograd

## **NGO DEVELOPMENT**

### **NGO SUPPORT CENTER SEEKS TO BOOST YAROSLAVL'S THIRD SECTOR.**

Non-governmental and non-commercial organizations are thriving in Yaroslavl Oblast. In 1998 there were 335 NGOs registered in the oblast, as of 1 January 2000 the number of registered groups had reached 503, and at least 45 new organizations have registered this year (*Yaroslavskie NKO*). The groups represent a wide range of social interests, including support for veterans, the handicapped, women, children, refugees, and AIDS victims, as well as civil rights and humanitarian organizations and cultural preservation societies. As is typical throughout Russia, Yaroslavl's NGOs struggle to find funding in a society that has not yet developed a culture of philanthropic giving. Not surprisingly, the most visible not-for-profit organizations in Yaroslavl are those that have secured financing from foreign foundations and those evolving directly from former state organizations.

One of the most interesting examples of Yaroslavl's fledgling third sector is the Support Center for Yaroslavl NGOs (*Tsentr podderzhki Yaroslavskikh NKO*), which was founded in 1998 as part of a NGO management program conducted by the local "Sotsium" organization and funded by the Eurasia Foundation. In March 1999 the Center was spun off and became a separate NGO. The Center, which continues to operate primarily on the basis of grants from foreign sources, including support from George Soros' Open Society Institute, offers free consultation for regional NGOs and tries to collect as much information as possible on regional organizations, their activities, and potential funding sources to then serve as a clearinghouse for this information. In conjunction with Sotsium, the Center published directories of regional NGOs in 1999 and 2000, which included not only the contact information of many groups, but also text introducing and explaining the concept of non-commercial organization and the relatively foreign idea of the third sector.

According to Center Director Irina Albegova, Yaroslavl Oblast's NGOs can be divided into five groups: functioning social interest groups for women, veterans, and youth; larger, more professionally organized groups that have secured sizeable funding (usually from foreign sources); groups that are at the very beginning stages and do not know how to organize; groups that formally exist but are not operational; and initiative groups that are functioning but not yet registered. According to Albegova, people representing all stages of NGO development, from those at the idea stage to the large foreign-funded organizations, seek out the Center's resources. The primary concern of those visiting the Center is help in seeking sources of

funding, but the Center also regularly provides consultation on grant-writing, advertising, and registration. The Center's greatest impact is in introducing the "how to" of NGO development to groups that have a concept and potential, but lack experience in putting together a functioning organization. Likewise, the Center is educating fledgling groups on third sector culture so that they can succeed in the highly competitive funding game.

Interested groups must go through a long, bureaucratic process to register their organization as an official not-for-profit body. The financial cost is minimal, the real cost is in the time and headaches a group must go through to get the proper documents, paperwork, and signatures for registration. No one in the local bureaucracy is capable (or willing) to explain the full procedure to those trying to register, making the entire process a long guessing game that can take up to several months. Without registration however, it is impossible to find any sort of financing.

Albegova maintains that, at present, foreign funds remain the most promising and secure source of funding for Yaroslavl NGOs. Well-organized Russian groups know how to make funds stretch and are prime examples of how to do a lot with a little. The majority of those working in regional NGOs do so on a voluntary basis or for very small sums of money and thus most of the funding secured goes directly to the organizations' activities. According to Albegova, it is easier to deal with foreign foundations than seek any meaningful cooperation with the local or regional government. - Danielle Lussier in Yaroslavl

## **ETHNIC CONFLICT**

**ADYGEYA REPUBLIC PROCURATOR FILES SUIT OVER ELECTION LAW.** The Adygeya procurator has filed suit against the republic's new electoral law for its legislature, claiming that it violates the rights of the ethnic Russian population in the republic. The new Adygeya State Council adopted the law on 29 May and it was subsequently published on 21 June. According to its provisions, republican elections will be held 17 December for 45 seats in the State Council. Of the deputies, 27 will be elected to single-mandate districts, which are home to roughly the same number of voters. Another 18 will be elected to nine dual-mandate districts, whose borders coincide with those of the republic's larger raions and cities. Of these, the Takhtamukaiskii and Krasnogvardeiskii raions encompass two single-mandate districts each: one "Russian" and one "Adygey". The "Adygey" districts within these two raions are less densely populated than the "ethnic Russian" ones. These districts, which were drawn up on administrative-territorial principles, may thus tilt the vote in favor of the Adygey population, allowing the cities of Adygeysk (population: 10,500) and Maykop (population: 135,500) to elect the same number of deputies to the state council. This new delineation of electoral districts is expected to be formalized in September.

The new republican law supports the principle of parity, granting equal representation to Adygeys and non-Adygeys in the legislature even though ethnic Russians far outweigh the Adygey population in the republic. Ethnic Russians made up 68 percent of the population, while Adygeys only comprised 22.1 percent, according to Goskomstat. On 17 July, the republican procurator sent a message to the republican Supreme Court claiming that the law violated the federal constitution. In essence, the law allows electoral districts to be gerrymandered in such a

way that the vote of one Adygeysk resident has 10 times more impact than the vote of Maykop residents. The system effectively favors Adygey voters over ethnic Russians.

The republican Supreme Court, headed by Oleg Metov, held a meeting on this issue on 10 August. No substantive decision was taken at that time, as the republican Central Electoral Commission had yet to formally draw electoral district lines and the state council to approve them. The matter will be reexamined on 20 September. - Oleg Tsvetkov in Maykop

**CORRECTION:** Due to a translating error, we mistakenly identified the source for a story about Smolensk in last week's Russian Regional Investor. The local Smolensk newspaper is called *Vse*, not *Smolenskaya gazeta*. Additionally, the talks between Smolensk Governor Aleksandr Prokhorov and Yurii Rebrik with DeBeers took place in late July or early August 2000, not 1999 as we reported. We apologize for the errors.

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## BREAKING NEWS

**PUTIN REFORM PLAN FAILS...IN NEW YORK CITY SCHOOLS.** President Vladimir Putin's attempt to reign in the regions is simply one example of a more generic problem faced by the leader of any large organization who wants to assert central control. The pharaohs of ancient Egypt faced similar issues, as does the chancellor of the New York City public school system today. In each of these cases, the leader of the organization has appointed a small number of deputies to help him deal with a much larger number of units that should be under his control. Putin has, of course, appointed seven representatives to help him handle the 89 Russian regions. Jargon-cosseted political scientists refer to this general phenomenon as "the principle-agent problem."

The example of the New York City schools is particularly interesting, and not just because my daughter started kindergarten at PS102 this month. In 1997, former Schools Chancellor Rudy Crew

appointed 5 borough deputies (to match the 5 boroughs of New York) as his liaisons with the 32 superintendents. However, Crew ultimately came into conflict with the other Rudy in town, Mayor Rudy Guillani, and was forced from office at the end of 1999. When the new schools chancellor, Harold Levy, came to power, he dismissed the five deputies, charging that they just added another level of bureaucracy, a criticism some have leveled at Putin as well. Another problem was that the lower units in the hierarchy (the school boards and superintendents) never "felt that they had a go-to person if they felt they were having a difficult time getting through the bureaucracy and getting the attention of either the chancellor or the central board," *The New York Times* reported on 14 September. Levy complained that the role of the intermediate borough deputies "has never been adequately defined" and they were never part of the central administration or close to the superintendents. Analysts of Russian politics might soon be saying the same things about Putin's seven representatives.

Levy's solution was to appoint five of the 32 superintendents as intermediaries between him and the other superintendents. These five are commonly referred to as "super superintendents." The five superintendents, whom Levy considers among the best in the city, will hold on to their the regular jobs as superintendents, but will serve as advisors to the chancellor and mentors to the other superintendents. Part of the overall plan is greater decentralization of power to the superintendents, in contrast to Putin's recentralization, and the super superintendents are advising their colleagues on curriculum and budget matters. Some of the ordinary superintendents say that they like working with the super superintendents because they are facing the exact same problems.

Perhaps if Putin's plan of seven federal districts does not work out, he will take a cue from Levy and appoint seven governors as his liaisons to the regions and mentors for the other governors. The New York experience suggests that Putin's current reforms will not work, but that it may be possible to tinker with them to achieve more favorable results. - Robert Ortung

**SIBERIAN PROCURATOR FILES CHARGES AGAINST FORMER NOVOSIBIRSK GOVERNOR.** The procurator in the Siberian Federal District on 18 September filed charges against former Novosibirsk Governor Vitalii Mukha and his first deputy, Vasilii Kiselev, for illegally transferring a 20 percent share in Novosibirskenergo to the Moscow company ORTEK, *polit.ru* reported. Kiselev is now working on the staff of Presidential Representative to the Siberian Federal District Leonid Drachevskii. The regional legislature initiated the case soon after Mukha failed to win another term in office at the end of 1999. The deputies claim that the administration set up a false debt to ORTEK and then transferred the shares to it as payment. However, the administration never gained the legislature's consent. The deputies claim the deal was worth 203 million rubles. Mikhail Abyzov, the Unified Energy System representative to Novosibirskenergo is the head of ORTEK.

**SECOND ALUMINUM CONGLOMERATE FORMED.** Trastkonsalt Group and the Sibirsko-Ural Aluminum Company (SUAL) announced their merger on 15 September, creating Russia's second largest aluminum holding company. The new company, SUAL-Holding controls 20 percent of the Russian aluminum market and 40 percent of the alumina market. Alumina is a raw material necessary in the production of aluminum. The leader of the company is Viktor Vekselberg, the head of SUAL. The company includes the Irkutsk Aluminum Factory, the Ural Aluminum Factory, the Bogoslovskii Aluminum Factory, and the Kandalakshskii Aluminum Factory.

The other aluminum conglomerate, Russian Aluminum, headed by Roman Abramovich and Oleg Deripaska, controls about 70 percent of the Russian market. Russian Aluminum had tried to gain control of Bogoslovskii Aluminum because it has access to extensive supplies of alumina, which Siberian Aluminum is desperately lacking. Trastkonsalt Group head Vasilii Anisimov agreed to accept Vekselberg's offer to merge after rejecting a bid by Abramovich and Deripaska (*Segodnya*, 16 September).

**RAILROADS MINISTRY TO BUILD YAROSLAVL HOCKEY STADIUM.** At the beginning of April Railroads Minister Nikolai Aksenenko signed an agreement with Yaroslavl Governor Anatolii Lisitsyn to finance the construction of the Yaroslavl Hockey Palace. The ministry will pay \$30 million for the project, which has long been delayed. The stadium was supposed to have been completed by 1999 in time to host some of the world hockey championship games, but those games ultimately had to be moved to St. Petersburg when the stadium was not completed in time (see *EWI Russian Regional Report*, 2 September 1999). The Finnish firm Skanska stopped construction earlier this year for a lack of funding. At that point, only half of the necessary \$60 million had been spent. The ministry will receive 71 percent of the stock in Arena-2000, the owner of the sports complex. The ministry will also pay 100.71 million rubles for the stocks. The project is unlikely to be completed by the projected June 2001 and the governor may have to seek additional investment. (*Kommersant Daily*, 12 September)

**PRESIDENT SEEKS TO BLOCK REGIONS FROM DIRECTLY TAKING FOREIGN LOANS.** On 12 September, President Vladimir Putin sent a proposal to the State Duma suggesting amendments to the Budget Code, which would deprive the regions of their right to take out foreign loans on their own and require better coordination with the federal government. Currently, if a region defaults on its loan, the federal government can be held responsible. Members of the Federation Council meeting the next day in the upper chamber's Budget Committee supported the president's initiative. However, Polit.ru pointed out that the measure was particularly aimed at the city of Moscow, which has been one of the largest consumers of foreign credits. On 24 July Prime Minister Mikhail Kasyanov issued instructions requiring the regions to register all of their international agreements with the Justice Ministry (*Rossiiskaya gazeta*, 3 August). The crackdown is part of Putin's overall effort to force the regions to obey the constitution.

## **CENTER-PERIPHERY RELATIONS**

**TATARSTANI LAWS OFTEN MORE PROGRESSIVE THAN FEDERAL LAWS.** Federal pressure on Tatarstan to bring its laws into conformity with federal norms is growing. Presidential Representative to the Volga Federal District Sergei Kirienko recently sent two of his deputies to the republic for this purpose. Tatarstan's legislature, the State Council, has set up a schedule by which it plans to consider the laws. And the republican procurator has already sent protests about 35 laws to the legislators (*Vechernyaya Kazan*, 16 September).

However, this situation creates one clear problem. Many in Tatarstan believe that several of the republic's laws and bills waiting to be adopted are more progressive and socially justified than analogous federal norms. Thus, at the 14 September session of the State Council, the deputies had planned to adopt a law on buying and selling agricultural land in its third and final reading, when as several deputies pointed out, Russian legislation does not allow for the sale of land. [And the State Duma once again put off



discussing the issue on 15 September, *Segodnya* reported.] As a result, the adoption of the Tatarstani law was postponed.

Another example is that the republic several years ago set up a fund to replace dilapidated housing. The fund drew income from the mandatory contributions of enterprises. The fund financed the construction of a large number of apartments in Kazan and other republican cities. However, Russian legislation does not make any provision for such a tax. Now the republican authorities have to determine whether they can keep the program alive.

The streets of many Tatarstani cities are filled with advertisements for tobacco products, raising concerns among some about the overall health of the population. However, the republican legislature cannot adopt a law stamping out or limiting such ads since legislation regulating advertisements comes under federal jurisdiction.

Among the protests submitted by the procurator are issues dealing with administrative responsibility. Some republican laws provide for larger fees for some violations than are present in federal legislation. The deputies made the changes proposed by the procurator. However, at the same time, the legislators pointed out that this fall the State Duma is going to adopt an administrative procedures code in which it will likely raise the fines for a number of violations. Then Tatarstan's State Council will likely have to revise its laws again to bring them into line with the newly adopted federal norms, which had already existed in the republic before it was forced to harmonize its own laws with the old federal norms.

It is clear that making regional legislation conform with federal norms is not a simple task. It is not always clear that federal norms are better than those adopted by the regions. - Midkhat Faroukshin in Kazan

**CHIEF INSPECTOR INTRODUCES NEW INSPECTORS TO KRASNODAR.** In the middle of September Chief Federal Inspector for the Southern Federal District Viktor Krokmal held a press conference in Krasnodar to introduce the two new federal inspectors for the Krai. Nikolai Karpov will oversee Krasnodar's port cities from Sochi to Yeisk. Vyacheslav Temnikov will be in charge of the rest of Krasnodar and Adygeya Republic.

Krokmal said that the inspectors' main duty was to participate in the process of bringing the regions' laws into line with federal norms. Additionally, they are responsible for adopting necessary measures to rationally use the regions' natural resources. Southern Russia has access to three seas, rich soil, extensive forests, and other resources. The inspectors will particularly focus on the use of the region's tourist and health resort facilities, which draw visitors from across the country.

Krokmal said that he is in charge of all economic issues in the southern district. He will oversee the use of all oil and gas pipelines and sea and river ports.

Krokmal believes that Krasnodar Krai could significantly increase its income by using federal property more effectively. He noted the importance of creating an effective banking system, redistributing some of the capital which is now concentrated in Moscow.

He said that the federal district staff would carefully monitor the course of the Krasnodar gubernatorial elections. In particular, the district office will monitor the observance of legislation governing the campaign and the activities of the media. He noted that the presidential representative would support the Kremlin's candidate in the race.

Many observers believe that Krokhtal would himself be a powerful candidate for Krasnodar governor. However he said that he would not toss his hat into the ring without the approval of the president's team.

Incumbent Governor Nikolai Kondratenko threw the race into confusion on 1 September when he announced that he would not seek another term, citing poor health as his reason for stepping down (see *EWI Russian Regional Report*, 7 September). Now many of the regional newspapers are publishing appeals to the regional leader to change his mind and stand for another term. The only exceptions are the newspapers loyal to Krasnodar Mayor Valerii Samoilenko. - Oleg Tsvetkov in Krasnodar

**ST. PETERSBURG GAINS NEW MECHANISM OVER FEDERAL GOVERNMENT.** St. Petersburg has set up a new inter-sectoral commission to monitor the use of federal state property. The chairman of the commission is Valerii Nazarov, a deputy governor and chairman of the city's property committee (KUGI). The committee was established on the basis of an order issued by the federal property ministry on 29 June 2000 and a directive from St. Petersburg Governor Vladimir Yakovlev. Nazarov said that the commission gives KUGI greater capacity to influence federal agencies that own property in the city but do not put it to good use.

He noted that many federally-owned parcels are in poor shape and require significant investment to restore them to an adequate level. "If the state does not have the money, it would make sense to transfer the property to commercial enterprises," he said.

According to existing legislation, 100 percent of the rent from federal property should go to the federal budget. However, income spent on repairs also is considered to be a contribution to the federal budget. So far, only the Gostinyi dvor department store has been able to employ this system.

The new commission is also responsible for evaluating the actions of the leadership of state enterprises and adopting decisions about their effectiveness. - Marina Makova in St. Petersburg

**FEDERAL OFFICIALS CONCERNED ABOUT GROWING URALS INTERREGIONAL ASSOCIATION.** The Khanty-Mansii and Yamal Nenets autonomous okrugs have filed applications to join the Greater Ural interregional association, the Chelyabinsk Oblast administration announced. The next meeting of the association will take place on 15 October in Chelyabinsk. At that time the association's presidium will vote on whether to accept the two okrugs. If they are included, the association's membership will climb to 11. Both the executive and legislative branches of the okrugs signed the application, as is required by association rules. The okrugs produce about 90 percent of Russia's natural gas and 60 percent of its oil, making them economic powerhouses.

Federal officials are concerned about the growth of the association because if it gets stronger, it could present serious opposition to the federal government's policies, officials in the oblast administration's Economic Committee for Developing the Ural Region claimed. However Chelyabinsk Governor Petr Sumin said that the Greater Ural association has never been in opposition to federal policy and is not likely to enter into such opposition.

Sumin said that a more important issue would be to preserve the association's membership. Not all current members of the association believe that it is important to stay in the organization. The nine current members are Sverdlovsk, Chelyabinsk, Perm, Orenburg, Kurgan, Tyumen Oblast, Udmurtiya, Bashkortostan, and the Komi-Permyak Autonomous Okrug. Orenburg, Perm, Udmurtiya and Bashkortostan were not included in the Ural Federal District, one of the seven federal districts that Putin

created in May. The Khanty-Mansii and Yamal-Nenets autonomous okrugs were included in the Ural federal district, and this redrawing of boundaries is the impetus behind their membership application. - Igor Stepanov in Chelyabinsk

### **BASHKORTOSTAN PARLIAMENT SUES RUSSIAN GOVERNMENT OVER PASSPORTS.**

The Bashkortostan parliament has prepared an appeal to the Russian Constitutional Court asking that it declare unconstitutional several provisions of the Russian government's directive of 8 July 1997 on provisions for Russian passports, Bashkortostan State Assembly Chairman Konstantin Tolkachev announced. The republican authorities object to the provision of the directive, which eliminates identification of the bearer's nationality from the passport. They claim that the government's action violated article 26 of the Russian constitution, which affirms every citizen's right to determine and indicate his or her ethnicity.

Tolkachev believes that the republican legislature has done everything necessary to restore this right. In 1997 it forbid the distribution of new passports in the republic and for the last three years has sent numerous appeals to the president, government, and State Duma requesting that the federal officials restore the line identifying the bearer's nationality. However, Tolkachev said that the federal officials did not respond, leading the republican officials to appeal to the Constitutional Court. This case is the first time that the Bashkortostani legislature has appealed to the Russian Constitutional Court. Even though only Bashkortostan and Tatarstan are seeking the return of the passport line on ethnicity, the leaders believe that the question has great significance for all Russian regions.

Since 1997, the republic has issued temporary papers instead of a passport to citizens seeking to obtain a new passport or replace an old one. The papers are only good for one year. The number of people without a passport and who must use these temporary documents is continuing to grow. Because they lack passports, young people from Bashkortostan cannot matriculate to universities outside of the republic, a violation of their right to education. Moreover, bearers of the temporary documents have many other problems once they leave the republican borders. In these conditions, the republican authorities argue that they are not responsible for the problems and blame them on the "uncompromising" national government. Tolkachev said that he did not understand Moscow's reasoning on this question.

The federal government has indeed been inconsistent. On one hand, it did agree to allow the republican authorities to issue temporary documents instead of real passports, infringing on the rights of many citizens. It also agreed that the information in the passport should also be written in the non-Russian state language of the republic. But since then, no progress has been made, causing problems for many residents in the republic.

No one knows if the parliament's action will have the desired effect. First, it is not clear if the legislature has actually sent the complaint to the Constitutional Court or is merely trying to exert political pressure on Moscow, seeking to gain concessions. Second, the Court has a heavy workload and likely will not be able to issue a decision in this case any time soon. Any delays work in favor of the Bashkortostani parliament because then they can continue to argue that responsibility for the crisis lies with the federal authorities. - Igor Rabinovich in Ufa

### **GUBERNATORIAL ELECTIONS**

**PSKOV GOVERNOR MANIPULATES MEDIA, FIELD TO SECURE VICTORY.** Although there are seven candidates in Pskov's gubernatorial elections, incumbent Governor Yevgenii Mikhailov continues to set the tone and pace of the campaign. To secure his position at the front of the pack, he is using President Vladimir Putin's August visit to the region to appeal to his specific electorate. These voters include the elderly, military pensioners, former LDPR voters, and members of the pro-Kremlin Yedinstvo party. Such groups represent a large part of Pskov's overall electorate.

Mikhailov's main opponent continues to be State Duma member Mikhail Kuznetsov (see *EWI Russian Regional Report*, 7 June and 6 July). Kuznetsov formally announced his candidacy at the beginning of September. His only way to influence the voters remains his newspapers *Panorama* and *Tak Nado!*, however they are extremely effective.

Mikhailov is using his media outlets to discredit his main opponents, particularly Kuznetsov. Reports regularly accuse the State Duma deputy of ties to oligarchs like Boris Berezovskii and Aleksandr Smolenskii, though they do not present any convincing evidence about the nature of these contacts.

A real success for Mikhailov was when Pskovenergo, a subsidiary of Anatolii Chubais' Unified Energy System, succeeded in swallowing Pskovoblenergo. This step, which was obviously worked out with Chubais, should prevent the governor from facing any unpleasant surprises in which the oblast's electricity is shut off in the days before the election. The accusations of Kuznetsov's media that that Mikhailov earlier used Pskovoblenergo for his personal financial benefit have been largely ignored.

The only failure for Mikhailov was the embarrassing actions of one of his deputies. Trying to defend the governor from the journalistic attacks of Kuznetsov's team, Oblast Administration Business Manager Yurii Kusov rudely pushed a female TV correspondent in front of a building where the governor was meeting with voters and then mooned another group of reporters. This incident found its way into the Pskov and central media, including the popular TV show Segodnyachko on TNT. Additionally, because of this event, Mikhailov made his first appearance on the well-known Russian web site [www.compromat.ru](http://www.compromat.ru) (for the story and pictures, see <http://www.compromat.ru/main/mikhailovpsk/a.htm>).

Mikhailov is also running a false candidate to discredit his opponents. In contemporary Russian political jargon such candidates are called "torpedo-armed submarines" (*podvodnaya lodka-torpedonosets*). For this task, the governor choose the well-known St. Petersburg resident Yurii Belyaev, a former policeman who is now a prominent activist in the national-patriotic movement and the leader of the National-Republican Party of Russia. According to the regional media, he usually charges between \$80,000 and \$120,000 for such services.

Belyaev launched his "campaign" with the publication of a free newspaper called *Peresmeshnik*. This publication shocked inexperienced Pskov readers. The paper is filled with obscene caricatures and poems and vulgar photo collages. All the material is directed at candidates in the gubernatorial race. One cannot help but notice that Governor Mikhailov comes in for the least amount of ridicule.

After *Peresmeshnik* was distributed, the official pro-gubernatorial newspaper *Pskovskaya Pravda* for the first time in four years published an article about the threat of aggressive nationalism and Russian fascism. In this original manner, Mikhailov, the former member of Vladimir Zhirinovskiy's party, is trying to present himself as a centrist. Six months ago, the same *Pskovskaya Pravda* asserted that the problem of Russian fascism did not exist. Kuznetsov's *Tak Nado!* Also responded to the publication of *Peresmeshnik*. Editor Aleksei Panasevich charged that the governor had been involved in the decision to publish *Peresmeshnik* in May. Alexander Bekker of the German International Political Science Center believes that the Pskov newspaper wars will become even more intense. He pointed out that Mikhailov's

staff includes people from the team of Marat Gelman, a recognized specialist in newspaper campaigning. - Andrei Shcherkin in Pskov

## **PARTY BUILDING IN THE REGIONS**

**YEDINSTVO HAS TROUBLE NAMING LEADER IN ALTAI KRAI.** Because it cannot agree upon a leader, the Altai Krai branch of the pro-Kremlin Yedinstvo party did not hold a second planned congress on 16 September. The party members had earlier failed to come together for a congress on 5 August for the same reason.

Former Presidential Representative Nikolai Shuba, who is now the main federal inspector in the region, helped first set up and develop Yedinstvo in the region. Because Shuba had fought in Afghanistan, Afghan veterans were disproportionately influential in the party. At the beginning of 2000 Afghan veteran Pavel Chesnov, the head of Altaigazprom, was elected the leader of the party.

However, during the summer of 2000, when Yedinstvo turned from a movement into a political party, members decided that leading the party should be a full-time job. Initially Vladimir Olyunin was the front-runner for the job. However, he had recently left his job as president of Altainefteprodukt under a cloud, accused of wrong-doing by Rosneft, which controlled Altainefteprodukt.

Then the idea of nominating the doctor Artur Askalonov as the head of the party arose. He had served as chairman of the Health Committee in the Russian Supreme Soviet disbanded by Yeltsin in 1993 and then headed the krai healthcare system. Askalonov is about to turn 60, providing a good excuse to leave state service for party work. He also has good relations with Governor Aleksandr Surikov.

If Askalonov were chosen, he would make the relations between the right-center "party of power" and the leftist governor practically free of conflict. As a result, it would be possible to assume that Yedinstvo in Altai Krai would toe the line of the governor's policy.

Even Shuba supported Askalonov's candidacy. However, he ran into opposition inside the krai party itself. Chesnov did not want to give up his power as leader of the party and numerous activists in the party, including Yurii Bogdanov, the chairman of the krai organization of Afghan veterans, supported him. As a result of this conflict, the planned August meeting was postponed to the beginning of September and then postponed again.

Because of this conflict F. Klintsevich, one of the national party leaders, arrived from Moscow, but his trip did not lead to a quick compromise. During his stay in the krai, the governor proposed two more candidates who were also loyal to him, Krai Soviet Deputy and Altaiavtodor Chief Leonid Khvoinskii and Altai Krai railroad workers union leader Valerii Reger. So far neither Moscow nor Barnaul has agreed on these candidates.

The battle around Yedinstvo reflects a very serious strategic problem - who will lead the pro-Kremlin forces in Altai? The development of the regional elite has come to the point where there is no real alternative to the sitting governor. He won a decisive victory in the 26 March gubernatorial elections. Despite his leftist views and closeness to the Communist Party of the Russian Federation, the Kremlin basically did not oppose his election.

It is not clear what the Kremlin will do in 2004. Surikov has already announced that he will not seek a third term then. He also said that he will do everything he can to elect someone from the administration, most likely First Deputy Governor Nikolai Chertov. If the Kremlin decides to accept this, and agree with the future governor on a personal, rather than ideological basis, then it will agree with the

appointment of Surikov allies Askalonov or Khvoinskii. Beyond the speculation about Chertov, there have been some rumors that the governor may choose Khvoinskii as his successor. Earlier in his career, Surikov also worked on the railroad and feels close ties to the union leader.

If the Kremlin decides to run its own candidate in the 2004 elections, then it will not simply pick a party secretary, but a charismatic, and pro-Kremlin, candidate to lead the party. Yedinstvo is a good launching pad for the campaign. Whoever the Kremlin chooses to head the party will reveal how it sees the political future of Altai Krai. The next conference of Yedinstvo is set for the beginning of October. - Oleg Barabanov in Moscow

## **CONFERENCE REPORT**

### **IN NEW YORK, REGIONAL LEADERS DISCUSS EVOLUTION OF PUTIN'S REFORMS.**

On 18 September, four regional leaders visited Columbia University's Harriman Institute to discuss President Putin's reforms. The delegation, on an exchange program to study American state government, included Vladimir Shtygashev, Deputy Chair of the Federation Council Committee on Security and Defense Issues and Chair of the Khakasiya Supreme Soviet; General Yevgeny Anikin, Chief of Staff for the Federation Council Security and Defense Committee, Edvard Ozhiganov, Advisor to the National Security and Political Information Analysis Directorate of the Federation Council, and Gennadii Khripel, Chairman of the Vologda Region Legislative Assembly.

Shtygashev explained that President Putin initiated changes in the balance of power between the federal center and the regions in an effort to strengthen the "vertical" of power, and to forestall Russia's disintegration. According to Shtygashev, "there are pluses and minuses in the laws that have been adopted about the Federation Council." For example, he noted that greater professionalism would be the main positive effect of the new mechanism for selecting representatives to the Federation Council, although he admitted that the new body may carry less weight without the presence of the governors.

In their comments, the speakers noted that some regional officials were skeptical, even hostile, to aspects of Putin's reforms. For example, as Khripel observed, the creation of federal districts administered by presidential representatives was designed to bring the central authorities closer to the regions. However, in practice the opposite was occurring. If in the past regional administrations could address the president directly, now they have to go through the okrug first. Khripel stated that in Vologda it was far from clear whether or not the new system would be a change for the better. Shtygashev added that so far the regions have not found the presidential representatives to be in the way, since their authority is not described anywhere--it is not defined in the constitution or in any other legislation. The passage of new laws will help to clarify their functions. In Shtygashev's view, the governors already succeeded in resolving some of their problems with Putin's reforms. For example, they obtained the right to recall representatives from the Federation Council and have maintained their direct access to the president through their representation in the State Council.

Regional dissatisfaction with Putin's reforms has been most apparent in the discussion of budgetary issues. Shtygashev conceded that the draft of the 2001 budget has elicited some criticism about the distribution of revenue between the center and the regions. He noted that regions had different views depending on their economic structure and that many different ways of distributing the money were being discussed. Khripel pointed out that donor regions objected to being asked to give more and more to the

center--they were losing their incentive to work. Still Shtygashev was confident that the Duma would work out an acceptable compromise. - Elizabeth Wishnick

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The EastWest Institute is proud to announce a new publication: the Ukrainian Regional Report. This fortnightly report is published exclusively in Ukrainian and is available by e-mail. Below please find an English synopsis of the third issue. To receive the report by e-mail free of charge, please send your e-mail address to Laryssa Mudrak: [lmudrak@iews.kiev.ua](mailto:lmudrak@iews.kiev.ua)

## **UKRAINIAN REGIONS: ANALYSIS AND EVENTS**

Issue # 3, 15 September 2000

### **BRIEF SUMMARY**

#### **Introduction**

The EastWest Institute is pleased to present the third issue of the Ukrainian Regional Report (URR), an independent source of information and analysis, which covers major trends and events in Ukraine's regions. This issue is devoted to the problems of lobbying, including civil society development in the regions, the ability of the regional elite to promote its interests in the capital, and the unique features of lobbying in Ukraine. Our analysts also look at the European experience with lobbying. One of the major problems, as many authors in this issue testify, is Ukraine's failure to adopt legislation, which would create favorable conditions for the emergence of interest groups and enable them to promote their interests within the framework of a democratic system.

#### **Expert Analysis**

The Dividing Line Between Effectiveness, Equity, and Transparency by Myroslava Lendiel, researcher at the Institute of Public Administration and Regional Development, Kandydat Nauk, Uzhgorod.

Lendiel comments on the draft law "On the Status of Depressed Regions," which the Verhovna Rada is considering this fall. The author argues that some provisions of the draft could be improved and the experience of the European Union and Central East European countries should be taken into consideration. The European experience can be especially useful when it comes to weighing the benefits between the two strategies of regional development: pursuing social equity or economic effectiveness. Clearly, the choice will affect how much aid the federal government will provide to the regions in question and when, or if, it can expect the region to begin producing revenue on its own.

#### **European Experience**

Lobbying in the European Union by Iryna Solonenko, Deputy Editor of URR

The article discusses the practice of lobbying in the European Union. It elaborates on several characteristics of lobbying in the EU, focusing on the way that EU authorities and member-state encourage interest group formation, spill-over effects in the emergence of interest groups, and the effectiveness of multi-level lobbying.

### **How It Really Works**

Lobbying in the Regions: Different Approaches and Interests by Vladyslav Rogovets, political correspondent, Centre of Applied Politics, Kyiv

Rogovets focuses on lobbying in Ukrainian regions, emphasizing the behavior of different actors: local elites, large regional enterprises, and small and medium businesses. The author argues that lobbying in Ukraine is relatively spontaneous, a result of the absence of proper legislation.

### **The Rules of the Game**

Do the Authorities Need Feedback? by Rostyslav Ischenko, International Relations Analyst, Political Editor for newspaper New Century, Kyiv

Ischenko discusses the relations between the center and regions, arguing that the connection is greatly distorted. Regional elites misinform the center about what is going on in the regions and pretend to support the decisions adopted in the center in order to avoid the risk of losing their positions. The center, having no access to reliable information, adopts the decisions, which cannot be implemented in reality. The author lists numerous reasons for why this happens, including the fact that real power lies in the hands of bureaucrats, who are interested in preserving the existing status-quo.

Draft Law "On Lobbying in Ukraine"

A short summary of the draft law "On Lobbying in Ukraine" and excerpts of the most interesting provisions are presented here. Verhovna Rada Member I. Sharov introduced the bill in April 1999 seeking to protect the interests of specific industrial groups regardless of the results of the forthcoming presidential elections. After President Kuchma was reelected, the bill was set aside.

### **News from the Regions**

Reports from the regions on foreign investments, small and medium business development, NGO activities, interregional relations, language disputes, legal violations, and accidents.

### **Real World Experience**

Prykarpattya Regional Elite Unable to Secure Local Interests by Ivan Kostyuk, Correspondent of the newspaper Western Courier, Ivano-Frankivsk



The article demonstrates the inability of the elite in the Ivano-Frankivsk region to solve regional problems and to lobby the interests of the region in the center. The author illustrates his argument by two examples: one is related to the creation of a free-trade zone in one of the districts, another deals with the ownership of the largest enterprise in the region.

### **Regions: Events, Challenges, Experience**

**The Old Law Is No Good, But No New Law Exists** by Volodymyr Prytula, Manager of the Crimea Centre of Independent Political Researchers and Journalists, Simpheropol'

The article deals with the inefficiency of the law "On Electing Deputies to the Verkhovna Rada of the Crimean Autonomous Republic," in particular its provisions related to the representation in the Verkhovna Rada of Crimea of different political and ethnic groups. The poor legislation creates friction between the two major political-economic groups of Crimea, leading the ethnic Tatar minority, which feels underrepresented, to stage mass protests.

Iryna Solonenko prepared this summary.  
Kyiv Centre of the EastWest Institute

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## **FEDERAL TRENDS**

- The Kremlin is pressuring governors to resign early from their seats on the Federation Council. This is part of the Putin Administration's effort to jumpstart the reform of the Federation Council and to reduce opposition to the terms of the 2001 budget.
- The honeymoon is over for relations between presidential representatives and governors. Presidential representatives are becoming more vocal in their efforts to stem regional prerogatives and erode the power base of the governors.
- Restructuring the regional media has become an important tool in the Kremlin's effort to link regions within federal districts more closely to each other and to the federal center.



Efforts are under weigh in the Siberia and the Russian Far East to unify the regions within the districts by developing district-wide media.

- As the Putin leadership continues to try to strengthen the federal center at the expense of the regions, regional associations increasingly are on the defensive. Although they serve to strengthen regional economic interests and provide a forum for governors to play a leading role in regional development and international cooperation, now the associations must justify their activities in terms of their benefits for Russia as a whole.

## **BREAKING NEWS**

**PRESIDENTIAL ADMINISTRATION SEEKS TO IMPROVE QUALITY OF BUREAUCRATS.** President Vladimir Putin's administration recognizes that one of its chief problems is the quality of its employees--there is no incentive structure to incline them to work in the interests of the federal government. To remedy the problem, the administration has decided to go back to a system similar to that used by the Central Committee of the Communist Party of the Soviet Union. When Yeltsin came to power, he effectively dismantled the old system.

In particular, the administration is planning to reinstate the Moscow-based position of inspector. The plan is to recruit the best people from the regions, those capable of ultimately serving as governor, and have them work as inspectors in the presidential administration for two or three years (depending on the political situation on the ground), handling issues related to their home regions. During the Communist era, the central leadership made clear to its regional recruits that the individual running each region was in the job temporarily but that the central party apparatus would last forever. To advance their careers, the Central Committee inspectors understood that they had to be loyal to the central authorities rather than the current regional elite. The best of the inspectors could count on winning an important appointment in the regions.

In today's conditions, when governors are elected, the Kremlin will try to have its trainees elected as governors. The Kremlin would make it clear to local voters that electing the Kremlin's candidate would ensure that their governor would have access to federal funds and the other benefits of close ties to the federal government. If regional voters reject the Kremlin's choice in favor of another candidate, that person will likely be frozen out from such access. The Kremlin expects to start sending such candidates to the regions within two years and as the governors' election schedule dictates. - Petr Kozma in Moscow

**ADMINISTRATION TRIES TO REMOVE GOVERNORS FROM FEDERATION COUNCIL EARLY.** At the up-coming first session of the new State Council, the Kremlin will suggest that the seven governors in the presidium voluntarily resign their positions in the Federation Council, according to Tomsk Governor Viktor Kress, a member of the presidium, *Vremya MN* reported on 23 September. The presidential administration hopes that the resignations will set an example for the other governors and speed up the process by which the governors and regional legislative chairmen who currently make up the Federation Council will be replaced by their representatives.

Federation Council Chairman Yegor Stroev believes that many governors will resign their positions in the near future. Samara Governor Konstantin Titov, who is not a member of the presidium, has publicly supported the idea that the seven presidium members leave the Federation Council, *polit.ru* reported 26 September. Tyumen Governor Leonid Roketskii, who is a member of the presidium and who faces elections soon and would have to leave the Federation Council soon anyway, said that he was willing to step down now to set an example for the others.

Kress believes that the Kremlin is pressuring the governors to make them more loyal and to prevent them from trying to oppose the adoption of the 2001 federal budget. Many donor regions believe that the budget is not in their interest. Kress claimed that the action is part of a larger campaign to discredit the Federation Council and turn the Russian parliament into a unicameral body. The governors' ability to oppose the Kremlin is weakened by their financial dependence on the federal government. This dependence will only increase if the 2001 budget is adopted in the form the government has proposed.

**YABLOKO BACKS GOVERNORS ON BUDGET.** The Yabloko faction in the State Duma is continuing to support the governors against the federal government in the dispute over the way tax revenues are divided between the federal and regional governments, *polit.ru* reported on 22 September. The budget code declares that the division should be 50:50 between federal and regional governments. In the proposed 2001 budget, Yabloko members believe that the division is actually much more lopsided than 60:40 in favor of the federal government. Representatives of the faction said that they would not fight for a 50:50 distribution, but argued that the government needed to work in that direction. After meeting with members of the faction, Finance Minister Aleksei Kudrin said that President Vladimir Putin had advised him to "move in the direction of Yabloko."

**LEBED PLANS TO SET UP GOLD RESERVE.** Krasnoyarsk Krai Governor Aleksandr Lebed announced on 19 September that he was planning to set up a gold reserve for the krai. Lebed said that the reserve would encourage investors to work in the region. He claimed that Russian legislation provided for the formation of such reserves and denied any separatist intentions. The gold would come from the oblast's only deposits. (*Severnyi gorod*, 19 September, [www.sgtv.ru/lenta.html](http://www.sgtv.ru/lenta.html))

**LATYSHEV CALLS FOR REDUCING NUMBER OF REGIONS.** Presidential Representative to the Ural Federal District Petr Latyshev has revived the idea of reducing the number of Russian regions that was widely discussed before Putin launched his reform of the federal system in May. In an interview with *Rossiiskaya gazeta* (16 September) Latyshev said that it would make more sense to have 7, 10, or 12 regions instead of the current 89. For a discussion of his other statements and the reaction in Yekaterinburg, see the related story in this issue.)

**PRIMORSKII KRAI BUSINESS MAN ASSASSINATED IN MOSCOW.** On 20 September, an unknown assailant shot and killed Aleksandr Pukalo, a prominent Vladivostok businessman, who was on his way to dinner at a Moscow restaurant.

Pukalo had developed a network of companies, including Magellan and Trans Vind Flot, that were mostly involved with fishing and shipping interests, although his firm, Rosaviaservis, provided fuel for aircraft. He had been implicated in reports on illegal fishing in the Russian Far East, but was never charged. (*ITAR-TASS*, 21 September). Pukalo, who was born in Kamchatka, ran unsuccessfully for a Duma seat from the region. *Kommersant-Daily* speculated that Pukalo may have been killed as a result of a dispute with rivals over the fuel market in Kamchatka. The newspaper also stated that just before his death, the businessman had told his partner that he had handed over compromising material about Primorskii Krai Governor Evgenii Nazdratenko and his son to federal authorities. Pukalo and Nazdratenko had a strained relationship owing to a dispute over the privatization of the office building, occupied by one of the businessman's companies (Primorriyprom, taken over by Trans Vind Flot a few years ago). The governor's chief of security is the manager of a popular casino, Stels, located in the premises, although *Kommersant-Daily* reported rumors that the nightclub actually belongs to Nazdratenko's son (22 September, *Kommersant-Daily*).

## **CENTER-PERIPHERY RELATIONS**

**LATYSHEV STEPS UP ACTIVITIES IN URALS FEDERAL DISTRICT.** During the last several weeks Presidential Representative to the Ural Federal District Petr Latyshev has stepped up his activities dramatically. His 16 September interview in *Rossiiskaya gazeta* serves as the ideological basis of his attack on regional prerogatives. The text demonstrates Latyshev's intentions and his view of the main problems in the district that he oversees. In the interview, he is much more open about what he is up to than in similar discussions with local journalists.

For example, he told *Rossiiskaya gazeta* that "Twenty seven percent of [regional legislation in the Urals Federal District] has been declared in violation of federal norms and the constitution, and that is only the tip of the iceberg." On crime, he said that "they say there are five large criminal groups in the federal district. Today Sverdlovsk Oblast really is the leader in crime." About the Urals interregional economic association, a source of pride for Sverdlovsk Governor Eduard Rossel, Latyshev said "I analyzed several of the association's documents. They have a clearly confrontational tone and the clear goal is to sharpen ties with or attack the federal center." Reading the interview shows that Latyshev is clearly unhappy about the situation in the region and is prepared to take action. His initiatives of the last several days show that this action is already under way.

First, Latyshev's first deputy, Sergei Sobyenin, directed the leading economists of the district to analyze the economic situation and produce a report, which will serve as the basis for future action. Latyshev has already declared "the region is rich, but people live poorly." Latyshev pointed out that according to the head of the Sverdlovsk Oblast Department of Science and Technology Yevgenii Kremko, the oblast is currently at the same level of development that it was at in 1964. Latyshev wants to know why.

Second, in the course of two days, Latyshev held meetings with the district's representatives of the Ministry of Internal Affairs, the organized crime unit (RUBOP), the tax police, procurator, and the Justice Ministry. Latyshev and Deputy Russian General Procurator Yurii Zolotov sharply criticized the agencies' activities. According to

Latyshev, organized crime groups literally run the region, corruption is flourishing at all levels of government, and the law enforcement agencies are doing nothing to improve the situation.

Third, the field of battle also includes regional legislation. Latyshev and Justice Minister Yurii Chaika, who recently visited the region, decided that the first task in the Urals Federal District was to bring regional legislation into line with federal norms because they saw numerous violations in the region. For example, the constitution does not make provisions for governors to appoint regional prime ministers. Thus, the head of the Sverdlovsk government, Aleksei Vorobev, occupies a position, which cannot exist in principle. The Justice Ministry is already taking action and Oblast Duma Speaker Yevgenii Porunov has begun discussions of the issue. There could be changes in the oblast power structure in the near future.

Rossel's remarks have made clear that his relations with Latyshev are not ideal. Latyshev has held several one-on-one meetings with Rossel in which he has been very critical. Rossel has replied in kind. The oblast apparently took the lead in offering Latyshev the current Pioneers' Palace, a building now used by children's groups, as office space, dragging Latyshev into a noisy scandal. In his interview, Latyshev said that he might ask Putin to cancel the decree giving him this building and instead take over one of the governor's prime office buildings (*rezidentsia gubernatora*).

These actions suggest that the organizational period of setting up the federal districts is over and the federal representatives in the region are now preparing to take concrete steps. - Natalya Mints in Yekaterinburg

**AYATSKOV SECURES FRIENDLY FEDERAL INSPECTOR.** On 13 September, Federal Representative to the Volga Federal District Sergei Kirienko appointed Rinat Khalikov as the chief federal inspector for Saratov Oblast. Khalikov is a member of Governor Dmitrii Ayatskov's inner circle. From 1997 to 1999, Khalikov served as the Saratov Oblast trade minister and from 1999-2000 as the oblast's deputy prime minister. Local observers believe that his appointment confirms the continuing existence of informal ties between the governor and members of the presidential administration who have maintained their jobs from the Yeltsin era.

Khalikov's appointment seems to be qualitatively different from other appointment Kirienko has made. For example, in Penza Oblast, Kirienko appointed as the chief federal inspector Vladimir Fomin, who previously worked in that oblast's Federal Security Service counter-espionage department. In Samara Oblast the inspector is Mikhail Gerasimov, one of the winners of the national competition Kirienko held to recruit qualified staff members.

Khalikov is neither a former member of the security services nor the winner of a competition. He is a typical regional bureaucrat whose main qualification is that he is close to Ayatskov. As trade minister, he served as the unofficial "cashier" for the governor. The shadiness of his reputation is second among administration officials only to Oblast Security Council Secretary Aleksandr Miroshin, whom the oblast tax police has accused of maintaining ties to organized crime.

The history of the appointment demonstrates Ayatskov's ability to lobby for his choice. Initially, the presidential administration compiled a list of 10 candidates for the office, including the former head of the oblast's Department of Internal Affairs, Vladimir

Bulgakov. Ayatskov had been able to win the removal of Bulgakov from his position in 1998 with the help of Yeltsin's daughter Tatyana after Bulgakov began investigating the Liksar alcoholic beverage facility, which had close ties to the governor. Had Kirienko appointed Bulgakov as his inspector in Saratov, it would have been a catastrophe for Ayatskov. To block Bulgakov, Ayatskov turned to Lyubova Sliska, once his representative to the Oblast Duma and now the first deputy speaker of the State Duma. She managed to resolve this problem because her current position gives her access to the country's top leadership, including President Putin.

The decision on the appointment came during a 4-5 August Kirienko visit to Saratov Oblast. Kirienko arrived for Jamboree Volga-2000, a meeting of scouts that he had asked Ayatskov to arrange at the expense of the regional budget. After the visit, Ayatskov told his associates that now "Kirienko is ours" and the appointment of Khalikov confirms it.

However, the appointment also had to win the approval of the presidential administration in Moscow. When President Yeltsin was searching for a governor to appoint in Saratov in 1996, Ayatskov became close friends with the head of the presidential administration's Territorial Department, Sergei Samoilov. Local observers believe that Samoilov helped Ayatskov win Yeltsin's appointment as governor in 1996. It is likely that he again helped the Saratov governor in this case.

Kirienko's colleagues in the Union of Rightist Forces (Soyuz pravykh sil) are extremely disappointed in Khalikov's appointment. They had proposed many young, energetic candidates in the competition Kirienko conducted, but none of them succeeded.

In recent weeks, Ayatskov has felt uncomfortable because Putin has largely ignored the governor and his region. According to the central press, Ayatskov's name appeared on a list of 24 governors that Putin was allegedly thinking of firing for serious legal violations. - Yuliya Yeliseeva in Saratov

**CHIEF FEDERAL INSPECTOR BATTLES DAGESTANI LEADERSHIP.** Last week a conflict broke out between the Dagestani leadership and Chief Federal Inspector in Dagestan Shikhabudtin Akhmedov. In one of his numerous interviews, Akhmedov accused the local state television and radio company "Dagestan" of broadcasting material that had a pan-Islamic, pan-Turkish and destructive character. The accusations were largely ridiculous - the broadcaster is absolutely loyal to the republican leadership. The rare broadcasts on Islam are so poorly done and uninteresting that hardly anybody watches them. The only Turkish influence is the broadcast of Turkish musical programs.

The Dagestani State Council met on 19 September in Makhachkala specifically to discuss media issues. The chairman of the Dagestan State Television and Radio Company accused Akhmedov of libel. After his speech, Republican leader Magomedali Magomedov announced that although he and his colleagues support the actions of Presidential Representative to the Southern Federal District Viktor Kazantsev, they are categorically opposed to his appointment of Akhmedov as the chief federal inspector for Dagestan.

"We will criticize such workers. He [Akhmedov] is not suitable for the republic since he is serving other goals. His appointment was made in the interests of other people. We recognize and support only Gasan-Gusein Abuev as the only chief federal inspector for Dagestan," Magomedov said.

Abuev, a retired Federal Security Service Colonel, had served as President Boris Yeltsin's representative to the republic. His position was never abolished after the establishment of the federal district system. Thus there is a complicated situation in the republic where there are two people serving in the same position.

The next day, Akhmedov spoke at the session of the republican parliament, this time accusing the republican leadership of lacking a desire to work for the good of society. He claimed that he would do everything possible to improve the situation. Later, Speaker Mukhu Aliev delivered a point-by-point critique of his speech.

Akhmedov is considered close to Makhachkala Mayor Said Amirov and was head of one of the most profitable municipal enterprises in the city. Amirov's position in the republic is very strong, even without Akhmedov's actions. Thus, it seems that Akhmedov is trying to present the image of someone who is fighting for justice. Remaining essentially harmless, his ability to monitor the republic's laws is largely symbolic, which in the end is just fine with the local authorities.

### **MEDIA, FOREIGN POLICY, BUDGET SHAPE MOSCOW-IRKUTSK**

**RELATIONS.** Presidential Representative to the Siberian Federal District Leonid Drachevskii visited Irkutsk on 19 September for latest meeting of the Council of the Siberian Federal District. Drachevskii established this institution on 18 May with members including the governors and legislative chairmen of the Siberian district. Its first meeting took place in Novosibirsk during the summer. The Irkutsk meeting was held in secrecy and no journalists were allowed into the hall. Drachevskii only permitted a few television cameras and Novosibirsk journalists who accompanied him to attend the first five minutes of the session. Drachevskii claimed "normal, partner-like relations" with the governors in his district, saying that "we all have the same task -- strengthening the state (*derzhava*), and this is possible by bringing the regions closer to the center, which should know what the regions are breathing. Only then can correct and effective decisions be adopted."

Among the key questions Drachevskii discussed was the establishment of a "unified information space" for the Siberian district. By better coordinating the media in the region, the presidential representative hopes to tie Siberia more closely together. The plan will be carried out in three steps, according to Deputy Representative to the Siberian District Nikolai Reshetnyak. First, the presidential administration is collecting information about all the media outlets working in the district. Part of this process will be the creation of a voluntary journalistic pool, uniting the journalists of the entire region. Second, the administration will create by the end of October a District Information Center, which will be located in Novosibirsk. Some of the journalists identified in the first stage will be accredited by the Center. During the third step, the administration is planning to create branches of the Center in the large cities of the Siberian District. Reshetnyak, the former director of the Novoe Vremya Publishing House and once an advisor to State Duma Speaker Gennadii Seleznev on foreign policy, declared that his policies had nothing to do with the introduction of censorship, which he described as "harmful." He said that the new policies were aimed at the "unification of information sources."

The District Information Center will have four main functions: tracking political developments in the region by monitoring the press, conducting a daily analysis of the

press, distributing information through the Internet, and building a clearing house for social organizations, which will provide information about their activities. Additionally, the centers will host briefings on pressing issues and provide a base for journalists to network and share experiences. Reshetnyak said that he would seek Irkutsk Governor Boris Govorin's support in the venture as well as help from the Siberian Agreement Interregional Association. Reshetnyak also claimed that there were already 12 proposals to create a district newspaper, which will be distributed in all the regions located in the Siberian District. He said that Aleksandr Solzhenitsyn had proposed creating a district journal and that future plans called for establishing a district television station.

The Irkutsk administration announced on 14 September that it was creating a consultative commission on the media with the goal of improving the implementation of the state policy toward the media. The commission is charged with setting up conditions for the effective use of federal and regional funds for the support of the media. The commission will have nine members, including representatives of the administration, oblast legislature, Union of Journalists, social organizations, and media specialists. The commission will meet once every three months and prepare a federal and oblast registry of the regional media.

In a press conference on 21 September, Govorin laid out some of his positions regarding Moscow's policy toward the regions. Regarding the federal government's recent attempts to limit the foreign economic activity of the regions, the governor pointed out that the regions themselves are not involved in foreign economic trade. Rather the key players are the enterprises which produce exportable materials. "They can hardly take away an enterprise's right to sell its product, including on the foreign market," Govorin said. Enterprises in Irkutsk Oblast last year exported \$3.1 billion worth of goods, mainly unprocessed raw materials such as aluminum, cellulose, forestry products, and electricity.

In terms of the budgetary relations between the federal government and the regions, Govorin charged that "taking away money from the regional barons" (as the central press describes the process) would hardly have a positive effect on the life of the regions. I have no reason to believe that the money taken from the regions will be returned in the form of aid to the population." Govorin said that the changes in the way the federal government distributes funds means that Irkutsk will not receive 30 percent of its consolidated budget. "The main problem in inter-budgetary relations is that the functions of the authorities at various levels had not been clearly defined. The erosion of these functions presents a large threat," he said.

In a separate presentation, State Duma Deputy Sergei Kolesnikov charged that the federal government had boycotted the just-concluded Baikal Economic Forum in Irkutsk because it was indifferent to the region's problems. He accused the federal government of being more interested in collecting money from the region than making investments that would help it face the numerous debts that will come due in 2003. Kolesnikov argued that the governors needed to form a united front against the federal government in order to improve the situation. "But this is not happening now -- each governor has his own fief, interests and therefore is not willing to fight for the general good."

In a press conference on 18 September, Govorin laid out his view of the political situation in the region. He defended the activities of the Pribaikale political movement of which he is the leader. Some have criticized the organization for supporting some candidates in the recent oblast legislative elections saying that the governor's support

gave some candidates unfair advantages. However, the governor asked if other organizations like Yabloko and the Communists could participate in elections, why couldn't his? He stressed that the regional executive and legislative branches of government needed to work together to rule effectively and rejected any accusations that he has helped ruin this summer's legislative elections when too few deputies were elected to give the oblast legislature a quorum.

Govorin asserted that the pro-Putin Yedinstvo party does not play a large role in running the country. He noted that the party was created to increase the Kremlin's representation in the State Duma during the December 1999 elections and had not developed a clear ideological platform. Govorin said that the leaders of the Irkutsk branch of the party "did not improve its image" and a purge was carried out after Govorin made his views known to party leader Sergei Shoigu. - Teleinform in Irkutsk

**KHABAROVSK EDITOR COMMENTS ON EKHO ROSSII.** In an interview with *Rossiikaya Gazeta* on 23 September, Nikolai Andreev, editor of the Khabarovsk newspaper, *Priamurskie Vedemosti*, discussed the development of *Ekho Rossii*, a special publication for the seven federal districts.. In Andreev's view, the creation of a unified information space is just as necessary as the formation of new political and economic institutions. He noted that in the Russian Far East there was no single newspaper that one could read in Khabarovsk, Petropavlosk-Kamchatskii, Vladivostok, Magadan, Yuzhno-Sakhalinsk, Yakutsk, and Birobidjan. Andreev pointed out that because of the great distances between these cities, considerable differences among the regions in the Russian Far East, and difficulty in creating a network of regional correspondents, previous attempts to create regional editions have not succeeded. In *Ekho Rossii*, however, readers find practical information about the Russian Far East, as well as about other federal districts. For this reason, *Priamurskie Vedemosti* has decided to republish the most timely articles from *Ekho Rossii*. Andreev also revealed that his newspaper planned to increase the circulation of special editions containing this material. He added that *Priamurskie Vedemosti* had just won a grant to expand its circulation and coverage of the Russian Far East.

## **GOVERNORS' ELECTIONS**

**TATARSTAN MOVES UP PRESIDENTIAL ELECTIONS.** On 23 September, Tatarstan's legislature voted to move up the republic's presidential elections from March 2001 to December 2000. The move came as a surprise, because only a few days before the decision was adopted, State Council Speaker Farid Mukhametshin had announced that the elections would take place as scheduled.

The vote in the legislature was largely no more than a formality. Deputy M. Galeev, who is known to speak for the authorities, suggested including the question of setting the date for the republican presidential elections on the agenda. No one would have taken him seriously if they had not known that the matter had already been agreed upon in advance with Tatarstan President Mintimer Shaimiev, who is currently on vacation in Turkey. The authorities were not able to think of a logical explanation for moving the elections. They simply told the public that the political cycle had been completed at the federal level, where the State Duma and president, had already been



elected, while in Tatarstan, the parliament was elected in December 1999 and the president were set for March 2001. It is not clear why such a gap in the political cycle had been acceptable earlier, but was not acceptable now.

In fact, there are three reasons for moving up the elections. First, Moscow and Kazan agreed that Tatarstan should bring its legislation in line with Russian legislation by the end of the year. Despite the amendments introduced in the last session of the republican parliament, the electoral law for the republican presidency, continues to violate the Russian constitution and legislation. In particular, Russian legislation seeks to limit governors to two terms, whereas the Tatarstani legislation sets no such limits. Shaimiev wants to win election to a third term while the republican legislation is still in effect.

The second reason is that Shaimiev has clearly won Putin's agreement to stand for a third term. Putin is a pragmatist who may or may not keep his word. Even if he agreed to let Shaimiev stand now, he may change his mind in the future. Before Putin changes his mind, Shaimiev believes that it is necessary to hold elections.

The third reason is that by March the economic situation in the republic could be significantly worse because of a possible drop in the world oil prices and because Tatarstan will lose approximately 10 billion rubles if the federal government goes ahead with its plans to change the way revenue is divided between the center and the regions. The draft 2001 budget apparently gives the federal government 70 percent of the revenue, leaving only 30 percent for the regions, whereas previously the division was 50:50. - Midkhat Faroukshin in Kazan

**ELECTION CHIEF VESHNYAKOV VISITS KRASNODAR.** Central Electoral Commission Chairman Aleksandr Veshnyakov visited Krasnodar Krai on 18 September to monitor progress in the region's gubernatorial campaign. Veshnyakov expressed extreme concern about the fact that so far only one candidate has been nominated: Governor Nikolai Kondratenko. The deadline for registration is 12 October, when candidates must also turn in 35,000 signatures. Kondratenko has already announced that he will not seek another term, but that may simply have been a ruse to encourage an outpouring of public support in his favor. Veshnyakov said that the elections would be postponed if only one candidate were running, since such an election violates Russian norms. Veshnyakov threatened anyone who violated the law with legal prosecution, noting that charges had been filed in the case of Ingushetiya where a recent State Duma by-election had been annulled. However, Veshnyakov expressed optimism that the Krasnodar politicians would prevent such an outcome. Commenting on Kondratenko's statement that he was not going to participate in the elections, Veshnyakov said "that is his right" (*Kubanskije novosti*, 20 September).

According to the krai electoral law, the governor and mayors are considered elected if no less than 50 percent of the voters who participate in the elections support them. Veshnyakov believes that "this is a dangerous provision which could lead to a dead end: the elections are valid, but no one is elected" (*Volnaya Kuban*, 20 September). Veshnyakov discussed the necessity of changing the legislation with Legislative Assembly Chairman Vladimir Beketov and Krai Prime Minister Vladimir Melnikov. - Ariadna Popva in Krasnodar

**RUTSKOI FACES REELECTION BATTLE** Yesterday the Kursk Election Committee completed the registration of candidates for governor of the oblast. Nine candidates are in contention, but current governor Aleksandr Rutskoi remains the favorite. He faces especially strong opposition from five of the candidates, including Sergei Maltsev, Mayor of Kursk, Viktor Surzhikov, the Federal Inspector for Kursk Oblast, Aleksandr Mikhailov, a KPRF deputy to the State Duma, Nikolai Greshnikov, the director of a major construction firm, and Vladimir Stekachev, chairman of the board of directors of Argoholding. Almost all of the candidates claim to enjoy the support of President Putin. On 16 September, in honor of his 53<sup>rd</sup> birthday, Rutskoi had the local television station air a clip showing him shaking the president's hand, but some argue that this show of good will is illusory and speculate that the Kremlin has sufficient compromising material to remove the governor from office. Nonetheless, observers still give Rutskoi a strong chance of being reelected due to his confrontational stance vis -à-vis law enforcement organs, major taxpayers, and the oblast дума (23 September, *Kommersant-Daily*).

## **FOREIGN ECONOMIC POLICY**

**CHANGE IN CUSTOMS DUTIES WOULD HAVE BIG IMPACT ON KALININGRAD.** On 21 September, the Russian government was to examine the possibility of reducing customs duties to increase the sale of foreign goods in Russian markets. For Russia as a whole, such a change would mean the appearance of relatively cheap imported goods on the domestic market. But Kaliningrad Oblast, which has benefited from a special economic zone set up by Russian law in 1996, would face long-term negative consequences. The special economic zone in the region makes it possible to support import-substituting production. For example it is much more advantageous for BMW to assemble cars in Kaliningrad than other parts of Russia because it is possible to import the various parts without paying customs duties. If customs duties are lowered throughout Russia, Kaliningrad will lose its current attractiveness as a region where investment is profitable. The consequence of a change in the tariff regime would likely mean the cancellation of contracts for long-term cooperation, a sharp curtailment of investment, and the closing of many enterprises.

Moreover, import-substituting products produced in Kaliningrad and shipped to the rest of Russia would become more expensive than products simply imported from abroad. As a result, the Oblast Duma has appealed to federal leaders declaring that such a policy would end foreign and domestic investment, significantly increase unemployment, sharply reduce tax revenues in the region, and lead to social-economic disturbances. The Kaliningrad legislators believe that the Russian government can only change the overall customs policy if it amends the law on special economic zones.

Russia's current strategy is to join the World Trade Organization (WTO) in the foreseeable future and membership requires a unified legal system throughout the country. Although federal politicians strongly support such WTO membership, it could be disastrous for regions currently enjoying special economic benefits, particularly Kaliningrad Oblast, whose economy actively benefits from the special economic zone. Other victims would include the regions bordering Poland and Lithuania, which now use

the Kaliningrad zone as a transit point for their imports. - Yekaterina Vaseileva in Kaliningrad

## **ENERGY ISSUES**

**ROSTOV, MINISTRY OF ATOMIC ENERGY AGREE TO OPEN ROSTOV NUCLEAR STATION.** The Rostov Oblast administration and the Ministry of Atomic Energy have signed a cooperation agreement, which effectively gives the oblast administration's permission to the ministry to start the Rostov nuclear power plant. The launch will be the first in Russia after a significant break.

Construction on the plant began in the 1970s, but the Rostov Oblast Soviet voted to stop work in 1989 as more information about the Chernobyl accident became public. The complex stood unfinished until 1998, when the ministry began to revive its activities. The current members of the oblast parliament are less strict than their predecessors. Even though they were elected to office with anti-nuclear slogans, they decided merely to conduct a study of the dangers the plant presented and allow the ministry to decide whether to proceed. This decision effectively gave the advocates of finishing construction the green light, since the Moscow officials are unlikely to be swayed by local environmental concerns. The study conducted by the state found that the plant does not present a danger, while studies conducted by other scholars claim launching the plant could damage the local environment.

The Rostov Oblast authorities postponed making a decision for a long time, saying that they wanted to wait for further studies. During this time the pressure exerted by the Moscow ministry must have been significant. This spring the oblast authorities requested that the Russian government lower energy prices for Rostov enterprises in exchange for a decision to start the plant. The oblast officials believed that making such a direct link would make it easier to convince local constituencies of the wisdom of opening the plant. However, the infrastructure does not exist to allow the Rostov factories to use energy from the nuclear plant directly. The electricity would simply feed into the national grid and the Rostov enterprises would have to buy it from there like any other company, so the promised savings would not materialize.

The ministry remained extremely interested in the project because the plant was designed to utilize weapons grade plutonium and seemed likely to generate large profits. The world has large supplies of this extremely poisonous material. Now programs are under discussion in which the west, primarily the USA, would pay for the use of such plutonium.

When Governor Vladimir Chub and Atomic Energy Minister Yevgenii Adamov signed the agreement in September, the ministry agreed to sponsor numerous social programs and even the "spiritual renaissance" of the local population. The ministry also offered to provide the region with uninterrupted supplies of electricity. Additionally, it agreed to a joint commission to monitor the ecological consequences of the plant.

The agreement also provides a long list of economic benefits that Rostov Oblast would get from the plant. In particular, these included 10,000 jobs, tax revenue of 130 million rubles, and the contribution of 2 percent of the plant's output (worth about 17 million rubles a year) into a special fund for the social development of the region.

Despite the administration's agreement, many groups in Rostov Oblast remain opposed to starting the plant. Yabloko State Duma Member Mikhail Yemelyanov has sent an appeal to Prime Minister Mikhail Kasyanov asking him to intervene. The local Cossacks have also held protest meetings and sent a letter to Putin. Most likely, as the launch date approaches, the number of protests will increase. - Andrei Miroshnichenko in Rostov-na-Donu

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## BREAKING NEWS

**PUTIN CONTINUES TO TIGHTEN SCREWS ON MEDIA.** One of the perceived weaknesses of Putin's creation of seven federal districts is that they are not coordinating very well with each other. However, in the area of media relations, there seems to be extensive coordination as the seven representatives each seek to set up a "unified information space" in their districts. The districts are all opening informational-analytic centers and the local branches of the RIA Novosti state-owned news agency will work in

their support. Beyond that, each representative is left to define a policy for his specific region. So far none has laid out a clear strategy for information control (see *Nezavisimaya gazeta*, 29 September). However Sergei Kirienko's Volga Federal District seems to have gone farthest in trying to prepare a media system that presents a unified picture of events in a language that everyone can understand. Additionally, on 28 September the government set up a new current events website ([www.strana.ru](http://www.strana.ru)) that seems to be aimed at providing a uniform source of news for the seven federal districts spanning Russia.

Putin is trying to gain control of the media in other ways as well. On 23 September *Rossiiskaya gazeta* published a presidential decree, which removed the governors from playing a role in appointing the heads of the regional State Television and Radio Companies (GTRK). The presidential administration complained that the governors had been using the media to support their own work and now is planning to control the media at the federal district level rather than letting the governors play a strong role at the regional level. From now on, the presidential representatives to the seven federal districts rather than the governors will have a voice in naming the head of the media broadcasters (see *Rossiiskaya gazeta*, 30 September). First Deputy Press Minister Mikhail Seslavinskii said that in many regions the governors had tried to use control of the media to win reelection and that the presidential decree was aimed at preventing such abuses from taking place in the future. More than thirty governors face reelection by the end of the year.

**STATE COUNCIL PRESIDUM HOLDS FIRST MEETING.** The seven governors in the presidium of the State Council held their first meeting with President Putin in the Kremlin on 29 September. The meeting decided that the State Council would deal with the major issues of the day and that the presidium would handle secondary issues, *Segodnya* reported on 30 September. However, beyond that the body did not agree on anything. The date for the first meeting of the full State Council and its agenda still has not been set. The presidium will meet again on 12 October, the date originally set as the first meeting of the Council.

The main question of interest to the governors was giving the State Council a clear role in the policy process, perhaps even including it in the Constitution. However, Putin indicated that it would not replace either the State Duma or Federation Council. Clearly, the body is a sop to the governors who lost their positions in the upper house and Putin will see how useful it is and then either keep it going or abandon it. Tyumen Governor Leonid Roketskii was the only one of the seven governors involved who expressed a willingness to voluntarily give up his seat in the Federation Council before it was necessary. Earlier the presidential administration had been pressing the governors to do so.

**FEDERATION COUNCIL MEMBERS DIVIDED ON 2001 BUDGET.** At the 27 September meeting of the Federation Council, members were divided over whether to support the 2001 federal budget. The relatively rich regions argued that it did not stimulate economic activity because the more money a region earned through its own efforts, the more it would have to give up to finance poorer regions. The poorer regions naturally liked the budget because they viewed it as making the federal government more responsible for payments of salaries, pensions, and children's benefits.

In the end the Federation Council decided not to recommend that the State Duma approve the budget in the first reading. The budget must go through four readings in the lower house. By approving the budget in the first reading, the legislators would be indicating that they accept the level of revenue and expenses set by the government.

The two main issues in the budget battle this year are what Russia's revenues will be and how to divide money between the center and the regions. The upper house asked for more information from the government on Russia's macro-economic indicators. In terms of budgetary federalism, the upper house sought to leave the regions in control of the land tax, alcohol fees, and the income tax. The upper house did not complain about the federal government's decision to take control of all the income from the value-added tax and the overall decision to redistribute tax revenue away from regions toward the center (polit.ru, 27 September).

**PUTIN MEETS WITH SEVEN REPRESENTATIVES.** President Putin met with his seven representatives to the federal districts in the Kremlin on 28 September, strana.ru reported. Putin told the representatives to make sure that the voters had objective information in the up-coming gubernatorial elections and warned them not to let any of the candidates claim close ties to the president or his administration. He asserted that there are no such special ties.

Presidential Representative to the Siberian Region Leonid Drachevskii said that the first step of setting up the new institutions at the federal district level is complete. He said that the representatives have "balanced, constructive" relations with the governors and that the "division of functions is clear." Putin agreed to meet each of the seven once every two months in order to understand what is happening in the each of their districts.

## **CONFERENCE REPORT**

### **PUTIN'S REFORM OF THE RUSSIAN FEDERATION**

On 29-30 September, a group of analysts from 17 regions and several Moscow experts met in Moscow to assess the first results of Putin's reforms of the Russian Federation. The conference was held in the Moscow Center of the EastWest Institute with financial support from the Carnegie Corporation of New York within the framework of its Russia Initiative project. This week the *EWI Russian Regional Report* begins publishing short summaries of the papers presented at the conference. We have posted the full Russian texts of all the papers in PDF format on the EWI website:  
<http://www.iews.org/rrrabout.nsf>

**TATARSTAN: CENTER WEAKENING FEDERALISM, VIOLATING RUSSIAN BUDGET LAW.** Kazan State University Political Science Professor Midkhat Farukshin argued that President Vladimir Putin's reforms are destroying the first roots of federalism that have grown in Russia over the last ten years and mark a return to strictly centralized power. Farukshin focused on five elements of Putin's reform.

First is the creation of seven federal districts. The purpose behind the districts is to implement stronger federal control of the regions. In all likelihood, the presidential representatives will have an extremely difficult job finding a place in the new system,

particularly since their functions are poorly defined. It does not make sense to create another level of government. Why not simply use the existing Justice Ministry and procurator for this purpose? Faroukshin believes that the new institutions are a trial balloon for a potential future reorganization of the Russian Federation itself.

Second, Faroukshin described the Constitutional Court decisions of 7 June (on the Altai Republic) and 27 June (on the constitutions of 6 republics) as another front in the federal attack on the regions, particularly the 21 ethnic republics among the 89 total regions. Both decisions declare the sovereignty of the republics unconstitutional. These decisions seem to be more the result of political than legal concerns. Faroukshin points out, for example, that in several places the constitution describes the republics as "sovereign."

The third form of attack involved changes in the federal government's budget policy. The federal government has taken complete control over the value added tax and fees, the most easily collected and significant taxes. The federal government will also have complete control over the unified social tax, as well as revenues for the pension, employment, and medical insurance funds. The federal government also is changing the distribution of revenue between federal and regional budgets, ending the former 50:50 division by planning to give more money to the federal government in the 2001 budget. According to federal estimates, Tatarstan's budget will lose 10 billion rubles of income a year. The republican Finance Ministry estimates that the losses will be much higher.

This new federal budget policy is being adopted in violation of federal law! Article 48 of the Russian Federation Budget Code states: the tax revenue of the regional budgets should be no less than 50 percent of the total sum of the consolidated budget of the Russian Federation. The federal government is not likely to be able to meet the social needs of the regional populations. By taking the lion's share of the revenue, the federal government will have a powerful weapon against the regions. It will be able to support favored regions by giving them additional resources while punishing those it does not like.

Fourth, the federal government now has limited the right of the regions to conduct their own foreign policy. The federal government already has deprived the regions of the right to take foreign credits and is working to end the right to independently sign foreign agreements. There are good reasons for this action. The federal government always is chronically short of money lacks and in the past some regional leaders have behaved unprofessionally forcing the federal government to bail them out. But it does not make sense to punish all of the regions for these sins. It would be better for the federal government to adopt a law limiting the amount of debt a region can assume.

Fifth, instead of fighting the "regional barons" with its battle to bring regional laws into line with federal norms, the federal government in fact is attacking the rights of the regions. Faroukshin argued that the federal government simply was taking all power for itself, rather than trying to resolve the existing problems. By forcing all regions to comply with federal norms, the federal government is taking away the region's right to adopt more progressive laws.

### **KRASNOYARSK: POLITICAL GOALS MORE IMPORTANT THAN**

**ECONOMIC ONES.** Krasnoyarsk Journalist Vasilii Damov remarked that Putin's

reforms represent the transition from a democratic constitutional system to a strictly authoritarian one. Damov noted three directions of reform.

In the economic sphere, the federal government is now trying to regulate all sectors of the economy, including privately owned enterprises, to achieve purely political goals. The same thing is happening at the regional level. Governor Aleksandr Lebed is using administrative measures to control such profitable factories as the Krasnoyarsk Aluminum Factory, whose leadership did not support the governor. At the end of 1999 the krai began to take measures against the plant that continued until it was bought by the Russian Aluminum conglomerate, which is much more powerful than the krai administration. Now the administration is trying to work with Russian Aluminum in a way that is profitable for both sides. If the directors of loss-making enterprises are loyal to the krai administration, they can count on subsidies and special orders. Such is the case with the Krasnoyarsk Combine Factory.

Unlike the Kremlin, which is even fighting with such economic giants as Norilsk Nickel, Lebed's administration is trying to work with them. For example, the krai administration is planning to give the oil company YUKOS complete control over Krasnoyarsknefteprodukt in exchange for promises to begin producing oil in the region. The company has also agreed to provide oil to the administration at discounted prices.

The law enforcement agencies are also being used for political purposes. Orders from public officials, rather than legal proceedings, determine whether criminal cases are filed and closed. The proceedings surrounding former Krasnoyarsk Aluminum Factory Board of Directors' Chairman Anatolii Bykov are the best example of this. Several other cases have been filed against officials in former Governor Valerii Zubov's administration. However in each case the law enforcement agencies have not been able to make the charges stick. Bykov was recently released from jail and prosecutions against several of Zubov's assistants have also failed. With each new case, the charges seem to be more far-reaching, but with increasingly less evidence to back them up. As Bykov has warned, if current trends continue, the authorities could "put everyone in jail." What is happening in the krai and at the federal level seems to be the implementation of Putin's call for a "dictatorship of law." However, you can have either dictatorship or you can have law.

There is clear evidence of increasing separatism in Krasnoyarsk and other regions as well. Lebed has never been happy with the Siberian Accord Interregional Association, which he believes has not been politicized sufficiently and where the other governors prefer his predecessor to him. Lebed has little influence in the association. Accordingly, he set up the Union of Krasnoyarsk Residents (Soyuz Krasnoyartsev), but this organization is unlikely to gain many members or much influence. Khakasiya's Aleksei Lebed has recently gone into opposition to the Kremlin, especially after Putin did not name Lebed to the presidium of the newly created State Council.

Although with all likelihood the State Council will not have any power, the nomination of the governors to the presidium shows who the Kremlin views as the main governors it needs to take into account. Lebed's absence shows that he is *persona non grata* in the Kremlin. Other governors in this group are Samara Governor Konstantin Titov, who ran against Putin in the presidential elections, Chuvashiya President Nikolai Fedorov, the most consistent critic of Putin's reforms among the governors, and Sverdlovsk Governor Eduard Rossel, who is often grouped in the list of "regional barons."

## **CENTER-PERIPHERY RELATIONS**

**LATYSHEV AND THE URAL MEDIA.** Presidential Representative to the Urals Federal District Petr Latyshev held a meeting with leading journalists in the district on 25 September to discuss the formation of a "unified information space" in the district. The question is important for the officials because now the information space is divided and people identify much more strongly with their region than the federal district. The new federal district structure needs to assert itself more into people's consciousnesses.

Latyshev's decision to hold the meeting in Tyumen rather than Yekaterinburg raised eyebrows. Latyshev explained that Tyumen Governor Leonid Roketskii was already planning a meeting with the media for that day and decided to join him. However, another reason could have been the conflict between Latyshev and Sverdlovsk Oblast Governor Eduard Rossel. Rossel has repeatedly criticized Latyshev, who apparently did not want to make the situation worse by meeting in Rossel's backyard. However, Latyshev did make clear his disagreement with Rossel on key points. Rossel has indicated his desire to continue participating in the appointment of federal officials working in the region. Latyshev categorically stated that the federal government should control these institutions.

On the country's eight economic associations, Latyshev said they were social organizations and their decisions did not have the power of state acts. Now, he said, it would make more sense to adopt social policies within the framework of the seven federal districts.

During the meeting, Latyshev made himself available for discussions with members of the media and expressed serious concern about attempts by the governors to control the local press. No final policy on creating the unified information space has been adopted. The attendees agreed that it would be too expensive to create a federal district television broadcaster, radio station, or newspaper. He stressed that any attempt to do so would simply create a prime opportunity for someone to steal federal funds and use them for his own purpose. Latyshev said that it would be easier simply for the District Information Center to work with the media. Such meetings between Latyshev and the press are likely to become regular occurrences. - Natalya Mints in Yekaterinburg

**TVER LEGISLATURE COMPLAINS TO PRESIDENTIAL REPRESENTATIVE ABOUT GOVERNOR.** At the initiative of Deputy Nikolai Popov, the Tver Oblast Legislative Assembly on 28 September sent a letter to Presidential Representative in the Central Federal District Georgii Poltavchenko complaining about the activities of Governor Vladimir Platov (*Veche Tveri*, 29 September). The deputies pointed out that the governor rarely works in Tver and does not cooperate with the oblast legislature (*Tverskaya zhizn*, 29 September). The legislators also claimed that Platov had been appointing and firing assistants without a clear rationale and that two first deputy governors, Andrei Stroev and Vladimir Suraikin, still had not been confirmed by the Legislative Assembly. The deputies voted in favor of sending the letter 25-0, with only one abstention.

These events indicate that now the members of the oblast legislature are trying to use Poltavchenko to influence the actions of the governor. Governor Platov has indeed

been sick for a long time. He also is concentrating his activities on the federal level. Observers believe that essentially he has transferred local power to Deputy Governor Yurii Krasnov and is preparing to take a job in Moscow. Krasnov has strengthened his position by becoming the head of the local Yedinstvo and by making important economic decisions affecting Tver Oblast. Krasnov also has strong control over the regional media and is using it to discredit his main competitor, First Deputy Governor Andrei Stroev, who came to the oblast as a member of the Moscow business elite. Popov is known for his close relationship to Krasnov and it is possible that the legislator was trying to help advance his ally's career by attracting the attention of the federal government. - Boris Goubman in Tver

**BASHKORTOSTAN IGNORES COURT RULING.** In Bashkortostan a conflict is brewing because the republic's leaders are dragging their feet about implementing a determination of the Russian Constitutional Court. On 27 June of this year, the Constitutional Court ruled that the Constitution of the Republic, which establishes its sovereignty, violates the Russian Constitution and should not be enforced or used by courts.

Despite the fact that the Bashkortostan President Murtaza Rakhimov has been acquainted with the Constitutional Court's ruling since July, the republic has yet to publish it officially, as is required by law. Accordingly, the authorities and institutions which must implement the ruling have not yet received it. *Sovetskaya Bashkiriya-Izvestiya Bashkortostan* Editor Sergei Ogorodnikov said that his newspaper is prepared to publish the document, however, neither the Constitutional Court nor the republican administration has sent it to him yet. Moreover, the Court did not indicate the timeframe during which the ruling was supposed to be published.

For their part, officials at the Constitutional Court told *Rossiiskaya Gazeta* that two copies of the document were sent directly to President Rakhimov. The Court does not play a role, however, in determining how the authorities publish the document. The timeframe for publication is defined by article 80 of the federal constitutional law on the Constitutional Court, which calls for immediate publication, unless otherwise stated in court decisions.

According to Presidential Spokesman Sergei Semenov, the Court's determination will be published in late October or in November in *Vedemosti Gosudarstvennogo Sobraniya i Kabineta Ministrov Respubliki Bashkortostan*. He attributed the failure to publish the document in the republic's newspapers to its length and the press' practical need to cater to the interests of readers. It remains unclear how the population of Bashkortostan is to become acquainted with the decision of the Court since *Vedemosti* only has a circulation of 3,000.

Ironically Editor Ogorodnikov has been cast in the role of the main villain. Two citizens of Bashkortostan filed criminal charges against him, claiming that he was purposefully refusing to carry out the Court's ruling and publish it in his newspaper. In a statement also directed to Russian Procurator General Vladimir Ustinov and to President Putin, the plaintiffs claimed they had requested that the newspaper publish the Court's ruling immediately and explain the reasons for the delay, but received no reply.

Meanwhile, the leaders of the republic were engaged in a lively discussion of the ruling in the republic's newspaper and other official media. President Rakhimov referred

to the determination as a political act, not a legal act. Ildus Adigamov, the president of the republic's constitutional court, stated that in the current situation the main task of his institution was to uphold the basic law of the republic. Insofar as the immediacy of the decision of the Constitutional Court is concerned, Adigamov explained that "a determination is not the same as a decision": there is still time, opportunity, and legal room for change in the formulations, in order to gear them to the essence of the problem. According to Khalila Barlybaev, a deputy to the State Duma from Bashkortostan, the Russian Constitutional Court, in attempting to tackle an issue missing from the Constitution, i.e. "sovereignty of subjects of the Russian Federation," is going beyond its prerogatives. In his view the Constitutional Court's conclusions were "based on strained logic and artificial legal constructions." It is still an open question whether or not the determination of the Constitutional Court will be implemented, and, if so, when. - Igor Rabinovich in Ufa

## **POLITICAL ECONOMY**

**BENDUKIDZE GAINS CONTROL OF NIZHNII PLANT.** After an extensive battle that lasted more than four years, United Heavy Machinery (Uralmash-Izhora Group) General Director Kakha Bendukidze won control of the Nizhnii Novgorod ship-building plant Krasnoe Sormovo on 27 September (see *EWI Russian Regional Report* 22 March). Until then the charter of the plant allowed the state, which owned 25.5 percent of the shares, to name four of the nine members of the board of directors. Bendukidze, who owns 42 percent of the stock, controlled only two seats. Bendukidze succeeded in changing the company charter and was able to take four seats on the board, including one for himself. In giving such power to the state, the previous charter was in line with the law on privatization, but violated the law on publicly-held companies.

The conflict was ultimately resolved two months ago at a meeting in the office of Deputy Prime Minister Ilya Klebanov. Bendukidze, Krasnoe Sormovo Director Nikolai Zharkov, Presidential Representative in the Volga Region Sergei Kirienko, and Chief Federal Inspector for Nizhnii Novgorod Oblast Sergei Obozov attended the meeting. When Klebanov spoke in favor of Bendukidze, the fate of the factory was resolved. After the session, Obozov literally had to separate the bitter enemies Bendukidze and Zharkov to keep them from coming to blows.

Governor Ivan Sklyarov had earlier supported Zharkov and the plant's management against the outside Bendukidze, but called the outcome "a successful political decision." He has decided that since Bendukidze is now clearly the plant's owner, he will make sure that the factory continues to work.

In the new board of directors, four represent Bendukidze, three represent the interests of the state, and two represent the former management. All of the board candidates who were close to the oblast or city authorities failed to win election. They included First Deputy Governor Sergei Abyshev and Deputy Chairman of the Nizhnii Novgorod Oblast Property Committee Vladimir Gryaznov. - Yurii Rodygin in Nizhnii Novgorod

## **REGIONAL ELECTIONS**



**IRKUTSK ELECTS REGIONAL LEGISLATURE.** On 24 September Irkutsk Oblast elected its regional legislature after elections in June failed to return a body with a working quorum, due to poor turnout. This time turnout in the districts was usually about 5-6 percent above the necessary 25 percent. Now forty-five of the forty-eight seats have been filled.

Many of the deputies elected to the body have political affiliations, often belonging to more than one party. Among the parties well represented are the pro-Kremlin Yedinstvo (21 deputies), the pro-Governor Pribaikale (20 deputies), the Soyuz pravyykh sil (3), the leftist Narodnyi deputat (10), and the Chamber of Trade and Industry (10). Of these, 13 deputies are simultaneous members of Yedinstvo and Prebaikale, 7 are in Yedinstvo and the Chamber of Trade and Industry, and another 7 are in Pribaikale and the Chamber. One deputy is a member of four parties, Pribaikale, Yedinstvo, Narodnyi deputat, and the Chamber.

Yedinstvo is planning to form its own faction within the legislature, however, it will be open to all members who want to join. Those who want to join only have to write a declaration of their intentions. Narodnyi deputat will also form a faction, and Pribaikale seems likely to be a reasonably influential force as well.

The Communists did not run candidates under their party banner in the elections, preferring to work with the Narodnyi deputat alliance. Communist Party of the Russian Federation Obkom Member Yevgenii Rulkov pointed out that there are also members of Yabloko in the alliance, as well as representatives of other social organizations.

Irkutsk's Yedinstvo party leader Aleksei Fedorov said it was early to criticize his party for its lack of a clear platform because it was still developing its key documents. He also admitted that there were "random people" in the party, but that they were constantly changing party personnel to improve the party's image. - Teleinform in Irkutsk

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## BREAKING NEWS

**AUDIT CHAMBER TO MOVE CLOSER TO PRESIDENT.** By the end of the year, the State Duma is planning to revise the law on the Audit Chamber, likely transferring it from working exclusively under aegis of the Russian Parliament to working under the parliament and Russian president, *Vremya Novostei* reported 10 October. If the move is carried out, the president will have more influence over the work of the chamber. Audit Chamber Chairman Sergei Stepashin first came up with the idea, noting that such a move was necessary to preserve the "complete independence" of the body, *Segodnya* reported

30 September. Stepashin argued that the move would also make the executive branch more likely to respond to information requests from the Chamber. Under the new rules, the president, rather than the Duma members, would propose an Audit Chamber chairman for Duma confirmation. Additionally, the chairman would fill vacancies in the board rather than the Duma. The Communist faction in the State Duma opposes the changes but Putin is expected to be able to muster a majority in the lower house.

In addition, Stepashin has reached an agreement to work more closely with the Russian general procurator (*Vremya novostei*, 4 October). In the past the procurator has not acted on information supplied by the Chamber (see related story on the Audit Chamber in this issue.)

**JUSTICE MINISTRY SEEKS NEW POWER OVER REGIONS.** On 9 October the Justice Ministry collegium reviewed a draft of a new law "On justice," that would greatly increase the ministry's oversight power over regional legislation. According to the draft, regions would have to send all new laws to the ministry within seven days of their adoption. If the ministry finds problems with them, it will respond with a demand that the law be overturned. The ministry will also have the right to ask the courts to overturn the law. Now only the procurator has this power. Additionally, the law would give the ministry the right to name regional bailiffs without first gaining the agreement of the head of the regional justice department. The law would be the first legal act to put in place state institutions at the newly-created level of the federal districts. Article 8 of the draft creates okrug-level justice departments, which would have the task of coordinating the activity of subdivisions working beneath them. Among the other powers the ministry would gain is the right to shut down extremist organizations without first having to appeal to the courts, as is required today (*Vremya novostei*, 10 October).

According to First Deputy Justice Minister Eduard Renov the government will examine the draft bill as early as November. He expects that the bill will face opposition in the State Duma from deputies who do not want to increase the power of the federal executive. If there is such opposition, parts of the bill may be put into effect as presidential decrees.

**FEDOROV, PLATONOV PREPARING COURT CASE AGAINST PUTIN REFORMS.** Chuvashiya President Nikolai Fedorov and Moscow Duma Chairman Vladimir Platonov, two of the most consistent and outspoken opponents of Putin's federal reforms, are working with the Federation Council Legislation Committee to prepare an appeal to the Constitutional Court questioning the constitutionality of the laws adopted during the summer reforming the way the Federation Council is formed and giving the president the right to fire governors. Fedorov argues that the Russian people did not give the president the right to remove an elected regional leader from office. If such rights had been written into the constitution in 1993, Fedorov claimed, it never would have been ratified. Fedorov also doubts that the Russian president has the right to disband regional legislatures. He said that Russia must choose its path, either "law-based and constitutional" or "non-law-based and unconstitutional." The Federation Council will examine this question on 25 October. (*Kommersant-Daily*, 6 October and *Vremya novostei*, 10 October)

**NEW BUDGET THREATENS PRUSAK'S NOVGOROD POLICIES.** In the past Novgorod Governor Mikhail Prusak has attracted new factories to his region by exempting the firms from local taxes. According to the new budget policy, however, regions that give out such benefits will no longer be eligible to receive subsidies from the federal government. Such a policy could hurt Novgorod, which still relies heavily on federal funding. (*Vremya MN*, 28 September)

**FORMER TULA GOVERNOR AMNESTIED.** The Russian Supreme Court on 27 September annulled the conviction of Tula Governor Nikolai Sevryugin because of his poor health. Sevryugin had been arrested in 1997 on corruption charges after losing the gubernatorial election to current Governor Vasilii Starodubtsev. (*Kommersant Daily*, 28 September)

**POLTAVCHENKO SEEKS TO IMPROVE BUSINESS TIES IN CENTRAL REGION.** Presidential Representative to the Central Federal District Georgii Poltavchenko has launched a dialogue with small and medium businesses and said that he will work to "remove all administrative barriers in the economy," *Nezavisimaya gazeta's* Marina Kalashnikova reported on 5 October. Poltavchenko sees small business as a source of jobs in regions that are facing socio-economic problems. Economic Development and Trade Minister German Gref said that the government wanted to stimulate the "free flow of capital" between regions and make it easier for firms to win registration and set up their business. Gref admitted that the task would not be easy since a group of federal ministries including the tax police and the Ministry for Taxes and Collections did not support this plan.

Medium-sized businesses, represented by figures such as Ilya Khandrikov, the director of the Guild of Clothing Enterprises, strongly supported the federal district officials' efforts to reduce the governors' control over business. The businessmen want to reduce the number of state agencies that regulate their work from 50 to 6 or 8. They also want to eliminate the governors' off-budget funds, which are often as large as the budget itself. Their main theme was to cut the powers of the governors, a task that is completely in line with the federal government's goals.

In private conversations outside the auditorium, however, the businessmen were not very optimistic about the federal government's ability to transform its plans into real action. One businessman told Kalashnikova that Poltavchenko and Gref are good at making speeches for the press, but that they will accomplish little in terms of real achievements.

**PULIKOVSKII INTERVIEWED ON FAR EAST'S ECONOMIC INTEGRATION.** In an interview in the Primorskii Krai newspaper, *Vladivostok* on 6 October, Presidential Representative to the Far East Federal District Konstantin Pulikovskii discussed projects for the region's economic integration in Asia. According to Pulikovskii, the plan discussed at the recent Baikal Economic Forum (See *EWI Russian Regional Investor*, 27 September) for a railroad tunnel connecting Hokkaido to Sakhalin and then to mainland Russia and on to Paris is "only at first glance an unbelievable project." Pulikovskii noted that the construction of the railroad would facilitate cargo shipment from Japan to Europe via the trans-Siberian railroad. "It is time for economic integration," said Pulikovskii.



When asked why Khabarovsk was selected as the capital for the federal district when Vladivostok is viewed as Russia's principal port in the Asia-Pacific region, Pulikovskii explained that while Vladivostok plays a key role in the Pacific Rim, Khabarovsk is the first Russian city in the Far East. Vladivostok is Russia's center for international shipping communications in Asia, but Khabarovsk is the administrative center for the Far East.

Pulikovskii had just spent a week traveling in Chukotka and Kamchatka. He noted that critics of the presidential representatives to the federal districts see them as some sort of intermediary between the people and regional officials, or as lobbyists on behalf of the regions, for example on the issue of budgetary transfers, but he asserted that, in fact, his role was "to bring presidential authority closer to the regions." In practice this involves ensuring that the governors follow the Russian Constitution and federal laws. Pulikovskii listed the regions in the Far Eastern district with the greatest number of laws contradicting federal statutes: Sakha tops the list with 45, Amur Oblast is in second place with 12, and Primorskii Krai has 11. Pulikovskii praised Chukotka for its record of compliance.

Pulikovskii also discussed his aim to foster greater economic integration within the Russian Far East. He called attention to the existing competition among ports in Primorskii Krai, Chukotka, Kamchatka, and the the Koryak Autonomous Okrug for fishing quotas. Likening the 10 components of the district to ten fingers, Pulikovskii emphasized that all were equally important. Instead of competing, they should cooperate. He mentioned a Primorskii Krai fish processing factory now under construction in the Koryak Autonomous Okrug as a model of mutually beneficial cooperation among regions.

**BYKOV BACK BEHIND BARS.** Aluminum magnate Andrei Bykov, who had just been released from prison in Krasnoyarsk, now is being detained in Lefortovo prison, as a suspect in the 29 September murder of his former associate, Pavel Struganov, aka Pasha Tsvetomuzika, a leader of a Krasnoyarsk criminal group. Struganov reportedly provided protection for Bykov, but the two parted ways this summer and Struganov relocated to Moscow (*Kommersant-Daily*, 5 October). Bykov's supporters claim he was framed by the security forces and rearrested as a part of an attempt to confiscate his shares in the Krasnoyarsk Aluminum Factory (KRAZ). One of Bykov's lawyers went so far as to claim that Struganov actually is alive and his murder was faked to implicate Bykov. On 9 October, State Duma deputy Vladislav Demin (LDPR) wrote a letter to the procurator for the northwest district, in which he asserted he had proof of Bykov's innocence (*Izvestiya*, 6 October; *Nezavisimaya Gazeta*, 7 October; *Kommersant-Daily*, 10 October). Krasnoyarsk Governor Aleksandr Lebed first initiated proceedings against Bykov in April 1999. The aluminum magnate was arrested in October 1999 and charged with misuse of company funds, illegal possession of weapons, and accessory to murder, but was released in August 2000 (See *EWI Russian Regional Report*, August 30).

## **GOVERNORS' ELECTIONS**

**TATARSTAN MOVES ELECTIONS FOR SHAIMIEV THIRD TERM BACK UNDER FEDERAL PRESSURE.** On 9 October, the Tatarstani legislature voted to

overturn its decision of 23 September to move the presidential elections up from March 2001 to 24 December 2000. Now the elections will take place as originally scheduled in March 2001.

After the republican legislature moved the elections forward on 23 September, the federal authorities protested and threatened to have the courts declare the elections illegitimate. The question was decided on 28 September at a meeting between President Vladimir Putin and Tatarstan President Mintimer Shaimiev. After the conclusion of the first meeting of the State Council Presidium, Putin took Shaimiev aside for a 90-minute conversation. Clearly, during this talk, Putin asked Shaimiev to schedule the voting on the later date.

When Shaimiev returned to Tatarstan, he began to talk of the need for holding the elections beyond the shadow of any legal doubts, so that no one could question their legitimacy. Of course, as many pointed out in the corridors during the legislature's meeting, it was Shaimiev himself who first put forward the idea of moving up the elections. On 2 October Shaimiev participated in a meeting of the legislature's presidium and the decision was made to call the republican legislature into extraordinary session.

At the session on 9 October, Shaimiev, State Council Chairman F. Mukhametshin, and several deputies argued that the legislature's 23 September was legal, but since the federal government was threatening to go to court, it made sense to reverse it. Then the body voted to overturn its earlier decision with the same overwhelming support that it had used to adopt it. The result is clear that the federal government now has sufficient will and strength to force the regional authorities to change their decisions.

At the same session, the Tatarstani State Council proposed amending article 8 of the federal law "On the basic guarantees of electoral rights and the right to participate in referendums for citizens of the Russian Federation." This article forbids regions from moving elections for executive and legislative offices. Most likely, the deputies do not believe that their proposal will be adopted, but sought to take at least a small step to save face. Nevertheless, it does not look good for the parliament to adopt two contradictory measures in the space of only two weeks.

The question of a third term for Shaimiev also arose. He clearly wants to run again. However, everything depends on the federal government. If the center agrees, Shaimiev can easily organize another victory. If the center does not agree, the chances that he will be elected drop. At the moment the situation is very unclear. On one hand, it seems that the center does not support another term for Shaimiev, otherwise why would it care whether the elections are in December or March. Some believe that Putin does not want to work with the governors who were elected during the Yeltsin era. Otherwise, why would so many incumbent governors decide not to seek another term. Recently Bashkortostan President Murtaza Rakhimov, Krasnodar Governor Nikolai Kondratenko, and Perm Governor Gennadii Igumnov have said that they will not run again. Maybe Putin wants to work mainly with governors who were elected with his support. A third term for Shaimiev is a difficult problem for the center because it creates a precedent that other regional leaders could cite as they seek a third term. If Shaimiev is allowed to run and other governors are not, they could question why once again Tatarstan has special rights.

On the other hand, during the various conversations in the corridors during the republican legislative session, people said Shaimiev had already won Putin's support for a

third term. We will just have to wait and see what happens... - Midkhat Faroukshin in Kazan

**PERM GOVERNOR DROPS OUT OF RACE.** Perm Governor Gennadii Igumnov shocked his constituents on 6 October when he announced that he would not seek another term in the region's December gubernatorial elections. Igumnov said that he did not want to participate in the elections because he did not want to become involved with campaign mud-slinging. Of course, observers recognize that this is not the real reason Igumnov dropped out of the race. Igumnov is an experience politician and most likely can handle another campaign. They speculate that Igumnov's decision was the result of blackmail by another gubernatorial candidate, State Duma member Pavel Anokhin. Information released by Anokhin has already caused the oblast procurator and Ministry of Internal Affairs chief to quit their posts. Many think that the governor is vulnerable because the law enforcement agencies are investigating his daughter, who has gone underground to avoid contact with the authorities.

Whatever his motivations, the governor called on his constituents to support Perm Mayor Yurii Trutnev as his successor. Trutnev, who had been planning to run again for the mayor's office, quickly set up a gubernatorial campaign staff to collect the signatures required to be officially nominated for the post. However, further developments in the campaign are also possible. More than 200 workers collectives, politicians, and factory directors have sent telegrams to Igumnov asking him to change his mind and enter the race. There are some rumors that the governor is rethinking the wisdom of his initial decision. - Andrei Suslov in Perm

**KURSK LOWERS ELECTRICITY, BREAD PRICES BEFORE ELECTIONS.** On 6 October, the Kursk Oblast government decided to lower electricity prices for regional industrial enterprises by 14 percent. The decision affects about 600 Kursk enterprises and will cost approximately 65 million rubles a year.

From the electoral point of view, this step is a brilliant move for Governor Aleksandr Rutskoi. It will win the support of the owners and managers of these factories. The only question is where the money will come from. Most likely Rutskoi will have to take it out of the oblast budget.

On 10 October the government also voted to lower bread prices an average of 10 percent across the region. Again, the government will deal with the costs of this measure only when the elections are over. - Sergei Sarychev in Kursk

**FEDERAL, REGIONAL YEDINSTVO SPLITS IN ULYANOVSK ELECTIONS.**

Even though the presidium of the central political council of the Yedinstvo party voted at the beginning of September to support General Vladimir Shamanov in the Ulyanovsk gubernatorial elections, almost all of the members in the recently reformed political council of the Ulyanovsk Yedinstvo support Governor Yurii Goryachev.

"The Ulyanovsk organization has fallen into a difficult - the most difficult - situation," said Deputy Chairman of Yedinstvo's Volga Interregional Coordinating Council Gennadii Zvyagin, who took part in a conference of the Ulyanovsk branch of the party on 22 September. The conference had been called to deal only with organizational questions, namely setting up the regional Yedinstvo as a branch of the national Yedinstvo

party organization, but it could not avoid talking about the gubernatorial elections. Chairman of the Zavolzhskii Raion organization of Yedinstvo Yevgenii Kochev said that the regional organization's decision to support Goryachev goes against the recommendations of the central organization and discredits the party in the eyes of the voters. Igor Churbanov, the former leader of the Ulyanovsk Yedinstvo who was subsequently elected head of the ispolkom, publicly called for party discipline. He said on local television that the party cannot support a candidate who does not have the backing of the central council and Yedinstvo party leader Sergei Shoigu.

Most likely the leaders of the local Yedinstvo will only have one choice: publicly expressing support for Shamanov while in fact quietly sabotaging this decision, and working underground to support Governor Goryachev. However, Zvyagin stressed that "we will suppress sabotage, even to the point of disbanding the organization (*Simbirskii kurer*, 23 September)." - Sergei Gogin in Ulyanovsk

## **CENTER-PERIPHERY RELATIONS**

**KIRIENKO PRESENTS INSPECTOR IN MORDOVIYA.** At the end of September Presidential Representative to the Volga Federal District Sergei Kirienko made his first visit to Mordoviya to present the new chief federal inspector, Aleksandr Pykov. Pykov will coordinate the activities of the 52 federal institutions working in the republic, from the law enforcement agencies to the pension fund. Pykov is a well-known journalist in the region, who most recently edited the state-sponsored newspaper *Izvestiya Mordoviya*, served as the republic's press minister, and was a deputy prime minister in the republican government. Kirienko also named Dmitrii Zharkov as the federal inspector for Mordoviya. Zharkov was one of the winners of Kirienko's competition to find new personnel for his staff. He is a new person for the republic. Zharkov was born in 1974 in Volgograd. Until his appointment, he worked in the Volgograd company Infokom, rising through the ranks to become its deputy director. It is not clear how the chief federal inspector and federal inspector will coordinate their responsibilities.

During Kirienko's visit, Saransk became the site of the first meeting of the Commission on Spatial Development. The newly-created commission is seeking to develop the Volga federal district as a unified social-economic space. Kirienko stressed the importance of this job. "Today we see a colossal divide in the development between various regions and even the cities and rural areas within a single region. The times call for a new distribution of productive forces, social infrastructure, and management structures. The territorial principle of managing the country and regions is starting to take precedence over the sectoral..." At the meeting, Mordoviya President Nikolai Merkuskin said that the Great Volga interregional association, which he heads, would soon include all members of the Volga Federal District.

After the meeting of the Commission on Spatial Development, Kirienko said that the economic resources of the Volga Federal District are enormous, but "the idea is not to transform the district into a new subject of the Russian Federation. Our task is not to divide Russia into seven giant regions, but, just the opposite, to bring them all together. Our first priority will be economic programs that unite the regions, remove economic barriers, and not allow each to each to engage in the most basic economic functions, trying to produce everything in one region." - Igor Telin in Saransk

**FEDERAL OFFICIAL STEER CLEAR OF TVER POLITICS.** First Deputy Presidential Representative in the Central Federal District Anton Fedorov visited Tver on 5 October. Presidential Representative Georgii Poltavchenko sent his deputy there to deal with the complaints of the regional Legislative Assembly, which had accused Governor Vladimir Platov of weakening the region's leadership (see *EWI Russian Regional Report*, 4 October). Legislative Assembly Chairman Vyacheslav Mironov laid out the deputies' criticisms of the governor. He complained that the governor is inactive, does not cooperate with the legislators, and does not react to the on-going battle between Vice Governor Yurii Krasnov and First Deputy Governor Andrei Stroev.

Clearly the legislature could have examined these issues without Fedorov being present. However the legislators wanted to see how the federal district authorities would react to the situation. During the session the deputies generally avoided directly attacking the governor. Only State Duma Deputy Tatyana Astrakhankina called for fighting the governor and demanded his removal from office. Platov was calm throughout and the local newspapers noted that he had earlier discussed the incident with Poltavchenko. In his speech, Fedorov called on the legislators to resolve such conflicts without the intervention of the federal authorities (*Veche Tveri*, 6 October).

For the time being the federal authorities do not want to intervene in the situation which is clearly a battle for the leadership of the oblast between the governor and Vice Governor Krasnov, even though Krasnov has never criticized his boss publicly. The external expression of this conflict was the position of the Tver legislators. They criticized the governor and left him alone. However, the events did not reduce the tensions caused by the standoff between the various camps among the regional elite. - Boris Goubman in Tver

**CHEKESOV APPOINTS SCANDALOUS FIGURE AS KOMI FEDERAL INSPECTOR.** On 15 September, Presidential Representative to the North-West Region Viktor Cherkesov appointed Aleksei Grishin as the chief federal inspector in the Komi Republic. The choice was a surprise as most people expected that General Viktor Shadrin, who heads the Judicial Department, would get the job.

Many people question Grishin's moral behavior and his reputation puts a cloud over the entire office of the presidential representative and the presidency itself. The newspaper *Molodezh severa*, which is generally critical of the republican authorities, has already published several pointed articles about the inspector. It has recounted an episode in which a drunken Grishin was taken to a Syktyvkar police office, where he cursed and bit the officers on duty. Another drunken incident occurred in the Moscow restaurant Kalevala involving republican Minister of Sport and Tourism Valentin Ivanov, after which the newly-appointed inspector lost the job he then held (*Molodezh severa*, 21 September).

Given his background, many are asking why Grishin was appointed as chief federal inspector. Cherkesov never said what criteria he used in picking his appointees. Clearly, however, he consulted the republican leadership. Grishin is a very good choice from the point of view of Komi leader Yurii Spiridonov. First, because of Grishin's past sins, Spiridonov can easily manipulate him. Second, Grishin is close to Spiridonov since for many years he served as Spiridonov's chief of staff. The previous presidential

representative in Komi, Aleksandr Popov, also was not an independent player since he had been appointed to the post with the approval of Spiridonov.

In this way, the federal authorities did not appoint a real monitor to stand over the republican authorities. The local elite have almost unanimously welcomed the appointment (*Tribuna*, 6 October). The few dissenting voices came from State Duma Deputy Valerii Markov, Womens Chamber and Civil Parliament Director Olga Savastyanov, Vokuta Mayor Igor Shpektor, and Komi Parliament Deputy Speaker Ivan Kulakov (*Respublika*, 7 October). Perhaps Aleksei Grishin is a talented manager as his supporters say, but his appointment raises real doubts that he will actually defend the interests of the federal government in the republic. - Yurii Shabaev in Syktyvkar

## **INTERVIEW WITH STATE DUMA DEPUTY SERGEI SHOKHIN**

**AUDIT CHAMBERS SEEK A MORE ACTIVE ROLE IN THE REGIONS.** Sergei Shokhin (Otechestvo-Vsya Rossiya) is a member of the State Duma Budget and Tax Committee. Before winning election to the State Duma from a Moscow single-mandate district, he was the chairman of the Moscow City Monitoring and Audit Chamber and president of the Association of Audit Chambers. The Audit Chamber plays roughly the same role in Russia that the General Accounting Office plays in the US. Shokhin is the author of *Problemy i perspektivy razvitiya finansovogo kontrolya v Rossiiskoi Federatsii* (Moscow: Finansy i statistika, 1999), a straightforward history of the audit chambers in Russia and their role today. On 28 September, he met with the EastWest Institute's Petr Kozma and Robert Orttung. Below we publish a small section of their interview.

**RRR:** Do the audit chambers work at the level of the regions?

**Shokhin:** Of course.

**RRR:** Does the presidential administration plan to work with them to monitor the activities of the governors?

**Shokhin:** There are great complications. ... Moscow City set up the first audit chamber in 1994. Russia established a federal audit chamber in 1995. ... During the Soviet era, there was no need for such an organ [that worked as an external monitor]. Now more than 60 regions have set up audit chambers, which vary in status: some are completely independent and monitor the Legislative Assembly, courts, and governors. Some work under the aegis of the Legislative Assembly with the status of a legal entity or without it. Gradually these latter chambers are becoming more independent. But about 20 regions do not have audit chambers. They believe that they do not need any sort of external oversight. I believe that they should be everywhere.

Budgetary federalism has not yet been canceled, though the government is already taking several steps in this direction. We have created a hierarchy with the audit chambers at the federal level and in the regions. So far they are independent, but there are very close ties. Now Audit Chamber Chairman Sergei Stepashin and I hope to make a unified association so that the Russian Federation Audit Chamber becomes more active. If we succeed in making amendments to the Audit Chamber, subordinating it partially to the president, then we will have a pretty good, well-proportioned structure - president, government, Duma, Audit Chamber - as a system of checks and balances. The audit

chamber will actively cooperate with all parts of the triangle. We need to export this system to lower levels and then everything will turn out all right. The Audit Chamber is now the only structure that works openly and its documents cannot be suppressed. Their results must be published and no one can prevent it.

**RRR:** Do the audit chambers in the regions work with the seven new presidential representatives?

**Shokhin:** Not now. Here there is one nuance. In Russia, the different levels of government do not get along well together. We do not want the audit chamber in a particular region to become a weapon of the federal authorities against the governors. We are trying to harmonize relations between the authorities so that people work together. We help in management and the adoption of financial and economic laws. If the audit chambers became part of the battle, the outcome would only be harmful.

**RRR:** Today the presidential representatives are paying a lot of attention to setting up procurators' offices at the federal district level, partly taking over the functions of the audit chamber.

**Shokhin:** They do replace each other, but their functions cross each other. That is a big difference. We have federal institutions such as the procurator, Ministry of Internal Affairs, treasury, etc. First the state should deal with them to get them functioning. I was the chairman of the Moscow Audit Chamber for six years and every year sent an enormous amount of material to the procurator, but the procurator did not file a single case on the basis of the information I sent. Stepashin today is facing the same problem: he sends hundreds of pieces of information to the procurator with zero result.

**RRR:** Don't you fear that if audit chambers are created at the level of the region, they will come under the influence of the governors?

**Shokhin:** You understand that there is an ideal structure of the law and there is life, we can't get away from this. But we try to do everything to make the chambers independent and deprive the executive and legislative branches from exercising a negative influence on them.

**RRR:** How are the audit chambers cooperating?

**Shokhin:** We just had a meeting in Anap (Krasnodar Krai) at which there were representatives from 44 regions. We are creating an association of audit chambers. Earlier we had such an association, but without the Audit Chamber of the Russian Federation. It did not participate because it did not want to be accused of exerting pressure on the regional audit chambers. Now we understand that it is possible to address all issues without pressure. There are already agreements among 20 audit chambers about cooperation. The Moscow chamber is involved. This cooperation can be informational cooperation and sharing of best practices. ... We could use technical help from the west, such as textbooks translated into Russian. We could also use practical seminars. Maybe it would make sense to hook up the various audit chambers through the Internet.

We have many problems. For example, regional chambers cannot audit the activities of federal institutions and the federal audit chamber cannot audit regional institutions. For example, it is often hard for us to trace what happened to funds in the

budget. With the agreements, the regional and federal chambers can work together now. For example, in Tyumen there is gas and oil. There are audit chambers in Khanty-Mansii and Tyumen. But the money goes to Moscow! How can the regional chambers figure out where it went? This is why we have concluded cooperation agreements. ... This cooperation is only beginning, but it has the potential to be very effective.

**NOTE FROM THE EDITORS.** On 20 September, the *Russian Regional Report* summarized the comments by Russian regional officials to a round-table discussion on Putin's reforms at Columbia University's Harriman Institute. We would like to add that the delegation from the Federation Council and the State Duma was participating in the Library of Congress' Open World Community 2000 Program for emerging Russian political leaders. During their stay in New York, the Russian officials were hosted by Governor Pataki. For more information on the Open World Community Program, refer to <http://www.lcweb.loc.gov/rlp/>

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## BREAKING NEWS

**STATE COUNCIL PRESIDIUUM HOLDS SECOND MEETING.** The presidium of the State Council held its second meeting on 12 October. The State Council Presidium includes President Putin and seven governors. Among its key decisions was that the full body of the State Council, which includes the president and all 89 governors, would hold its first meeting on

22 November to discuss Russia's strategic development to 2010. Prime Minister Mikhail Kasyanov and Khabarovsk Governor Viktor Ishaev will be the key speakers at that session. According to Ishaev, they will present two different points of view. Ishaev believes that Gref's plan only amounts to a social-economic strategy, but not a strategy for developing the state, which would include the restructuring of political institutions and the banking system, *Vremya novosti* reported on 13 October.

Judging by the agenda of the first meeting, the State Council will play a small role in Russian politics. It will meet four times a year and discuss one important issue at each meeting. The discussions will be global, and the body will not have much time to discuss the problems of the regions. Initially, the governors had wanted to discuss the budget, tax and customs policy, and the overall course of federal reforms. However, these topics were not chosen. Long-term planning is usually considered a more marginal topic and if governors continue to focus on this, they will gain little real power from the new body.

Khakasiya Governor Aleksei Lebed is extremely skeptical about the powers of the State Council. He described it as an "amorphous organ" that consults but decides nothing. Since Putin created it by decree rather than law, he can simply get rid of it he wants to. Lebed also noted that the presidium (of which he is not a member) now includes some of Russia's most influential governors, but they will have to leave and make way for others when their six-month term expires (*Segodnya*, 13 October).

**NEWS AGENCY TO GET NEW LEADER.** The RIA-Novosti news agency, which is part of the All-Russian State Television and Radio Company (VGTRK), and is set to play a role in Putin's attempts to get better control of the regional media, is likely to get a new leader in the near future. *Vremya novosti* (16 October) reported that it will be Vladimir Kulistikov, the first deputy director of NTV and the head of its information service. Kulistikov resigned his position at NTV on 17 October. The previous head of RIA-Novosti, Aleksei Volin, left that position, to take a job in the government.

**CONSTITUTIONAL COURT EXAMINING UNFUNDED MANDATES CASE.** The Russian Constitutional Court is examining a case focusing on whether the oblast authorities have the right to transfer some of their responsibilities to the local government. State Duma deputies filed the case, which focuses on specific passages in the Kursk Oblast charter. Deputy Chair of the State Duma Committee on Issues of Local Government Nadezhda Korneeva said that such transfers of responsibilities, made without the necessary funds to carry out those responsibilities placed an unbearable burden on local governments. The petitioners likewise asserted that the charter's provision for the possibility of local governments giving their powers to the regional governments is unconstitutional. They also questioned the charter's provision allowing the population to abolish local government all together through a referendum. The president's representative to the court, Mikhail Mityukov, supports the deputies' case. The court should announce its decision in two weeks (*Vremya novosti*, 13 October)

**YAKOVLEV AIDE ARRESTED.** The St. Petersburg procurator on 11 October sanctioned the arrest of Dmitrii Solonnikov, the head of the Department for Social Ties, which is part of the

gubernatorial administration's Committee on the Press. The charges are large-scale embezzlement. The investigation began seven months ago and Solonnikov was arrested on 9 October. Solonnikov is considered a close associate of Governor Vladimir Yakovlev. The governor's administration views the arrest as an attempt to put pressure on it. Deputy Governor Aleksandr Potekhin pointed out that many of Yakovlev's subordinates have been arrested, including deputy governors, but none have been convicted (*Segodnya*, 13 October).

**LATYSHEV MAKES CHANGES IN URALS DISTRICT.** Presidential Representative to the Urals Federal District Petr Latyshev announced that he plans to reduce the number of regional employees of federal agencies working in his federal district, *Segodnya* reported 12 October. However, he plans to create new divisions at the federal district level to address healthcare and police matters. There is already a federal district procurator. He said that the Sverdlovsk, Chelyabinsk, and Tyumen oblast procurators are in crisis because they have not filed charges in approximately 4,500 cases. He plans to take action on this front. He said that many law enforcement officers in the district have committed crimes. One of his key plans is to fire Sverdlovsk procurator Vladislav Tuikov and no one doubts that Tuikov will be removed. Next in line is Sverdlovsk Oblast Police Chief Aleksei Kranikov, who has already received a stern reprimand. Both of these officials were appointed with the support of Sverdlovsk Oblast Governor Eduard Rossel, who has frosty relations with Latyshev.

## **CENTER-PERIPHERY RELATIONS**

**GENERAL NAMED AS FEDERAL REPRESENTATIVE IN TATARSTAN.** Russia's seven new federal districts have staffs that go well beyond the presidential representative. In each district, the representative has five deputies. Each district also has a chief federal inspector and in each of the regions making up the district, there is a federal inspector, who also has his own staff.

Presidential Representative to the Volga Federal District Sergei Kirienko has now appointed Marsel Gafurovich Galimardanov, 49, as the federal inspector in Tatarstan. President Boris Yeltsin had never appointed a representative to Tatarstan, so Putin's reform marks a clear departure from Yeltsin's policies in this regard.

Galimardanov's appointment is noteworthy in several ways. First, the person Moscow chose to send to Kazan is an ethnic Tatar. Clearly this choice is connected with the difficult relations that have historically existed between Moscow and Kazan. Second, Galimardanov holds the rank of major-general, following Putin's practice of appointing generals to important political posts. Third, Galimardanov is from the KGB. In 1974, he graduated from the USSR KGB's Higher Border Guard Military-Political School and then served in various political divisions of the North-West and Trans-Caucasus border districts of the USSR KGB. Most recently, he worked as the first deputy to the chief of the Department of Educational Work of the Federal Border Guard Service. Finally, Galimardanov comes from the same part of Tatarstan as republican President Mintimer Shaimiev: the rural Aktanish Raion. This last fact will be important for the republic and the future of its relations with Moscow. - Midkhat Faroukshin in Kazan

**NIZHNI NOVGOROD GOVERNOR DENOUNCES PUTIN MEDIA GRAB.** Nizhnii Novgorod Governor Ivan Sklyarov has criticized Putin's decree removing the governors' right to approve the appointment of the head of the regional state television and radio company (GTRK) (on the decree, see *EWI Russian Regional Report*, 4 October). The decree hands this power to the seven presidential representatives to the federal districts. In criticizing Putin's initiative, Sklyarov said that the GTRK director would have to seek help from the governor no matter who appointed him. Sklyarov believes that candidates to run the GTRKs should be approved by the governors, as should the heads of the local police forces, procurators, and military commanders. Sverdlovsk Governor Eduard Rossel and Bashkortostan President Murtaza Rakhimov made similar statements at the meeting of the Council of the Urals Economic Association in Ufa on 17 October (polit.ru, 17 October). Rossel called on the regional authorities in the Ural region to create their own information center independent of Moscow.

On the other side, Nizhnii Novgorod State Duma Deputy Vadim Bulavinov, a member of the Committee on Information Policy, announced that the members of the federal parliament's lower chamber supported the president's decision. He claimed that to do otherwise would be a violation of the federal government's attempt to build a unified information policy. He argued that some governors were continuing efforts to control the media for their own political benefit. - Yuri Rodygin in Nizhnii Novgorod

**KALMYKIYA OPENS REPRESENTATION IN SOUTHERN FEDERAL DISTRICT CAPITAL OF ROSTOV.** Kalmykiya President Kirsan Ilyumzhinov has issued a decree opening a representation from his office to the Southern Federal District and the North Caucasus Military District in Rostov-na-Donu (*Izvestiya Kalmykiya*, 10 October). The text of the decree points out that the mission has two goals. First, it will guarantee coordination between the republican authorities and the presidential representative to the Southern Federal District and his staff in resolving all political, legal, economic, social and other issues. It will also coordinate interactions with the military district leadership to develop better ties in the fields of economic, social, cultural, and sporting relations. The president appointed A. Dluzhnevskii as his ambassador, giving him the rank of minister in the republican government.

[Most regions have representations in Moscow to lobby the federal government. Putin's reform is now leading some to open offices in the capitals of the federal districts. Visitors to Khabarovsk, for example, note that Sakha Republic has opened a representation there.] - Vladimir Volgin in Elista

## **BUDGET ISSUES**

**FEDERAL REFORMS SHRINK SAMARA BUDGET 15 PERCENT.** On 16 October the Samara Oblast administration sent the region's 2001 budget to the regional legislature for consideration. The governor prepared this budget taking into account the recent changes in federal budget law. Until now, Russia's budget has been defined by the 1991 law on the basic budget system. This law said that revenues should be divided 50:50 between the federal government and the regions. In July of this year, amendments were adopted to the budget code

changing the proportion to 58:42 in favor of the center and this proportion was used in the 2001 federal budget. As has been widely noted these changes at the federal level take a considerable amount of money away from the "donor-regions," those regions that contribute more to the federal budget than they receive in return.

Samara Governor Konstantin Titov has fought for the return to a division in the distribution of tax revenue to 50:50 instead of a distribution that favors the federal government. Among the places Titov spoke out against this federal policy was the 12 September meeting of 18 donor regions in Moscow. Titov charged that "this proportion violated dozens of laws" and does not allow the heads of the donor-regions to pay social needs at their full level.

These concerns were played out in developing the Samara Oblast budget for 2001. According to oblast administration officials, if the previous conditions had been maintained, the oblast's revenue would have been almost 11 billion rubles. However, given the changes in the Russian legislation, the oblast's income will instead be 8.8 billion rubles, making for a difference of about 2.2 billion rubles.

At the same time, the federal government will provide additional money to take the burden for some social expenditures off the oblast. This additional income comes from changes in the laws on state support to people with children, veterans, and the handicapped. As a result, the oblast is likely to have to pay 530.8 million rubles less than it would have under the old conditions.

Thus, the overall loss to the oblast in 2001 will be 1.6 billion rubles, meaning that the budget will shrink 14.7 percent.

However, the situation is not apocalyptic. There is still enough money in the budget to maintain Samara as one of the leading regions in the country. During the past several years, Samara has been in fifth-sixth place among the 89 regions in terms of budget resources. Civil servants working for the oblast government will still receive salaries about 15 percent higher than analogous workers employed by the federal government.

Overall, the oblast's 2001 budget grew by 17 percent over the 2000 budget, which was 7.3 billion rubles. It remains unclear what the exact source of this growth was - real growth of the economy or simply inflation.

The regional authorities have maintained some space for maneuver in terms of budgetary funds. For example, following up on Governor Konstantin Titov's campaign promises, the budget will include the following increases:

Ecological measures - 2.6 times more than last year

Priority agricultural measures - 82 percent

Capital investment - 76 percent

Culture - 52 percent

Education - 31 percent

Transportation - 27 percent

Healthcare - 18 percent

Thus, while the budgetary situation will remain tense over the coming year, the level of spending will rise, particularly in the social sphere. - Viktor Kuznetsov in Samara



## GOVERNORS' ELECTIONS

**PERM GOVERNOR JUMPS BACK IN RACE.** The usually calm Perm Oblast is now entering the third week of a roiling political crisis. Governor Genadii Igumnov, who unexpectedly dropped out of the region's 3 December gubernatorial race, has just as surprisingly rejoined the competition.

This strange episode began at the end of September when the investigation into embezzlement at Permenergo began to pick up speed and Elsvyaz General Director Aleksei Semerikov was arrested. The investigators had been working for three years, but they decided to take action three months before the elections. On 3 October they arrested Vladimir Sivkov, the director of the Biznes-Konsalting law firm. During the mid-1990s, Sivkov was a close associate of Governor Igumnov's daughter, Yelena Arsumanovaya, who then worked in Ekoprombank, a local bank. The investigators searched her old and new offices. They also wanted to search her apartment, but since she is currently abroad, they did not. During that day, the investigators also questioned Permenergo General Director Yurii Lapin. As a result, Sivkov was charged with embezzling about \$1 million from Permenergo. It is possible similar charges will be filed against Arsumanovaya when she returns. After Sivkov was held for three days and refused to give any material on Arsumanovaya, he was released.

Three days later, on 6 October, Igumnov, apparently concerned about the safety of his family, announced that he would not seek another term as governor (see *EWI Russian Regional Report*, 11 October). He had held almost non-stop negotiations in Moscow during the three days following 3 October. In his speech, Igumnov said that he did not want to be involved in another dirty campaign and called on voters to support Mayor Yurii Trutnev as his successor. Trutnev quickly launched his own campaign effort.

However, on the evening of 6 October, Presidential Chief of Staff Aleksandr Voloshin called the governor to say that he fully supported Igumnov's efforts to seek another term and did not understand his announcement leaving the race. The governor immediately left for Moscow and his staff began rounding up letters from various constituents asking the governor to rethink his decision to drop out of the race. Most of the local factory directors and agricultural enterprise heads signed the petitions in support of Igumnov.

On his return from Moscow on 10 October, Igumnov renounced his withdrawal statement and picked up in the campaign where he had left off. He beefed up his campaign team by involving two deputy governors: Dmitrii Samoilov (in charge of media relations, political questions, and regional ties) and Vladimir Bykov (agriculture). Igumnov, Samoilov, and Bykov make up the triumvirate at the top of the campaign team.

Seeing the sudden change in events, Mayor Trutnev also quickly flew to Moscow and met with the presidential administration. He returned on 12 October and announced that he would continue his gubernatorial campaign. Since the governor and mayor are now going head to head in the race, it is impossible to make any predictions about who will win, especially since a runoff is likely.

One thing is clear. The Perm elite will only lose from this split, having handed over so much power to Moscow. The problem is not just that the main decisions were basically dictated by Moscow and that the main part of the elite demonstrated an inertness and narrowness of

thought, reflecting their inability to act quickly in a crisis. The problem is not even that Ignunov and Trutnev have lost all credibility now. More importantly, these events struck a blow against Perm's self-sufficiency and confidence in itself as a major donor-region to solve its internal problems without outside interference. The oblast once took pride that it had the necessary financial and administrative consensus to address even the most difficult issues. In essence, now the Perm elite has handed this power off to Moscow and particularly the main political-oligarchic Moscow groups. - Grigorii Volchek in Perm

**KONDRATENKO ANOINTS HIS SUCCESSOR.** Krasnodar Krai is turning a new page in its political life. On 24 August, the krai Legislative Assembly announced that gubernatorial elections would be held on 3 December. Just a week later, on 1 September, Governor Nikolai Kondratenko dropped a bombshell: citing poor health, he stated that he would not be running for a second term in office.

The hugely popular governor's announcement shook the region's political elite. In September, hardly a day passed without a demonstration of loyalty to Kondratenko, whether in the form of public rallies or letters to the editor of krai newspapers encouraging the governor to change his mind.

In the past, Kondratenko had hinted at the possibility that he might not run for reelection, but neither his supporters nor his opponents took these hints seriously. The governor was clearly well entrenched: according to recent polls, this summer he enjoyed the support of 60-70 percent of the krai's urban residents and 80-90 percent of those in its agricultural regions. During his four-year term as governor, he evolved from a charismatic leader to a true cult figure: a politician-businessman who defended the people's interests and opposed the central government.

Initially, Kondratenko's refusal to run for a second term led to a dramatic shift in the balance of political power in the region, increasing the chances of other gubernatorial candidates -- including Vladimir Zhirinovskiy, who announced his interest in the position during a trip to Krasnodar Krai in August. However, it soon became clear that Kondratenko's own pick for the job would enjoy a significant advantage over other candidates. Kondratenko is the symbolic leader of the local Otechestvo party, not to be confused with Yurii Luzhkov's national Otechestvo-Vsya Rossiya bloc. The local Otechestvo party consists of various patriotically minded social movements and political parties, from Communists to agrarians to Cossacks. During the seven years of its existence, it has seen its status switch from that of the leading oppositional party to the party of power.

In September, Otechestvo could offer two viable candidates for governor: Vladimir Beketov, currently in his second term as head of the krai Legislative Assembly, and State Duma Deputy Aleksandr Tkachev. While Beketov is the very embodiment of a competent bureaucrat, Tkachev had a psychological advantage over him from the very beginning. As head of Vyselkovskii, one of the largest agricultural complexes in the region, he is a charismatic politician-businessman -- the very image that has worked so well for Kondratenko.

During September, it remained unclear just who would receive the governor's support. This political confusion was heightened by the widespread hope that Kondratenko would re-think his decision not to run. In the beginning of October, matters became clearer. Otechestvo

threw its weight behind Tkachev, a clear indicator that the businessman-politician had Kondratenko's blessing. Beketov, as a loyal Otechestvo member, quietly withdrew from the race. In the region, Kondratenko is known as a kindly father (Batka Kondrat) and he refers to Tkachev as "son."

The two leaders have had an interesting relationship. In 1993, during the State Duma elections, Kondratenko and Tkachev ran against each other in the Tikhoretskii single-mandate district. Tkachev's victory did not lead to a rift between the two politicians, as indicated by the fact that in 1996, Tkachev withdrew his candidacy from the gubernatorial elections, choosing to support Kondratenko instead.

On 13 October, the last day for gubernatorial candidates to register, only four names were on the ballot: Tkachev, Deputy Head of Medicine of the krai hospital M. Oganessian, General Director of Spetsenergoservis I. Kramarenko, and State Duma Deputy V. Teterin. It seems clear that this election will go down in history for its sheer predictability. Equally clear is the fact that Kondratenko's departure from office is by no means a departure from the krai's political scene. - Arbakhan Magomedov

**LUKOIL'S ALEKPEROV VISITS VOLGOGRAD ON EVE OF GUBERNATORIAL ELECTIONS.** Volgograd Oblast is well known as a region in which the giant oil company LUKoil plays a major role on the market and has enormous influence over the oblast administration. LUKoil President Vagit Alekperov's visit to the region last week only confirmed this.

The reason for the visit was the start of reconstruction work on the Volgograd oil refinery. According to Alekperov, the work will increase the value of the plant by 70 percent. Alekperov and Governor Nikolai Maksuta participated in the symbolic laying of the first stone for a new line that will produce high octane gasoline, the only oil product that the region currently imports. Additionally, the restructuring will increase the production of packaged lubricating oils.

LUKoil and the administration released several figures demonstrating the importance of the company to the local economy. The refinery is one of the few in Russia demonstrating high levels of growth in 2000. During the first eight months of 2000, the refinery paid 1.4 billion rubles in taxes to all levels of government. "Today more than 100,000 Volgograd residents are working at jobs created by LUKoil," Governor Maksyuta said. "During the last 3.5 years, LUKoil has paid \$480 million in taxes."

The period of 3.5 years named by the governor shows the real purpose of Alekperov's visit. Maksyuta came to power 3.5 years ago and faces elections in two months. LUKoil could not find a better ally than Maksyuta. Soon after becoming governor, he signed an agreement with LUKoil which increased the production of oil in the region, built a fleet of oil tankers at the Volgograd Shipbuilding Factory (the factory once headed by Maksyuta), and guaranteed supplies for the fuel needs of rural parts of the oblast. This last agreement caused the oblast to build up large debts to the oil giant when it could not pay for the oil products needed during the planting and harvesting in 1998, a drought year.

Maksyuta's critics accuse the governor of being dependent on LUKoil. Alekperov did not try to counter such accusations. Rather the two leaders sought to demonstrate the benefits

of such dependence for the oblast. It remains unclear if the voters will believe them, especially since the price for gasoline in the region is traditionally higher than in neighboring regions, which do not have their own refineries. Of course, LUKoil does not monopolize the market in those other regions either. - Ivan Kurilla in Volgograd

**KULIKOV CONTINUES TO LEAD IN VORONEZH.** General Vladimir Kulikov continues to be the strong favorite in the Voronezh Oblast gubernatorial elections, while Governor Ivan Shabanov is only in third place, according to polls reported in *Voronezhskii kurer* on 7 October. Kulikov, the head of the regional Federal Security Service (FSB), seems set to win the elections. Nevertheless the governor continues to fight to strengthen his position. At the beginning of the year, the local Communist Party strongly criticized the Communist Shabanov, particularly because he backed Putin's presidential bid. At that time it seemed that the party would never support his efforts to secure another term. However, now the party has announced that it will support him.

Former Voronezh Governor Aleksandr Kovalev has decided to challenge Mayor Aleksandr Tsapin in elections set for the same day as the gubernatorial elections. Kovalev decided not to run in the gubernatorial campaign because his popularity is slipping in the region. In September, he was the fifth most popular politician, but by October his position had dropped to 8-9th place. Most analysts think that Kovalev has a good chance to win the elections. In particular, he is connecting his fortunes with Kulikov and many think that the Kulikov/Kovalev ticket has much better chances than the Shabanov/Tsapin slate. - Yulia Fedorinova in Voronezh

**OPPONENTS GANG UP ON RUTSKOI IN KURSK VOTE.** Kursk Governor Aleksandr Rutskoi faces eight opponents in the region's 22 October gubernatorial election and their main campaign tactic is to criticize the incumbent. They are seeking to remove Rutskoi from the race by citing campaign violations allegedly committed by his electoral team. The opposing candidates claim that Rutskoi is using his office to gain an unfair advantage. Electoral Commission Chairman Yelena Yarovaya has already imposed several disciplinary measures, fining the Kursk Oblast Committee on Information and the Press twice and *Kurskaya Pravda* once. Two other newspapers received warnings.

Seven of the candidates, including Federal Inspector Viktor Surzhikov, charged in a letter to the Central Electoral Commission, the presidential administration, and the oblast electoral commission that Rutskoi's violations went beyond all reasonable limits. They claimed that the state media, particularly the local TV station, was basically running free advertisements for his campaign in the guise of news programs. They also claimed that he was using oblast and municipal civil servants for his campaign during working hours, when they had access to their state-owned vehicles and communications equipment. Rutskoi allegedly told everyone who does not cooperate that he would fire them.

One of the candidates, Kursk Mayor Sergei Maltsev, described one incident in which the Zolotukhin Raion Mayor threatened residents of the region that if they voted against Rutskoi, their electricity and heat would be shut off. They charge Rutskoi with bribing voters by sponsoring free concerts for residents at an expense of \$80,000 to the oblast budget. The other

candidates also say that during the last three months Rutskoi has been handing out free cars and domestic appliances to various individuals and organizations.

Rutskoi's opponents also claim that he lied about how much property he owns. The main conflict is over Rutskoi's apartment in Moscow, which was the subject of dispute when he divorced his wife Ludmila in 1997. It is allegedly 500 square meters, not the 160 that Rutskoi claimed. The Moscow City government supplied the information about the apartment. This tactic is the most likely to damage Rutskoi since the Central Electoral Commission has paid considerable attention to these "apartment issues" in the past.

The seven candidates who signed the letter demand that Rutskoi be disqualified from the race. The result of this scandal is that it will be very hard for Rutskoi to win a victory in the first round. And then he will face a reasonably united opposition in the second round, when it is only necessary to win a majority of the votes. - Sergei Sarychev in Kursk

## **PATTERNS OF REGIONAL DEVELOPMENT**

**IRKUTSK GOVERNOR SEEKS COMBINATION OF OBLAST, UST-ORDYN BURYATIYA OKRUG.** As a result of the numerous elections held recently in Irkutsk Oblast and the Ust-Ordyn Buryatiya Autonomous Okrug, the question of joining the two regions has come back onto the political agenda. The oblast completely surrounds the okrug. In a recent press conference, Irkutsk Governor Boris Govorin said that it was time to remove the political coloring from the discussion. He described the division of the oblast and okrug a big mistake. "This was a political decision. In terms of territory and infrastructure, these regions cannot be divided." Ust-Orda Buryatiya leader Valerii Maleev has said that the population of his region would support a referendum to become part of Irkutsk Oblast (see *EWI Russian Regional Report*, 26 July).

Govorin is convinced that the merger would benefit both sides, although the residents of the okrug think that the matter is more important to them than to the oblast, which is much better off financially. The okrug residents need medical services, which they can only obtain in the oblast. Irkutsk Oblast, on the other hand, gets 30 percent of its agricultural products from the okrug. - Teleinform in Irkutsk

**IRKUTSK LEGISLATURE FAILS TO ELECT CHAIRMAN.** The Irkutsk Oblast legislature continues to face numerous problems. The oblast failed to elect enough legislators to the body in the 25 June elections because of low turnout. Repeat elections were held on 24 September (see *EWI Russian Regional Report*, 4 October). However, now the body is evenly divided and no candidate can win the 21 votes necessary to be elected chairman (in the 45-seat house, three elections are still being challenged in the courts and two seats are vacant because their elections were not valid). The two contenders are Local Yedinstvo leader Vladimir Kovalkov, who is also the director of Irkutsk Aviation Production Association, and Irkutskenergo General Director Viktor Borovskii. Two votes to elect the chairman failed on 11 October, with the legislature hopelessly split.

Irkutsk Governor Boris Govorin is backing Kovalkov. Govorin described Kovalkov as a new manager who is able to make decisions. During the campaign Kovalkov was the only

candidate to have the backing of all four major electoral blocs competing in the race (see *EWI Russian Regional Report*, 4 October). The governor clearly wants to put in place a speaker who will be willing to cooperate with him. He said, "I cannot accept the point of view that there should be a system of checks and balances. We have been so distracted by discussions about the standoff between the two branches of government that we have forgotten that we serve the oblast residents' interests. ... The job of the speaker is to organize the work of the committees and commissions and also to represent the position of the oblast at the federal level."

The opposition in the oblast argues that Govorin is trying to turn the oblast legislature into a branch of the oblast administration. They argue instead that the legislature should have the power to adopt decisions independently. They strongly support Borovskii, claiming that he knows the region much better than Kovalkov. At this stage they are not ready to compromise. The legislature is scheduled to meet again on 25 October. - Teleinform in Irkutsk

**MARI EL PRESIDENT WINS LEGISLATIVE VOTE.** On 8 October Marii El filled 60 of the 67 seats in its legislature, electing a body that will work closely with President Vyacheslav Kislitsyn. In seven districts, all located in the capital Ioshkar-Ola, turnout did not reach the required 25 percent to be valid. Repeat elections will be held on 3 December, when Kislitsyn also faces the voters. The republican president had earlier tried to move the presidential elections up to 8 October, but the federal government forced him to back down.

The legislative campaign was marked by scandal as the day before the voting the head of the republican electoral commission, Yurii Petrov, was charged with accepting a car as a bribe. Currently a large brigade from the Ministry of Internal Affairs dealing with economic and organized crime is working in the region.

The campaign was largely a battle of the president's supporters and opponents. The president used all the administrative means and state media at his disposal to win. The opposition tried to unite forces to win the campaign, but its efforts proved unsuccessful. Thus although 50 percent of the republican legislators are new to the body, the legislature's policies are likely to be the same as they were before. - Svetlana Zasloukina in Ioshkar-Ola

## **SPECIAL CONFERENCE REPORTS**

*On 29-30 September the EastWest Institute held a conference in Moscow to evaluate the first results of Putin's reforms of the Russian Federation. The conference was supported by the Carnegie Corporation of New York's Russia Initiative. Below, we are continuing our series of short summaries from the presentations. For the first set of presentations, see EWI Russian Regional Report, 4 October). All of the Russian-language papers presented at the session are available in PDF format at the EWI website: <http://www.iewe.org/rrrabout.nsf>*

**BASHKORTOSTAN: WANTS TO RESPECT POWER-SHARING TREATIES.** Igor Rabinovich explained that Bashkortostan wanted to maintain the central role of its power-sharing treaty in its relations with Moscow. Rather than bringing its laws in line with federal norms, the republic wants to change federal and republican laws jointly to employ the best of

both of them. In fact, Bashkortostan may even take the initiative in seeking to increase the status of federal treaties. From the point of view of Bashkortostan's leadership, getting rid of the treaty would destroy the federalism that currently exists in Russia and harm the federation.

Bashkortostani leaders do not see any reason for bringing back the dictatorship of the center and argue that Putin's policies are only leading to the return of complete centralized control. Bashkortostan constantly argues that the rights of the US states (translating "state" with the Russian word *gosudarstvo*) are much wider than Russian regions.

However, now the center does not want to build a special relationship with the ethnic republics like Bashkortostan and Tatarstan. Rather than emphasizing ethnically-defined regions with special rights, the Kremlin has emphasized dividing the country into regions equally, regardless of ethnic, religious, or other differences. In his letter of 6 May to the republic, Putin demanded that Bashkortostan bring its legislation into line with federal norms. Forty-four articles of the Bashkortostan constitution and 57 legislative acts of the republic contradict federal legislation, a record for a Russian region. Putin's amendment of federal law to give him the power to fire governors and disband legislatures suggests that he is serious about making these changes. The federal government is also unlikely to extend any of the power-sharing treaties with the regions.

The federal government is paying particular attention to interbudgetary relations. The federal treasury is setting up 15 branch offices, which will cover the entire territory of the republic. There are also plans to set up a series of audit chambers in the republic. The federal government ended its special budgetary relationship with the republic on 1 July, which had allowed the republic to withhold a significant sum of taxes from the federal budget. This agreement was part of the 3 August 1994 power-sharing treaty and a separate treaty on budget relations. While the money was designated for federal programs, the republican authorities had used it for other purposes as well. In effect, during the 1990s the republic determined how much money to transfer to the federal government to carry out voluntarily delegated tasks. During this time, the ideology of sovereignty became part of the regional elite's world outlook, particularly since it defended the region from the center's poorly thought out course of reforms. The federal government is offering nothing in return for taking back these privileges.

The leaders of Bashkortostan and Tatarstan will clearly oppose these attempts to reduce their complete power over their territories. By centralizing power, Putin makes it possible for Bashkortostan and Tatarstan's leaders to blame future problems on the federal government. The republican elite used sovereignty as a mechanism for consolidating the regional elite. Because of this freedom from central control, the republican authorities set up political institutions that concentrated all political and economic power in the hands of the republican president. President Murtaza Rakhimov has ruled the republic with firm control for the last ten years. He has no intention of compromising on the republic's sovereignty, nor does he see it as something that could be the subject of political bargaining. As part of his defense, Rakhimov points out that the republic's citizens are relatively better off than residents of other regions.

**SVERDLOVSK OBLAST: CONTINUING CONFLICT BETWEEN REGIONAL, FEDERAL ELITE.** Urals State University Professor Sergei Pushkarev started his presentation by pointing out that Sverdlovsk Oblast Governor Eduard Rossel stands at the top of a strong

pyramid of power in the region. However, the introduction of Putin's reforms marks a new chapter in the oblast's history. While it is still premature to assess the impact of the reforms, Pushkarev stressed that the personal role of Presidential Representative to the Urals District Petr Latyshev would be very important in how the reforms played out in the Urals. Because of his background, for example, he will focus on working with the power ministries and fighting crime.

Pushkarev examined five aspects of Putin's reforms. First, the creation of the seven new federal districts did not generate much enthusiasm within the oblast administration, where they are seen as an attempt to reduce the governor's powers. Accordingly, people within the administration said that they would participate in "quiet sabotage" of the reforms. Now, the Ural region is the only federal district where the presidential representative does not have a good building at his disposal for office space. In Yekaterinburg, many observers criticized the federal districts because they are not based on historic units that have developed in Russia. For example, the Urals Federal District does not include Perm, but it does include Tyumen, which was usually part of Siberia. Latyshev, who has strong personal ties to Perm, does not rule out the possibility of changing the borders of the federal district.

Second, the reform in the way Federation Council members are chosen was also seen as an attack on the political power of the governors. However, observers like Oblast Duma Deputy Chairman Andrei Izmodenov suggested that the reform would reduce the prestige of the governors, but not their real power. Some observers worried that there will be a market for seats in the Federation Council, particularly in the poorly developed regions, where the political culture is relatively conservative and uncompetitive. Observers believe that the "price" for these seats will be on the order of \$2 million.

Third, regarding the harmonization of federal and regional laws, officials in the Sverdlovsk Oblast administration asserted that their laws were generally in line with federal norms. The main problem was that federal legislation did not provide for the office of oblast prime minister. One solution would be to transform the office of the prime minister into the position of "vice governor." However, the lower house of the regional legislature has to approve candidates for vice governors and a majority of the lower house is now in opposition to the governor.

The fourth aspect of reforms deals with the role of federal power ministries in the region. Under the old system, the governor coordinated the law enforcement agencies, mostly through the Societal Security Council (Sovet obshchestvennoi bezopasnosti). The oblast government has also issued a directive on collecting taxes, even though this is a purely federal function. According to Rossel advisor Ilya Gorfinkel, the relationship between the governor and the power ministers depends on their personal relationship. Clearly the governors want to keep their current power, so much depends on how strictly the federal authorities want to enforce the separation between the oblast and federal agencies. The local power ministries have reservations about the reforms because the presidential representative stands over them as well as the governor and it is possible that he could find insufficiencies in their work. The local power ministries felt more comfortable when they were relatively unsupervised. Additionally, the Russian government is upset that the presidential administration has its own representatives in the regions and it does not. Gorfinkel saw the reforms as the victory of one group inside the



presidential administration and that does not mean that the other groups in the federal government will passively accept it. The reform is more likely to be successful if Putin can guarantee financing for the federal agencies independent of the regional governments.

Finally, the reforms may have some impact on business. Currently, businessmen are placing their bets on the governor, but if the presidential representative proves to be stronger, the businessmen will seek to work him. Business is interested in working with the people who make the decisions. Therefore it really matters who distributes federal money and who controls the bankruptcy agency, tax police and police. So far Latyshev has stayed out of business disputes, such as the conflict at Uralkhimmash, where two groups of shareholders clashed. Latyshev said that such conflicts were a problem for the courts.

Latyshev has attacked the Great Ural Interregional Association. He argues that the regions should express their interests at the federal level through the federal district. Rossel, who originally established the association, does not agree and will try to save the organization. If Latyshev prevails here, the federal districts could serve as the basis for the new structure of Russia.

In the discussion, Pushkarev noted that Latyshev is not really using the division of the traditional Ural district to rule. In fact, he is not really doing anything. As a general, he is not interested in forming ideology. He has talked about an federal district newspaper, but this will likely be a very informal creation. He said that in theory it would not be hard to set up a federal district media system since the oil-rich Khanty-Mansii has the money for a satellite system. However, nobody in the regions wants to hand over this power to Latyshev.

Sergei Kondratev (Tyumen) noted that none of the people in the federal district staff are allies of Tyumen Governor Leonid Roketskii. Rather, many of the key staffers come from the northern okrugs in Tyumen Oblast. In general, Latyshev's personnel policy is to get people from outside the region. One key aide, for example, is a former Pskov governor. The local elite did not expect this.

Sergei Borisov (Nizhnii Novgorod) pointed out that the governor is not an independent actor, but a representative of the regional business elite. He works as the arbiter among the various economic interests in the region. Rossel is a good example of this type of leader. He asked if there was any kind of consensus among the regional elite in Sverdlovsk in relation to the president's representative. Pushkarev answered that the regional business did not have a coordinated position.

**NIZHNII NOVGOROD: NOT CLEAR IF PUTIN'S REFORMS ARE THE RIGHT SOLUTION.** Sergei Borisov asked if the problems that currently exist in federal-central relations demand the kind of solutions that Putin is using. In other words, why create a whole new layer of the state and new institutions in the form of the presidential representatives to the federal districts? Could not the existing problems be solved within the framework of the existing institutions within the constitution? Particularly serious is the question of the relationship between the new institutions and the courts, as well as the law enforcement agencies more generally. While the creation of new institutions perhaps could provide a quick solution, Borisov argued that in the area of federal relations, the use of subtle political tools may be more effective than a

direct bureaucratic approach. Perhaps in this case, the medicine proposed is worse than the disease.

One of the key foci of the reforms is the fact that many regional laws do not conform to federal norms. However, most of these divergences are small and are not policy-relevant. Most of these changes result from the inexperience of regional legislatures who have only started working on meaningful legislation in the last 10 years. The differences on matters of principle are already well-known to Moscow and require the intervention of the country's highest leadership. To his credit, Presidential Representative to the Volga Federal District Sergei Kirienko has spent a considerable amount of time ranking the district's laws in terms of how progressive they are and in trying to use regional innovations to make changes at the federal level.

Borisov said that Putin is not a federalist, but an anti-federalist. He is an inexperienced politician and is still learning. He speculated that maybe his approach to center-periphery relations is a result of his career path, or maybe it is just his natural reflexes.

Borisov claimed that the Volga Federal District, of which Nizhnii Novgorod is a part, was created as a region that was supposed to be a leader for the others. Presidential Representative Kirienko is very different from the six other representatives since he is the only public politician. Kirienko has great ambitions. Unlike Boris Nemtsov, Kirienko always collected people around him and treated them well. Kirienko has other strengths as well. For example, he has a strong position in the regional media since his close allies run it. He is also a party politician. The Union of Right-Wing Forces (SPS) received carte blanche to develop the Volga federal district. Additionally, Kirienko is the only representative of the seven who has a good reputation in the West. As a result, he is likely to focus on attracting more investment.

Borisov pointed out that in his current position, Kirienko does not really control any resources, particularly money flows. Of the seven presidential representatives, Kirienko was probably the first to realize his limits. For example, he went to a meeting with citizens in Ulyanovsk and everyone complained about the governor. However, he realized that he could not do anything about these problems. Businessmen were unhappy to hear that he could not remove a governor they did not like. Kirienko quickly stopped attending these kinds of meetings and does not get involved in intraregional problems. To strengthen his position, he needs to grab power from the central authorities, including the deputy prime ministers and the presidential administration.

Here is perhaps one of his major failures because, in some cases, he had to sacrifice his preference for naming chief federal inspectors on the basis of his competition and instead install officials selected by the presidential administration. He most likely will not get power from the governors and so far has not had much success in his relations with them. The strongest of them, Shaimiev, Titov, and Ayatskov, continue to work directly with Moscow and have no need for Kirienko's offices. Even Putin himself seems to have weakened his attack on the governors and now seems to be relying on them to solve problems at the regional level.

What does Kirienko do to deal with his weakness? He presents himself exclusively as a politician working on the federal level. He only meets with governors and does not work with any mayors, making clear that they are not at his level. He does not give any interviews to regional newspapers, a real change in style for Kirienko who used to be a regular newsmaker. He does not get involved in intra-regional conflicts, such as the various disputes in Marii El and

Ryazan. On the other hand, he is very active in terms of selecting personnel. The competition he held to find high-quality civil servants was extremely important. He is developing a reserve of personnel that may prove useful later. Additionally, he is giving clear priority to his party. Most of the chief federal inspectors he picked are from SPS. Additionally, he brought in six key deputies from Moscow. They are all in very important positions and their presence signals that Kirienko's office is not a regional institution.

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## BREAKING NEWS

**SOME GOVERNORS INCREASINGLY DEFIANT...** At the 17 October meeting of the Greater Urals interregional association, Sverdlovsk Governor Eduard Rossel was harshly critical of Presidential Representative to the Urals Federal District Petr Latyshev for removing federal officials without consulting him. The head of the regional customs office was recently fired and the removal of the procurator is being prepared. Rossel was not the only governor critical of the federal authorities. Bashkortostan President Murtaza Rakhimov said that he would cut off the telephones of all leaders of federal departments and not allow them to work in the republic if they were appointed without his consent. The two leaders argued that the sovereignty of the regions is written into the Russian constitution and they see it as the guarantee of their economic recovery.

Rossel, Rakhimov, and the recently reelected Udmurtiya President Aleksandr Volkov have decided to defy Putin's decree removing the governors' role in appointing



the regional head of the All-Russia State Television and Radio Broadcasting Company (VGTRK) by setting up an alternative television broadcasting company. None of these three leaders face reelection campaigns in the near future.

**... LATYSHEV SEEKS TO UNDERMINE GOVERNORS' ECONOMIC BASE.**

Presidential Representative to the Urals Federal District Petr Latyshev quickly responded to Sverdlovsk Governor Eduard Rossel's criticism of his "unwise" personnel policies and interference into regional affairs at the 17 October meeting of the Greater Urals interregional association (*Kommersant Daily*, 18 October). Latyshev said that the battle was "not one between the governor and the presidential representative, but between the governor and the state." He said that he would interfere in the governors' affairs if the governor blocked the implementation of state law.

On 19 October, Latyshev invited 14 of the region's top industrial leaders to meet with him. The guests included LUKoil President Vagit Alekperov and Surgutneftegaz head Vladimir Bogdanov. The main topic of discussion was relations between the presidential representatives and the governors and the role of big business in these ties. Latyshev said that the rules of the game had changed and that he had more economic power now and the businesses should work with him rather than the governors. He said that he would be able to pressure those who decided to take another path. His goal was to weaken the economic base of the governors and shift that power into his own hands.

The outcome of the conflict remains unclear. Alekperov and Bogdanov did not understand why they were summoned to Yekaterinburg. Directors at the Nizhnii Tagil Metallurgical Combine and Ural Mining and Metallurgical Company, who are loyal to Rossel, paid their dues to the federal authorities, but stressed their loyalty to Rossel. (*Vremya novostei*, 20 October)

**FEDERATION COUNCIL HOLDS OFF ON APPEAL TO CONSTITUTIONAL COURT OVER PUTIN REFORMS.**

On 19 October, the Federation Council Committee on Constitutional Legislation decided that its appeal to the Constitutional Court protesting Putin's attacks on gubernatorial power was not ready yet. The vote came after a two-hour meeting behind closed doors with the president's representative to the Federation Council Vyacheslav Khizhnyakov, in which he warned that the Kremlin did not want to see such an attack now. Only Chuvashiya President Nikolai Fedorov publicly supported moving ahead with such a challenge, while the other members of the upper chamber are losing their ardor for opposing Putin by filing suit against his reforms. The chances that the Federation Council as a body will file such a case now is remote. Although some governors like Sverdlovsk's Eduard Rossel and Bashkortostan's Murtaza Rakhimov have increasingly loudly denounced Putin's reform, their confrontational approach is not widely supported among the regional leaders. (*Nezavisimaya gazeta*, 20 October)

**POLTAVCHENKO LETS LUZHKOV KEEP UNCONSTITUTIONAL**

**RESIDENCE PERMITS.** On 18 October Presidential Representative to the Central Federal District Georgii Poltavchenko allowed Moscow Mayor Yurii Luzhkov to keep the city's registration system even though the Constitutional Court has ruled that it violated federal norms. Poltavchenko said that abolishing the system would violate the

rights of "the eight and a half million Muscovites who built the city." Clearly, the Kremlin seeks to use this issue as a lever to keep Luzhkov in line. As long as Luzhkov does not work against the Kremlin's main priorities, he will be able to continue limiting the influx of new residents to the capital. (polit.ru, 19 October)

**TITOV'S SON TO HEAD NEW BANK.** Aleksei Titov, the son of Samara Governor Konstantin Titov has announced his decision to leave his position managing Gazbank and take over the Solidarnost commercial bank, *Profil* reported on 16 October. Born in 1974, the younger Titov launched his career in Solidarnost, then worked in Alfa-Bank and Gazbank, before returning to Solidarnost. Solidarnost is currently experiencing financial difficulties and Titov reportedly wants to see if he can turn the institution around. The move may reflect changes in the oblast administration. Recently Viktor Kazakov, a former manager at YUKOS became a deputy governor, likely reducing the influence of Volgopromgaz.

**FINANCE MINISTRY TO WORK MORE CLOSELY WITH PRESIDENTIAL REPRESENTATIVES.** Presidential Representative to the Far Eastern Federal District Konstantin Pulikovskii announced on 19 October that a decree requiring the Finance Ministry to coordinate federal transfers to regions with the president's seven regional representatives. Pulikovskii said that he and the other six presidential representatives were responsible for ensuring that the money was spent the way it was supposed to be. (*Nezavisimaya gazeta*, 20 October)

**FEDERAL GOVERNMENT ISSUES INSTRUCTIONS TO REGIONS IN REPORTING BONDS.** *Rossiiskaya gazeta* on 17 October published the instructions regions must follow in reporting their bond debt load to the Finance Ministry. The regions have to report annually, no later than 1 May. According to commentary published along with the instructions, there has been very little oversight of regional borrowing until now. The official newspaper complained that the budget process in many regions is a formality and that a region's total debt was not published anywhere. In 1998 and 1999, many regions could not pay off their creditors. With the new instructions in place, the federal government hopes to have a clear picture of the regions' financial health.

Much work remains to be done, however. The paper complained that the instructions only address two-thirds of the problem. It does not cover veksel operations and bank credits, which could lead to limitless abuses. The paper also complained that there is basically no oversight over regional budgets now because regional legislatures do a poor job in this regard. The paper called for creating a regional department within the Finance Ministry which would monitor regional budgets.

**RED-BROWN ALLIANCE IN AMUR OBLAST?** The neo-nazi Russian National Unity party (RNE) is playing an active role in upcoming mayoral elections in Amur Oblast's capital, Blagoveshensk, *Nezavisimaya Gazeta* reported on 14 October. The oblast, which has a communist governor and is known as a red enclave in eastern Russia, hosted a conference of RNE organizations from Eastern Siberia and the Russian Far East on 24 September. On 30 September the Blagoveshchensk RNE chapter nominated Sergei Kolyadin for mayor. To confuse matters for the electorate, the incumbent, who has been

persistent in banning RNE rallies and events during the organization's two-year existence, also is named Kolyadin (Aleksandr). According to *Nezavisimaya Gazeta*, when voters see posters with swastikas urging them to "vote for Kolyadin," they are unsure whether or not the RNE is supporting its own candidate or the incumbent. Meanwhile, the head of the Blagoveshchensk RNE, Mikhail Archakov, is assisting the campaign of a third candidate, Aleksandr Migulya, "the local beer king."

## **GOVERNORS ELECTIONS**

**RUTSKOI OUT, KURSK RUNOFF IN TWO WEEKS.** After the Kursk Oblast Court eliminated incumbent Governor Aleksandr Rutskoi from the gubernatorial race on 21 October, voters sent two of his opponents into a runoff set for 5 November. Kursk Oblast Chief Federal Inspector Viktor Surzhikov and Kursk Mayor Sergei Maltsev -- both themselves candidates for the post of governor -- filed simultaneous suits against Rutskoi. During the judicial hearings, these two cases were combined into one, as both candidates had charged Rutskoi with abusing his official position, misreporting his personal property (real estate and cars), and violating legislation on campaign conduct (see *EWI Russian Regional Report*, 18 October).

While considering Surzhikov and Maltsev's claims, the oblast court failed to address those of Rutskoi himself, who had filed a complaint against his two opponents, as well as State Duma Deputy and KPRF Kursk Oblast Committee Secretary Aleksandr Mikhailov, on similar charges of improper campaign conduct.

All these complaints were filed on the morning of 20 October, less than 48 hours prior to the opening of the poll booths. Oblast Court Chairman Vladimir Zolotarev expressed his bewilderment at these eleventh-hour developments. That same day, Chairman of the Kursk Oblast Electoral Commission Yelena Yarova confirmed that the oblast court's decision on this matter would be carried out, despite the time crunch. "If any of the candidates are removed from the electoral registry, ballots will be changed accordingly," she said.

The court's decision was handed down 21 October at 6 pm, a mere 14 hours prior to the opening of the poll booth. Most voters only learned what had happened they received the ballots, and saw that Rutskoi's name had been crossed out. The local administration, on the other hand, operated with a high degree of efficiency. Under the pretext of a bomb threat, local police and security forces cordoned off the Kursk television broadcast center, blockading all broadcasting areas. As a result, the first media outlet to report on Rutskoi's removal from the ballot was Radio Rossii, followed by ORT and NTV. In an interview, Rutskoi said he suspected that court ruling had Kremlin backing and would lead to civil disobedience or boycotting of the elections. On 23 October, *Segodnya* and *Moskovskii Komsomolets* published articles stating that Rutskoi had been punished as a warning to the other governors, a claim all but confirmed by Federal Electoral Commission Chairman Aleksandr Veshnyakov during a press conference in Moscow. Rutskoi himself views recent events as a conspiracy between his opponents, the oblast courts, local police, and Moscow. He says that he became aware of the federal hand at work after he was unable to reach the president, the prosecutor general, or the chairman of the supreme court by phone (*Gubernskie vesti*, Kursk TV, 23

October). The only person to pick up the phone was Presidential Administration Chief Aleksandr Voloshin, who expressed his sympathy and promised to call Rutskoi back.

It appears that Rutskoi overestimated his own worth to the oblast. He was betrayed by his inner circle, whose members flattered him out of all proportion to reality. The governor's ratings, as calculated by Rutskoi's own campaign, promised him no less than 49 percent of the vote -- in other words, immediate victory in the first round. Despite Rutskoi's prediction of civil unrest, in actual fact no such protests or demonstrations took place. Similarly, the elections were not boycotted, with 51.7 percent of the eligible population (60 percent in agricultural raions and 35 percent in cities) turning out to vote. This figure was actually higher than the norm. However, no one candidate received the requisite number of votes (50 percent plus one vote) to win the election.

According to preliminary returns, the Communist Mikhailov is clearly in the lead (with 39.5 percent), followed by Chief Federal Inspector Surzhikov (21.5 percent). No other candidate received more than 10 percent of the vote, although 12.3 percent voted against all candidates.

In accordance with oblast law, it is expected that the run-off election will take place on 5 November, two weeks after the first round. The candidate who wins the most votes will become governor. While Mikhailov and Surzhikov battle it out, Rutskoi has announced that he will file an appeal with the Supreme Court to declare the elections invalid. - Sergei Sarychev in Kursk

**SAKHALIN GOVERNOR TO LEAVE FEDERATION COUNCIL.** Sakhalin Governor Igor Farkhutdinov will likely be one of the first governors to give up his seat in the Russian senate, *Rossiiskaya Gazeta* reported on 18 October. Farkhutdinov, who secured another term in office in his region's 22 October gubernatorial elections according to preliminary results, told the newspaper that he would leave the Federation Council regardless of the election's outcome. Citing a host of recent natural disasters-- typhoons, floods, earthquakes--and the problems involved in developing the island's offshore oil and gas resources, as well as in reviving the fishing and mining industries, Farkhutdinov remarked that he viewed the reforms of state institutions as an opportunity to spend more time in his oblast.

If reelected, he pledged that he would focus on improving the standard of living on Sakhalin and the Kuriles. "Now we have learned to work in a new economic system," said Farkhutdinov. "We have learned not to beg anymore, but to earn our living independently. This will lead to an improvement in our well-being. I am sure of that." On 11 October, in a poll of 461 Sakhalin residents, the internet site, Ves Sakhalin ([www.sakh.com](http://www.sakh.com)), found that 43 percent of respondents intended to vote for Farkhutdinov and 29 percent for his main opponent, Yuzhno-Sakhalinsk Mayor Fedor Sidorenko. According to a 17 October analysis in *Vlast*, Sakhalin voters typically vote communist in State Duma elections (about 25 percent) and support the incumbent in presidential elections (53 percent for Putin and 47 percent against; 35 percent for Yeltsin in the first round in 1996 and 29 percent against).

**VOLKOV WINS UDMURT PRESIDENCY.** Aleksandr Volkov was elected president of Udmurtiya on 15 October with 37.8 percent of the vote ([www.fci.ru](http://www.fci.ru)). He defeated Pavel Vershinin, the first deputy chairman of the republic's State Council, who won 29.9

percent and Udmurtiya's Prime Minister Nikolai Ganza (12.3 percent), who resigned immediately after his loss. Turnout was just over 50 percent. Although Volkov has been Udmurtiya's leader since April 1995, he was elected president for the first time. Until now Udmurtiya was the only region in Russia that chose its leader through a parliamentary rather than a presidential system. Recent changes in federal law required the region to introduce a division of power between the republican executive and legislative branches and in March 2000 republican voters approved this change in a referendum (see *EWI Russian Regional Report*, 28 March). Although the campaign was marked by various scandals, President Vladimir Putin congratulated Volkov on the "clear and well-organized" character, *polit.ru* pointed out on 18 October. Volkov widely used his administrative levers, particularly the media, to secure another term in office. The Central Electoral Commission found no violations serious enough to warrant knocking Volkov out of the race.

In the December 1999 parliamentary elections, Volkov had aligned with Moscow Mayor Yurii Luzhkov's *Otechestvo*. In this election, the pro-Kremlin *Yedinstvo* supported Ganza. However, Volkov widely claimed a close link to Putin, so it is hard to classify Volkov's victory as a complete defeat for the Kremlin. Indeed, the Kremlin had appointed a Volkov ally as its federal inspector in the region. However, Volkov joined with the more outspoken Bashkortostani President Murtaza Rakhimov and Sverdlovsk Governor Eduard Rossel to set up television broadcasters independent of the Kremlin.

On 9 October, a few days before the election, Deputy Prime Minister Ilya Klebanov came to the Udmurtiya to praise the region's military-industrial complex, which has seen orders grow 291 percent this year (*Kommersant Daily*, 11 October). Klebanov's visit clearly helped Volkov's campaign effort. Of course, the rapid growth only looks large in comparison to the small number of orders during the nineties.

**ARKHANGELSK: DESPITE FUEL CRISIS, PASSIVE POLITICS.** Arkhangelsk will elect its new governor, oblast legislature, and local governments on 3 December. The deadline for registration in the governor's elections are 28 October. So far no candidates have officially submitted the necessary documents, but the likely contenders will be incumbent Anatolii Yefremov and former oblast Prime Minister Nikolai Malakhov. The chairman of the Central Electoral Commission, Aleksandr Vishnyakov, is also from Arkhangelsk, but has made clear that he has no intention of seeking the governor's office. As a result, Yefremov looks set to easily win another term. In general, very few candidates have announced their intentions to seek public office, causing some concern about the high level of political passivity in the region.

The political situation in Arkhangelsk today is extremely difficult. First, because of the invalid elections in 10 of the 30 districts in the 18 June Oblast Assembly elections, the regional legislature is working in conditions of "crisis" rule. The old and new government are functioning simultaneously, placing the legitimacy of their decisions in doubt. Even the surplus in the oblast budget, which would ordinarily be considered a good thing, is causing problems. Governor Yefremov has announced that "If I start to divide up the surplus, then the Assembly will raise various scandals after the elections. Therefore I have to wait until the Assembly has a quorum."

Second, on 22 September Yefremov fired Prime Minister Malakhov because the enormous difficulty that the oblast has had meeting its energy needs this fall. While the

prime minister's spot remains vacant, the person put in charge of supplying fuel to the oblast, the prime minister's key responsibility, is Maksim Shubtsov, the former deputy general director of LUKoil-Arkhangelsk. He is serving as deputy prime minister. Meanwhile, there is considerable discussion of abolishing the oblast government completely and putting in place a new executive structure.

Third, the conflict between the governor and the mayors of the two largest cities, Arkhangelsk's Petr Balakshin and Severodvinsk's Aleksandr Belyaev, is heating up. The governor has asked the two mayors to resign their offices because the region has not been able to secure sufficient energy supplies. The mayors refused and said that they would solve their energy problems. The result is a tense standoff that has made it difficult to do anything. In general, this battle is one between the central authorities (the Unified Energy System [EES] electricity monopoly, the federal budget, and the governor, who is supported by the Kremlin) against the local authorities (the mayors, Arkhenergo, and the Oblast Assembly). Each party is trying to use the fuel crisis, which is the central issue of the campaign, to gain electoral advantage. The main issue is that EES demanded an increase in electricity prices beginning 1 October. The local authorities, who control the oblast energy commission, did not want to implement such a price hike on the even of the elections. No one knows when the oblast's residents will get heat in full supply or when the current blackouts will end. The numerous public demonstrations, calling on the oblast authorities to deal with the crisis, have called into doubt whether the elections will actually take place.

According to public opinion polls conducted in the region, the voters are particularly angry at the mayors, especially those in Arkhangelsk and Severodvinsk. Arkhangelsk Mayor Balakshin is now 64 and built his career in the cellulose-paper industry. During the Soviet era, he rose to lead the city's ispolkom and Yeltsin appointed him mayor on 1 October 1991. However, he was removed from office on 21 February 1996 for improperly using northern aid credits. Despite this setback, he won the city's 16 June mayoral elections. However, the lack of fuel in the city has made him so unpopular that he has decided not to seek another term in office.

Larg industrial groups are the key players in the political arena. One of the most energetic is the Arkhangelsk/Kotlas Cellulose and Paper Combine (TsBK). In December 1999, this group won the election of Aleksandr Piskunov to the State Duma. Now the combine is seeking to control the mayor's office, nominating for this position its acting director, Oleg Nilov.

Another characteristic of past elections in the region is the growing number of representatives from middle-sized businesses and state enterprises. This trend will likely continue. In Severodvinsk, one of the mayoral candidates is the deputy head of the financial-economic department at SV Nefteprodukt, Vladislav Shkurenko. So far he has no serious competition.

The governor's administration is taking an active role in the elections. The head of the Department on International Ties and Regional Development, Nikolai Isakov, has already made clear his desire to seek the chairmanship of the oblast legislature.

In Arkhangelsk, there is no sharply defined, organized opposition, which could liven up the campaigns. Little battle is expected in the up-coming gubernatorial elections. The potential coalition of the sacked oblast prime minister, the two mayors, and the fuel companies whose interests are threatened by the current redistribution of power, is hardly

likely to materialize. Likewise, little battle is expected in the municipal elections. Since the likely winners have little political experience, few believe that they will be able to solve the region's complex problems. - Alina Arkhangelskaya in Arkhangelsk

**CHELYABINSK: SUMIN CONFIDENT OF ANOTHER TERM.** Chelyabinsk Governor Petr Sumin is confident that he does not face any serious competition in the oblast's 24 December elections. Sumin's team actually believes this and is doing a masterful job spreading this idea among the voters, particularly through the campaign effort led by First Deputy Governor Andrei Kosilov. Sumin also benefits from a relatively good economic situation in the oblast, with growth in the first three quarters of 2000 more than 20 percent, well above the Russian average. Twice in the last year Sumin raised salaries for civil servants by 20 percent. He also has paid children's benefits and wiped out the backlog of debts. Sumin is popular in the rural areas of the oblasts and in the cities. He has the support of the region's largest enterprises: the Magnitogorsk Metallurgical Combine and the Chelyabinsk Tractor Factory.

Sumin's most dangerous rival is two-term State Duma member Valerii Gartung. Gartung is a well-known businessman in the Urals, who owns a controlling stake in the Chelyabinsk Metal Working and Stamping Factory. In his two Duma races, Gartung defeated candidates who were considered strong favorites. Gartung's strength is his support in the miners' towns of Korkino, Yemanzhelinsk, and especially Kopeisk, where he was born. These miners have already collected 300,000 signatures to support Gartung's campaign. Another potential rival for Sumin is State Duma deputy Mikhail Grishankov, who rose through the ranks of the Federal Security Service.

Despite Sumin's advantages, Gartung and Grishankov think that he is vulnerable. These young opponents believe that the older Communist manager Sumin has nothing new to offer the oblast. If Sumin wins, Chelyabinsk will continue to face the same unresolved economic and social problems that it has always faced. Sumin has strained relations with Russia's natural monopolies and the region's large and small businesses. In old Communist style, Sumin has threatened to transfer some of the power of local government to his oblast administration, making him unpopular with the region's mayors. Thus, the situation is far from being as simple and clear as the governor would like it to be.

Thanks to recent changes in the oblast's charter, the new governor will serve a five-year term. On 24 December, the region will also elect a new oblast legislature and local governments. Thus, wide-ranging changes are potentially possible. - Igor Stepanov in Chelyabinsk

**UNUSUAL EVENTS IN KAMCHATKA 'S GUBERNATORIAL CAMPAIGN.** Never a dull moment in Kamchatka. First the incumbent's main challenger, Georgii Greshnykh, who made his fortune in the energy industry and is now chairman of the board of directors of Kamchatrybbank, announced that he had in his possession material compromising the current administration. This information reportedly accused regional officials of using their positions to enrich themselves and of murdering Kamchatka businessman Aleksandr Pukalo (See *EWI Russian Regional Report*, 27 September). Not long after this statement, Greshnykh's jeep was burned, and then he disappeared on

1 October, allegedly kidnapped from yet another jeep by men in camouflage (*Nezavisimaya Gazeta*, 14 October; *Kommersant-Daily*, 7 October).

Just as the police were giving Greshnykh up for dead, he reappeared on 5 October. The Petropavlovsk-Kamchatskii media controlled by Greshnykh portrayed him as a victim of the law enforcement agencies, but *Kommersant-Daily* speculated that the entire incident may have been an elaborate campaign stunt. Greshnykh only has the support of about 3 percent of the electorate (*Kommersant-Daily*, 4 October). The Kamchatka procurator is investigating the incident, but even if Greshnykh is found to have initiated the escape himself, under the Criminal Code there are no provisions for prosecuting a person for organizing his own kidnapping (*Kommersant-Daily*, 7 September). Greshnykh has a previous criminal record, leading to some speculation that his "disappearance" may have been related to his past connections (*Segodnya*, 4 October).

As the local police force searched for Greshnykh, Governor Vladimir Biryukov announced that he would not stand for reelection. Instead, he declared his vice-governor, Boris Sinchenko, his successor. Petropavlovsk-Kamchatsky Mayor Aleksandr Dudnikov also is running and there was some speculation that the governor would choose him as his successor, since they ran together in the 1996 elections. The governor may have preferred to have Dudnikov continue as mayor and the latter may have wanted to keep his distance from the current administration, which many hold responsible for the sorry state of the region's energy and fishing industries (*Nezavisimaya Gazeta*, 14 October). Due to persistent and severe fuel crises in the region, Biryukov's ratings have been extremely poor. Although other candidates have registered, none is expected to receive more than 1 percent of the vote. They include Aivars Lezdynsh, a former Duma deputy from Kamchatka, Nikolai Fatnev, of Kamchatskenergo, Vladimir Shumanin, a lawyer, and Mikhail Mashkovtsev, the local communist leader. However, a yet undeclared candidate, Vice-Admiral Valerii Dorogin, a State Duma member from Kamchatka and former commander of the Northeastern fleet on Kamchatka, may provide the most potent challenge to the governor's administration (*Nezavisimaya Gazeta*, 14 October).

Dorogin has put the blame for Kamchatka's economic predicament squarely on Biryukov. In a 14 September interview with *Rossiiskaya Gazeta*, he attributed the energy crisis to the lack of transparency in the governor's approach to energy policy, which, he alleged, has led to the squandering of federal transfers to the region. Dorogin also noted that the criminalization of the fishing industry has had a dramatic impact on the region's revenues. Although fishing contributes 9 percent of Kamchatka's budget of 1.5 billion rubles, if the entire catch (legal and illegal) were counted, Dorogin estimates that revenue from this sector alone could amount to 1 billion rubles. In his view, the only way to bring in this revenue would be to declare an amnesty and create a special economic zone in Kamchatka.

Not surprisingly fishing interests are playing an important role in the gubernatorial election--the regional fishing industry association is a major sponsor. If the governor's "successor" has a good chance in the December 3 election despite Kamchatka's numerous problems, this is because the fishing industry is satisfied with the status quo.



## CENTER-PERIPHERY RELATIONS

**LEADERS OF NATIONAL REPUBLICS CRITICIZE KREMLIN.** The leaders of Bashkortostan, Tatarstan, and Ingushetiya met in Ufa on 11 October to mark the 10 anniversary of the republic's declaration of sovereignty. They used the occasion to make speeches that were especially critical of the Kremlin's new policies toward the regions. Reminding his audience that he was one of the first to support President Putin's efforts to strengthen the hierarchy of authority in the country, Tatarstan President Mintimer Shaimiev nevertheless noted that even the smallest attempt to return to a unitary state with a strong regime would provoke powerful opposition from the republics, "which have already learned how to take responsibility for themselves (*Sovetskaya Bashkiriya - Izvestiya Bashkortostana*, 14 October). At the same time, Shaimiev called on the Kremlin to reject its suspicions of the ethnic republics and enter into dialogue with them. He accused the center of trying to give the region orders, a policy that would provoke an explosion of nationalist feelings in the republics. Shaimiev's emotional speech also made several concrete claims on the federal government. He said that for three years now the federal government has refused to include special inserts into Russian domestic passports, which the republics want to use to identify the nationality of the bearer and also give the bearer's information in the national language of the republic. He also argued that the federal government's decision to redistribute tax revenues from rich to poor regions would make all Russian regions equal in poverty and deprive the regions of any incentive to develop economically. He called on the federal government to seek a "more constructive solution for budget problems."

In his usually sharp style, Ingushetiya President Ruslan Aushev recommended that "all bureaucrats and deputies in the federal center read books about the history of Tatarstan, Bashkortostan, and Ingushetiya, and then adopt normal laws." As an example of an "abnormal" law, Aushev singled out the federal law on reindeer herding. "When they thrust such laws on us and say, live by them and bring your laws into accordance with them, I say, 'In Ingushetiya, we don't have reindeer, we have sheep.'" This excerpt from Aushev's speech was broadcast on republican television and created a loud stir in the hall. We don't want to secede from Russia, Aushev said, but we want to live by our traditions. "We will never give up the sovereignty that we earned over centuries of history."

Bashkortostan President Murtaza Rakhimov noted that the republic had not adopted its laws to offend Russia, but simply had done so before the federal government had prepared similar legislation. He noted that during the early nineties, the federal government moved slowly because it was not ready to react quickly to the situation on the ground. He argued that events required a quick response, so the republic came up with its own legislation.

It was left to Deputy Chief of Staff of the presidential administration Dmitrii Kozak to respond to the criticisms from the republican presidents. He tried to calm them down, announcing that "no one placed in doubt Russia's federal structure (*Sovetskaya Bashkiriya - Izvestiya Bashkortostana*, 11 October). Taking into account the significance that the republics place in the power-sharing treaties that they signed with the federal government, Kozak announced that Russia was developing negotiated relations with the republics, describing this as a correct path. He also said that the republics and federal

governments did not have any differences of principle on questions of federal relations. He declared that the only thing under discussion was the management of the federal state. He described the arguments as being of only a technical character. - Igor Rabinovich in Ufa

**SHAIMIEV AGREES TO WORK WITH FEDS.** Tatarstan Republic President Mintimer Shaimiev, after much protest, has finally agreed to bring his republic's legislation in line with federal norms. At the same time, he has won a small victory of his own: the reconciliation process will be a bilateral one. During a 6 October trip to Nizhnii Novgorod, Chairman of the State Assembly F. Mukhametshin and Presidential Representative to the Volga District Sergei Kirienko signed a statute to this effect. The first session of the new bilateral conciliatory commission of 14 people, headed by two co-chairmen, was held in Kazan on 17 October. The next session will be held 26 October in Nizhnii Novgorod.

During the first session, the commission agreed to uphold the Russian-Tatarstani power-sharing treaty of 15 February 1994, even though it contradicts both the federal and republican constitutions in several places. In its first session, the commission agreed that only particular amendments, rather than the Tatarstani constitution as a whole, would be examined. The Tatarstani side proposed that the combined legislation be referred to as "joint (*obshchii*)" rather than "unified (*yedini*)," a semantic difference that, according to experts, signifies bilateral rather than unilateral coordination.

Of far greater importance, however, was the decision to divide laws into several categories for examination. The first category contains Tatarstani legislation that is considered more forward-thinking than federal law. At the beginning of the session, there were five such laws, but by the end of the session there were 14. The second category (26 laws) includes those republican laws which contradict federal legislation and which the republican state council is willing to amend. The third category (27 in number) contains those republican laws that federal representatives want to bring into line with federal legislation but that republican representatives do not wish to amend. The fourth category consists of federal laws that interfere in republican responsibilities and need to be changed accordingly. Finally, the fifth category consists of laws that fall under the exclusive jurisdiction of the republic, and are therefore not subject to federal influence.

During the next session of the council, this list of laws will be fine-tuned and approved, and particular laws will be examined. It seems clear that the process of reconciling, or harmonizing (as it is known in some republics), federal and regional legislation will be time-intensive. Whether the federal center will be prepared to draw out the process -- and whether Tatarstan will uphold its promise to bring its legislation in line with federal law by the year's end -- remains to be seen. - Midkhat Faroukshin in Kazan

**SARATOV, SAMARA LEGISLATURES SEEK IMMUNITY FOR GOVERNORS.** The legislatures of Saratov and Samara have sent an initiative to the State Duma seeking to restore the governors' immunity from legal prosecution. As members of the Federation Council, governors had such immunity, but when they lose their membership in that body by 1 January 2002, they will also lose their immunity. The initiative is in the form of a request for the federal legislature to amend the law on legislative and executive institutions at the regional level.

When the issue of the governors' immunity was under discussion at the federal level, the governors told the media that they were not concerned about the loss of legal protection. Chuvashiya President Nikolai Fedorov said that the governors "did not fear losing the status of immunity, and would not fight for it as a panacea."

However, Saratov Governor Dmitrii Ayatskov was one of the first to show signs of concern. With the help of Presidential Territorial Department Head Sergei Samoilov, he moved his gubernatorial elections up to March 2000 from the fall. According to the local press, he won those elections by falsifying the voting returns. Samara Governor Konstantin Titov also began to fear federal retribution for his presidential campaign against Putin and moved his own elections up by resigning and then seeking another term. Using these methods, these two governors were reelected before Putin could move against them.

By depriving the governors of immunity, Putin gained the possibility of removing them from office before their current term expires. Such a move would have been tantamount to blocking their reelection. Thus both Ayatskov and Titov turned to their legislatures to seek immunity not as members of the Federation Council, but as governors. The Rostov Oblast legislature is also considering whether to adopt a similar proposal. - Yuliya Yeliseeva in Saratov

#### **CHIEF FEDERAL INSPECTOR OF MORDOVIYA GETS DOWN TO WORK.**

Newly appointed Volga District Chief Federal Inspector to the Republic of Mordoviya Aleksandr Pykov recently held a meeting in Saransk with the local heads of federal departments. During the meeting, officials assessed various aspects of the new power structure, especially its relationship with those federal offices and departments already established in the republic. This meeting is to be the first in a series of weekly gatherings designed to address and resolve problems as they arise. Larger meetings will be held on a monthly basis. The priority here is to smoothly coordinate activity between all Mordoviyian administrative offices. Pykov intends to create an environment in which officials take responsibility for their mistakes and are properly rewarded for their efforts. All raises and benefits, as well as official reprimands, will be issued by the office of the chief federal inspector, which currently has only three full-time employees (the chief federal inspector, a federal inspector, and a specialist). Advisors and assistants are being hired on a freelance basis. Pykov intends to devote attention to hiring practices. "It is becoming increasingly difficult to hire people to top positions in federal branch departments," says Pykov. An official branch of the office of the presidential representative to the Volga district will soon open in the republic's White House. Either the presidential representative himself (Sergei Kirienko) or Pykov will conduct a weekly open house there. - Igor Telin in Saransk

**YEDINSTVO LOSING SUPPORT TO OTHER PARTIES.** As political parties Soyuz Pravykh Sil and Yabloko gain increased support among residents of Irkutsk, Yedinstvo is losing its backers, according to the head of the Irkutsk City Branch of Yedinstvo Anatolii Boldyrev at a press conference on 19 October. These conclusions are based in part on the results of a recent sociological poll, conducted by Yedinstvo-affiliated pollsters, examining the political situation in the region. According to the head of the center, Gennadii Aprelkov, 1,250 residents of Irkutsk were polled. Of this number, 18.0 percent

support Yedinstvo, 16.3 back the KPRF, and 10.2 percent are sympathetic to SPS. Residents in the fields of trade, science, education, the military, and law enforcement are among those who support Yedinstvo. Pensioners and blue-collar workers are inclined to back the KPRF, while the young tend to favor SPS. In addition, the poll revealed that half of the adult population of Irkutsk is apolitical, with 43 percent of those polled unsure of their political affiliation. It is these people, says Boldyrev, whom Yedinstvo must actively influence. "They are our greatest potential resource," he said. - Teleinform in Irkutsk

## **SOCIAL ISSUES**

**SOCIAL UNREST GROWING IN KOMI MINING REGION.** The suffering of miners, long an important component of Russia's political landscape, has not been a major concern for federal or regional leaders lately. This situation may soon change. On 3 October, Head of the Vorkuta Independent Professional Miners' Union (VIPMU) Viktor Semenov called on all miners to begin striking on 1 November. The cause is the "government and president's empty promises to develop the coal industry that actually are leading to its downfall." The miners' demands, as formulated by Semenov in the *Gornyyak Zapolyarya* newspaper, are: the establishment of a minimum wage in line with current legislation; state funding to guarantee safe working conditions and improve miners' health; a pension hike to 75 percent of the average salary (taking into account the harsh working conditions in the Far North); and subsidized annual migration of 5,000 families (pensioners, invalids, and the families of miners who have died or were laid off due to restructuring within the mining industry).

According to Semenov, even if during its next meeting the VIPMU council of representatives does not support all of the measures listed above, it is crucial that the strike nonetheless take place as scheduled. Regional and federal authorities have already been informed of the miners' intentions.

It must be noted that general economic conditions in the region have been improving of late, and that the Vorkutaugol enterprise is now making a profit. Against this backdrop, it is only natural to wonder what the source of the dissatisfaction might be.

Two years ago, the extraordinary congress of Pechorskii mining basin workers identified several problems in the plans being implemented to restructure the industry. Cities in the basin were overflowing with inhabitants incapable of working in the industry, and mining enterprises could not work effectively due to extremely run-down equipment. Federal funds were aimed at liquidating, not supporting, mines. Prospects for miners were few. Despite the current favorable economic conditions, not much has changed in the mining industry over the past two years. Legislation on economic support of the North makes no mention of the mining industry, although many experts are currently recommending that the energy industry prioritize coal over gas and oil (*Argumenty i fakty Komi*, no. 41, October 2000).

On 11 October, Presidential Representative to the Northwest Federal District Viktor Cherkesov met with Chairman of the Independent Professional Union of Coal Industry Workers Ivan Mokhnachuk to discuss the issue of restructuring the coal industry. During this meeting, Cherkesov promised to devote painstaking attention to all related questions (*Respublika*, 13 October 2000). During his first extensive interview, new Komi Republic Chief Federal Inspector Aleksei Grishin also announced that a

serious examination of the issues surrounding the basin was underway, and that a related governmental document was being prepared. A special commission is also expected to visit the republic in the near future (*Argumenty i fakty Komi*, no. 42, October 2000).

The immediate history of the region is replete with such promises, which usually do not lead to the desired results. The republican authorities also have announced that it is crucial to resolve the problems of the basin, for time is passing, and the most promising mining region in the European part of Russia is falling into decline. Much has been made of the need to build new mines, which would lead to a significant rise in production. Several projects for new mining enterprises are practically ready, the basis for growth is solid, and demand is high. A recent radio broadcast announced that the time for serious decision-making had almost run out, and the new president was the only hope remaining (*Komi gor*, 21 October). Whether this hope is justified remains to be seen. - Yurii Shabaev in Syktyvkar

## **REGIONAL RESOURCES**

### **WEB SITE FOR KIRIENKO'S VOLGA FEDERAL DISTRICT.**

(<http://www.pfo.ru/>) Presidential Representative to the Volga Federal District Sergei Kirienko has opened a web site with extensive information about his activities as one of President Putin's seven regional representatives. The site includes a complete list of the personnel Kirienko employs as well as regular press releases.

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The EastWest Institute is proud to announce the publication of *The Republics and Regions of the Russian Federation: A Guide to Politics, Policies, and Leaders* edited by Robert Orttung with Danielle Lussier and Anna Paretskaya. Its profiles of the 89 regions feature: a brief overview, key demographic, economic, and electoral statistics, a guide to regional political institutions, the regional leadership's political and economic platform and alliances, key policy initiatives, relations with Moscow, an overview of important regional politicians, businesspeople, and enterprises, relations with other regions, foreign policy, attitudes toward business development, career history of the regional executive, contact information for the regional leadership, and the most important regional WWW sites. The book is available from M. E. Sharpe publishers. Readers of the RRR are entitled to a 10 percent discount. The book normally sells for \$225, but is only \$202.50 with the RRR discount. Please see the order form at the end of this report.

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## BREAKING NEWS

**LEBEDEV SEEKS ADMINISTRATIVE COURT.** As part of its overall judicial reform, Supreme Court Chairman Vyacheslav Lebedev is advocating the creation of 21 administrative courts, which will allow the judges to work more independently of regional authorities. Now the courts follow the administrative divisions of the regions and, since the federal government often does not pay for the maintenance of the courts, the judges become dependent on the governors. The main task of the administrative courts will be to resolve conflicts between citizens and state bureaucrats. The court will deal with complaints about administrative acts, resolutions of the executive or legislative branches, decisions of the electoral commissions, and actions of the tax agencies (polit.ru, 31 October). Each of the 21 courts will set up a special "troika" of judges, which will examine these cases in a collegial manner (*Vremya novosti*, 24 October). The reform also includes streamlined appeal procedures. During the last ten years litigation has increased as citizens have found it a useful way to address their grievances. While local courts are under the control of local authorities, citizens can appeal to higher courts for a more balanced hearing.

**VOLGA FEDERAL DISTRICT TO PUBLISH NEWSPAPER.** The Volga Federal District, headed by Sergei Kirienko, is preparing to publish a newspaper entitled *Obshchaya gazeta Privolzhskogo federalnogo okruga*. According to Oksana Nikolaichuk, who is heading the project, the paper will coordinate the work of journalists from all regions in the Volga District to create a common information space. The first issue of the newspaper is expected in the first half of November. It will be 16-pages long with black-and-white pictures. It will be distributed in all regions of the district free of charge. (Nizhegorodskoe telegrafnoe agentstvo, 18 October, [www.infonet.nnov.ru/nta](http://www.infonet.nnov.ru/nta))

**KIRIENKO INTERVIEWED.** In an interview with *Nezavisimaya gazeta* (25 October), Sergei Kirienko said that he sees his first task as presidential representative to the Volga Federal District as taking an inventory of the district, including its human potential. Second, he seeks to restore the federal hierarchy of power. Third, he seeks to bring regional laws into conformity with federal norms. He stressed that Putin's federal reforms did not seek to interfere in the affairs that properly belonged at the regional level.

He pointed out that during the 1990s the regions took over considerable powers that really belonged to the federal government. The federal government now will take this power back by giving it to the presidential representatives. The representatives will decide on federal appointments alone, without the input of regional leaders. Moreover, the people filling these jobs will rotate from region to region. In essence, the presidential representatives will oversee personnel policy for the president and will approve all appointments and promotions. The representatives also will maintain a reserve of personnel for all federal agencies, even though such policies will create conflicts with the ministries.

Kirienko argued that Putin's reforms make sense from the point of view of management theory since the federal government cannot manage 89 regions but theoretically could manage seven districts. He stressed the government's need to maintain a common market and prevent regions from adopting laws that limit trade. The presidential representative will play a role in coordinating projects that are not localized in one region or under the auspices of one agency. He rejected the idea that the districts

would have their own budgets, but said that they would have their own development plans. The presidential representatives will not divide up federal money themselves, but will influence this division by influencing the plans.

Kirienko said that the establishment of the seven presidential representatives was an "intermediate" step, although he did not name a time-frame for the introduction of a new system. He said that it was important to understand that the representatives are "not a new model of management, but an instrument for changing the model of management."

**CHUKOTKA GOVERNOR NEXT ON KREMLIN'S HIT LIST.** First on 21 October Kursk Oblast Governor Aleksandr Rutskoï was removed from the ballot at the eleventh hour, after federal authorities filed suit against him. Now Chukotka Governor Aleksandr Nazarov finds himself the target of a major investigation by the Federal Tax Police and has been called to Moscow to face the charges. As *Vremya Novostey* noted on 25 October, the accusations (tax evasion and abuse of office) are less surprising than Moscow's interest in them--these types of illegal activities are fairly common in peripheral areas and usually are investigated quietly by local tax authorities. The governor is accused of failing to pay taxes on imported fuel, misuse of a federal credit, and giving tacit support to illegal fishing activities. However, Nazarov is facing a tough challenge in his bid for reelection from Roman Abramovich, the politically connected Siberian oil tycoon, who now represents the okrug in the State Duma. *Kommersant-Daily*, owned by Abramovich's associate, Boris Berizovskii, has declared the Sibneft director to be the favorite in the 24 December election (*Kommersant-Daily*, 25 October, *The Moscow Times*, 26 October).

Nazarov's plight is particularly surprising given his reputation for loyalty to the Kremlin and his efforts to develop good relations with Konstantin Pulikovskii, the presidential representative to the Far East Federal District (*Segodnya*, 25 October; *Nezavisimaya Gazeta*, 1 November). Nazarov appears to be hedging his bets now--he told Interfax on 26 October that the Federal Tax Police were "under orders" to investigate him, but he refused to implicate Abramovich. According to polit.ru, Abramovich promised to appoint Nazarov as the representative to the new Federal Council.

**FARKHUTDINOV REELECTED IN SAKHALIN.** According to preliminary data, incumbent governor, Igor Farkhutdinov, was reelected in the first round with 56.29 percent of the votes, and easily defeated his main challenger, Yuzhno-Sakhalinsk mayor, Fedor Sidorenko ([www.fci.ru](http://www.fci.ru)). Forty percent of eligible voters turned out for the election, up from 34 percent in 1996, when Farkhutdinov won with just 39.5 percent of the vote. Although the Governor's success can be attributed to some real achievements--addressing the island's chronic power shortage by using oil and gas bonuses to build a new power plant at Nogilki, apportioning some energy revenues to a new social welfare fund, increasing pensions, ensuring that wages are paid on time, and promoting offshore energy projects--a desire for stability may account for his reelection. The island's population continues to dwindle and residents have yet to enjoy many of the benefits they were promised would ensue from the \$1.3 billion invested in the offshore projects (*Kommersant-Daily*, 24 October). Nevertheless, support for the oil and gas sector remains strong--five of the deputies elected to the State Duma come from this sector,

including the Vice-President of Rosneft and the director of Sakhalinmorneftegas (*Nezavisimaya Gazeta*, 24 October).

**CHITA GOVERNOR REELECTED.** Chita Governor Ravil Geniatulin won reelection on 29 October with 57.5 of the vote. His main opponent, Viktor Voitenko, the former commander of the border guard forces and currently a deputy in the State Duma (Narodnyi deputat) won 16 percent. The Kremlin reportedly was backing Voitenko.

The electoral campaign was marked by scandal as the incumbent used his control of the local media to publish campaign material while his opponents' access to it, according to Tatyana Kalashnikova, the chair of the local electoral commission (*Segodnya*, 27 October). Voitenko also was cited for publishing campaign information before the official beginning of the campaign. Before election day, some of the ballots were stolen from the printing press, and the region was forced to reprint the ballots. The incident was not investigated, suggesting that the authorities wanted to hide the identities of those who perpetrated it. Geniatulin first became governor when Yeltsin appointed him to the position on 1 February 1996.

**AGIN BURYATIYA GOVERNOR REELECTED.** Agin-Buryat Autonomous Okrug Governor Bair Zhamsuev won reelection on 29 October with about 90 percent of the vote. This region traditionally votes with such unanimity. In December 1999 it elected the singer Iosif Kobzon to the State Duma with a 91 percent majority. In the gubernatorial campaign neither of the two opponents fielded active campaigns.

Zhamsuev became governor in 1997. Before that he had served the previous governor as the okrug's representative in Moscow and had won two terms to the State Duma. He came to power when the contenders in the 1996 governor's election failed to win a majority of the vote and were disqualified from future elections by the okrug electoral law.

Zhamsuev has benefited greatly from his partnership with Kobzon, who has taken advantage of his celebrity to lobby the region's interests in Moscow (*Segodnya*, 27 October). The leaders of the raions in the region are loyal to Zhamsuev because he appointed them. Only 80,000 people live in the region, which is part of Chita Oblast.

**FEDERATION COUNCIL REJECTS ADMINISTRATIVE CODE, COURT APPEAL.** By a vote of 103-1, the Federation Council vetoed the Administrative Code on 25 October. According to Chuvashiya President Nikolai Fedorov the legislation posed a "significant danger" to the rights of Russian citizens. The legislators pointed out that the code required citizens to carry identification "even in the banya" and that many of its fines were unrealistically high (*Segodnya*, 26 October). The State Duma may now try to override the veto without trying to work out a compromise agreement.

On the same day, the upper chamber approved the 19 October decision of the Committee on Constitutional Legislation not to submit an appeal to the Constitutional Court challenging Putin's reforms (see *EWI Russian Regional Report*, 23 October). While the governors decided not to attack the president head on, they continue to fight his reforms more quietly at the regional level.

**DUMA REJECTS TAX BENEFITS FOR REGIONS.** The State Duma on 27 October rejected a bill that would have allowed regions to offer tax breaks on federal taxes that flow into regional budgets. The Kremlin's representatives made clear that Putin planned to veto the bill if it passed. With the adoption of the first part of the tax code, the government had prevented the regions from offering such tax breaks starting on 1 January 1999. The federal authorities did not like the regions' practice of reducing their income and then seeking larger federal subsidies. The current bill sought to restore some of this power to the regions. Given Putin's opposition, it will not be enacted any time soon. (*Kommersant Daily*, 28 October)

**FEDOROV: DICTATORSHIP OR LAW?** In an article in *Nezavisimaya gazeta* (25 October) Chuvashiya President Nikolai Fedorov, Putin's most consistent critic, asks whether Putin will institute dictatorship or law, whether he will use force or protect rights. He charged that Putin had based his reforms on the bureaucracy rather than society, and that sadly the bureaucracy's relationship to the law was well known. He accused Putin of removing laws that were inconvenient for him. Fedorov argued that Putin had circumvented the constitution in creating the seven federal districts, reorganizing the Federation Council, taking the right to fire governors, and having the Duma disband regional legislatures. He pointed out that the people have no way to monitor the activities of the seven presidential representatives in the regions. He claimed that the federal bureaucracy was growing so fast that the country did not have enough buildings to house all the officials. He argued that Putin's reforms create new rulers whom no one elected and who are unaccountable.

Fedorov claimed that Putin's reforms threatened Russia with collapse to a much greater extent than the "governors' separatism." "In this sense, today the chief criminals sit in the capital and not in the provinces," he wrote. Fedorov rejected claims that he was defending the unlimited power of the "regional barons," and argued that during his career he consistently has defended the principle that the law stands above all, including the president. In 1993 Fedorov criticized President Yeltsin for his use of force against the Supreme Soviet.

Fedorov contended that it made sense for the federal government to fight against the lawlessness of the governors. "But to fight lawlessness with the aid of even greater lawlessness is a path that is absolutely destructive for the country," he wrote. Fedorov claimed that the goals of strengthening federal authority and reducing the danger of separatism should be achieved through constitutional paths. Fedorov stressed that the country should seek a rule of law rather than the establishment of dictatorship.

**EXECUTIVE BRANCH COOL TO STROEV PROPOSAL FOR LAW ON REPRESENTATIVES.** After meeting with President Putin on 25 October, Federation Council Speaker Yegor StroeV proposed passing a law defining the role of the seven presidential representatives in the regions. Judging by the way he presented the idea, he had not won Putin's support for this idea (*Nezavisimaya gazeta*, 28 October). Presidential Representative in the Far East Konstantin Pulikovskii was the first to reject it. He said that such a law was unnecessary because the representatives may need to take on new responsibilities, which might not be enumerated in the law.

Currently, the representatives all view their tasks differently. Viktor Kazantsev (South) sees his task as providing the president objective information. Viktor Cherkessov (Northwest) called for an active role for the representatives in the political process. Kirienko (Volga) plans to take an inventory of the country. Head of the Presidential Administration's Territorial Department Sergei Samoilov claims that the representatives should not manage, but coordinate activities. The presidential decree of 13 May creating the representatives gives them broad powers, including organizing the work of federal agencies in the regions, monitoring, personnel policy, and developing social-economic programs for their districts. As a result the decree can be interpreted in a number of different ways.

## **GOVERNORS' ELECTIONS**

**KREMLIN BACKS SPEAKER, NOT GENERAL, IN ULYANOVSK.** Ulyanovsk Legislative Assembly Chairman Sergei Ryabukhin announced his intention to compete in the region's 24 December gubernatorial election. He said that he was running to help break the "energy blockade of the oblast." At a 30 October press conference, Ryabukhin said that he had already informed Governor Yurii Goryachev about his decision and that the governor had reacted calmly. The other major candidate in the race is Commander of the 58th Army of the Northern Caucasus Military District, General Vladimir Shamanov (see *EWI Russian Regional Report*, 30 August).

Ryabukhin's announcement was a surprise because it elevates him to the ranks of independent politicians in the region. For the last ten years, Ryabukhin had worked loyally on Goryachev's team. Now, he has left Goryachev's shadow for the first time, although he continues to declare that he and Goryachev have a mutual understanding.

Nevertheless, Ryabukhin's announcement angered several of Goryachev's key aides. Deputy Governor Yurii Rogov forbid the leadership of the "Volga" and "Reporter" state television and radio companies from sending correspondents to Ryabukhin's press conference. The evening broadcasts of these stations did not mention the announcement and the official oblast administration newspaper *Narodnaya gazeta* only devoted one line to it. Thus, the governor's team demonstrated its intention to deprive Ryabukhin of access to the region's airwaves.

The federal government clearly sees Ryabukhin as a compromise figure in the governor's office. According to a source close to Ryabukhin, the Kremlin persuaded him to run and prefers to work with him rather than with the authoritarian governor Goryachev, whose rule has led the oblast into economic difficulties, or the obstinate hero of the Chechen war, General Shamanov. Ryabukhin made his decision, which threatens confrontation with his former colleagues, with the backing of the presidential administration and with the support of his friend, Federation Council Speaker Yegor Stroevev.

There are clear signs that Moscow no longer wants to work with Goryachev. Recently, the Finance Ministry refused to give the oblast a relatively small (70 million rubles) loan for heating oil which would have been backed by an oblast budget guarantee. The ministry wanted a more reliable guarantee from a private bank. Additionally, Putin did not receive Goryachev at the Kremlin for a planned visit on 25 October. Local observers interpreted this snub as a show of no confidence in Goryachev.

The greatest task Ryabukhin faces is trying to determine which segment of the electorate he should appeal to in the campaign. Today most voters are divided between supporting Goryachev and his main opponent Shamanov. Ryabukhin has yet to identify his electoral base. Logically, he should appeal to those who are tired of Goryachev's leadership, which is unlikely to spur economic growth, but fear the strict outsider Shamanov. Ryabukhin recognizes that a loud battle with Goryachev is not in his interest because it could drive voters to supporting Shamanov, who is today more popular than the governor. As he works to promote his own candidacy, Ryabukhin will likely continue to stress how he worked with Goryachev and how they continue to have a mutual understanding. - Sergei Gogin in Ulyanovsk

**RUTSKOI CONTINUES TO PROTEST REMOVAL FROM RACE.** Kursk Governor Aleksandr Rutskoi is continuing to protest the decision of the Kursk Oblast Court to remove him from the gubernatorial campaign for electoral law violations just 13 hours before balloting was set to begin. Rutskoi initially tried to round up support at home, but had little luck. While Vyacheslav Molokoedov, a member of the Kurchatov City Duma, did attempt suicide to protest the court decision, few others shared his enthusiasm. Fortunately Molokoedov survived the attempt, but his effort did not have an impact on Rutskoi's case.

On local television, Rutskoi charged that the electoral commission had ensured that the minimum number of voters had turned out by including ballots from people who had not actually voted. He called on residents who had not voted to go to the commission to see if someone had voted for them. On the morning of 24 October, about 8,000-9,000 Rutskoi supporters stood in line outside of the voting precincts and electoral commissions. But these non-voters were not able to see if they had "voted" by studying the voter registration books. These books, which record who participated, had already been sent to the territorial branches of the electoral committee. The books could only be opened following a special decision of the oblast committee. When they were finally examined, no falsifications were found, though the number of protesters who actually could verify their status was significantly smaller than the crowds that had initially appeared.

After failing to make any headway in Kursk, Rutskoi headed to Moscow. Unfortunately for the governor, at its 25 October session, the Federation Council did not support Rutskoi, who compared the events in his region to a coup in a banana republic. However, the upper chamber did appeal to the Supreme Court to examine the Rutskoi case before the second round of the elections on 5 November. There are two reasons for the senators relatively cold response to Rutskoi. First was the speech of Oblast Duma Chairman Viktor Chernii, who articulately described Rutskoi's legal violations in a half hour talk. Second, the other governors did not want to fight with the Kremlin when many of them are soon up for election.

Rutskoi's last hope is the Supreme Court. There the famous lawyer Dmitrii Steinberg will defend him. His best argument is that the court decision removing him came after absentee voting had already started, meaning that about 4,000 voters may have voted for Rutskoi before he was disqualified. The court's decision is expected soon.

The presidential administration claimed that it did not play a role in removing Rutskoi from the election. However, its choice for Rutskoi's replacement is clear: Viktor



Surzhikov, the Federal Security Service general who is also the federal inspector in the region (*Vedomosti*, 24 October). Surzhikov has the clear support of the presidential representative to the central district, Georgii Poltavchenko. Poltavchenko said that Rutskoi violated the electoral law and that the federal authorities did not influence the court's decision. According to Gleb Pavlovskii, the head of the Foundation for Effective Policy and a close advisor of Presidential Chief of Staff Aleksandr Voloshin, the removal of Rutskoi was Poltavchenko's work (*Vedomosti*, 25 October). In the first round Communist State Duma Deputy Aleksandr Mikhailov won 39.52 percent of the vote and Surzhikov took 21.58 percent (www.fci.ru) - Sergei Sarychev in Kursk

## **CENTER-PERIPHERY RELATIONS**

**SVERDLOVSK'S ROSSEL TO BE OUSTED?** The latest in a series of scandals over relations between the governor and the federal government is brewing in Sverdlovsk Oblast. Well-known oblast politician and State Duma Deputy Speaker Anton Bakov has announced that Sverdlovsk Oblast Governor Eduard Rossel will be removed from power in the beginning of the new year. Bakov claimed that the governor will figure prominently in three criminal cases to be brought by the procurator general, which would lead to his ouster.

The first case pertains to Rossel's alleged involvement in the artificial bankruptcy of the Alkony company, as a result of which the company fell into private hands. Second, Bakov believes Rossel guilty of selling the state's controlling interest in the Koltsovo airport to a front company. Bakov has promised to reveal details of the third criminal charge in the near future, saying that investigation of these cases will allow for Rossel to be removed from power according to a new law that is part of Putin's reforms to strengthen the hierarchy of power.

Rossel has yet to comment on any of Bakov's accusations. Last Friday, he tagged along with Transportation Minister Aksenenko, who was visiting the oblast to inspect the railroads. Some of Rossel's closest allies, in particular the oblast's prime minister Aleksei Vorobev, were more forthcoming. Vorobev refuted the accusations as a provocation. Vorobev may be right, especially considering that there is no love lost between Bakov and Rossel. Several factors, however, suggest that accusations are not without foundation. First, FSB Director Nikolai Patrushev on 26 October described the situation in the region as "organized crime, drug trafficking, and corruption." Second, the region's political beau monde spent a week discussing whether Rossel would be removed from office following his recent criticism of the federal government (see *EWI Russian Regional Report*, 23 October). And, third, is the behavior of the Mai faction.

On Monday, Bakov's close ally Aleksandr Burkov, the leader of the Mai faction in the regional legislature, accused Rossel of corruption and demanded his resignation from office. Until Rossel leaves office, the Mai faction will not attend Oblast Duma meetings. The five individuals who comprise the faction may prevent the parliament from achieving a quorum. In addition, the Mai politicians are highly public figures, making it unlikely that their departure will be a permanent one. Still, they cannot return to the Duma empty-handed. Against the backdrop of Bakov's accusations, Burkov's actions seem well founded. Moreover, Bakov, who made his accusations with great confidence, recently was named second-in-command of State Duma Speaker Gennadii Seleznev's

Rossiya coalition -- indicating that he has real access to federal officials. Some experts do not rule out the possibility that Bakov's remarks are in fact a mediated warning from on high, especially considering the good relations between Seleznev and Putin.

Vorobev, in his defense of Rossel, went so far as to announce that not only was the governor not prepared to leave office, but he was actually planning to run for reelection. (Rossel has only run for election once since the federal law on gubernatorial term limits was passed). In other words, should Rossel indeed intend to run for reelection, the juiciest part of the scandal may yet be ahead. - Nataliya Mints in Yekaterinburg

**NAZDRATENKO FACING REMOVAL?** During the most recent meeting of the Primorskii Krai Legislative Assembly on 25-26 October, one of the items on the agenda was the removal from office of Governor Yevgenii Nazdratenko. The governor has been accused of bearing responsibility for the numerous cases in which energy and heat have been cut off to paying consumers. The heating season in the krai is scheduled to begin significantly later than normal this year, and mass protests against electricity blackouts already have taken place. In Nakhodka, citizens blocked the highways and railroads for several days in their demand for a steady energy supply.

The bill to oust Nazdratenko stated that since his assumption of the position of governor in 1993, industry and agriculture have declined severely; the fur-breeding industry has all but been destroyed; and the fishing, mining, military-industrial and energy complexes are all suffering terribly. Of the 33 deputies, 17 voted to dismiss Nazdratenko, with 15 against, and one abstention. The measure required a two-thirds majority to pass. Among those voting for dismissal were Aleksandr Kirilichev, head of the Primorskii Shipping Company (PRISCO), and Sergei Dudnik, the former speaker of the Oblast Duma and one of Nazdratenko's long-time opponents (*Kommersant-Daily*, 26 October).

Nonetheless, the deputies who initiated the proceeding are pleased with the result. "We demonstrated that the governor does not enjoy full support, as is so often claimed. More likely, situation is just the opposite. The fact that 15 deputies did not support the bill to dismiss him does not mean that these people in fact support him," said Krai Deputy Vladimir Ksenzuk.

Analysts believe that the initiators of the vote had two goals in mind: to illuminate criticism of the krai administration, and to prepare for the possible removal of Nazdratenko from office. In their opinion, such a move could occur in the next few months, although the governor's term of office does not run out for another three years.

Nazdratenko's opponents are basing their hopes on the fact that the governor no longer enjoys the Kremlin support he did during the Yeltsin years. After all, it was due solely to Yeltsin's personal -- and unprecedented -- presidential decree that Nazdratenko was able to fire his main political rival, Vladivostok Mayor Viktor Cherepkov, twice. It was entirely thanks to the Yeltsin administration's support that Nazdratenko was able to fend off numerous complaints over energy curtailment in the region -- not to mention over the governor's own treatment of his political opponents and the mass media.

With Putin's rise to power, the Kremlin's relationship to Nazdratenko changed dramatically. Analysts draw this conclusion from a variety of indicators. First, the office of Presidential Representative to the Far East Federal District Konstantin Pulikovskii was established in Khabarovsk, although Primorskii Krai is economically stronger and of

greater geostrategic significance. Second, members of the government are obviously avoiding contact with Nazdratenko, as witnessed by the fact that even minor bureaucrats are canceling their visits to the krai at the last minute.

Pulikovskii's recent announcement on local Khabarovsk television serves as the strongest hope of all for the opposition. On 26 October, he announced publicly that the governor of Primorskii Krai, its mayors and raion heads, and the managers of Dalenergo would be required to leave office if they could not facilitate normal energy supplies during the upcoming winter months.

It is already clear that the energy situation will remain complicated. Coal supplies are down 60 percent from last year, during which time there were massive heat and electricity cut-offs.

Thus, local politicians are thus banking on Nazdratenko's dismissal from office and the possibility of pre-term gubernatorial elections. Members of the local branch of Rossiya, headed by State Duma Speaker Gennadii Seleznev, already have received their marching orders from Moscow headquarters on preparing for pre-term elections.

In this context, the outcome of the legislative assembly's vote does indeed look good for Nazdratenko's opponents. Should it be in the Kremlin's interests to take firm measures to oust the governor, they have the necessary regional backup to do so. - Oleg Zhunusov in Vladivostok

#### **SMOLENSK OBLAST DEPUTY GOVERNOR YURII BALBYSHKIN**

**ARRESTED.** On the evening of 24 October, local FSB officials arrested Smolensk Oblast Deputy Governor Yurii Balbyshkin, whose job involves overseeing foreign economic activity and investment. Balbyshkin is being held in isolation at the FSB oblast headquarters. Officials have confirmed the deputy governor's arrest, although they refuse to comment on the matter (*Vse gazeta*, 27 October). The oblast administration also remains mum.

Smolensk Governor Aleksandr Prokhorov was in Moscow attending a Federation Council meeting when his deputy was arrested. It is not clear whether Prokhorov was informed of Balbyshkin's arrest ahead of time. The question of charges remains equally murky. Balbyshkin has yet to be accused of any crime, although rumor has it that his arrest is related to the recent contract killings of several Smolensk entrepreneurs, particularly AO Bakhus General Director Sergei Kolesnikov. One of the ramifications of Kolesnikov's murder in September was the illegal sale of a portion of Bakhus company property. Kolesnikov was killed in a drive-by shooting on his way to Moscow to attend a meeting requested by the company leadership there. - Arsentii Ledovskoi in Smolensk

#### **KALMYKIYA SETS UP OFFICES TO LOBBY FEDERAL GOVERNMENT.**

Kalmykiya's leaders are continuing to seek close relations between the republican and federal governments. In October, a Kalmykiyan Republic representative office opened up in Rostov-na-Donu under the aegis of the Office of the Presidential Representative to the Southern Federal District and the Northern Caucasus Military District (see *EWI Russian Regional Report*, 18 October). Even more recently, Kalmykiya President Kirsan Ilyumzhinov created yet another official post: Representative of the Republican President on Coordination and Work with the Federal Government's Branch Departments in Kalmykiya (*Izvestiya Kalmykii*, 17 October). G. Mushkin, who served as the Presidential

Representative to Kalmykiya until his position was recently eliminated as part of Putin's reforms, has been appointed to head the office.

Two similar representative offices have existed in the capital for some years now: the Kalmykiya Republic Representative Office under the aegis of the President of the Russian Federation, and the Kalmykiya Republic Representative Office under the aegis of the Government of Russia.

Kalmykiya now maintains all possible representative offices (in the capital, in its federal district, within the republic itself) to facilitate collaboration between regional branches of government and the federal center. On one hand, this demonstrates the political elite's loyalty to the federal government and its recent reorganization of power within the country at large, as well as the desire by the republic's officials to creatively develop this process as best they can while following the Kremlin's lead. On the other hand, in setting up these new political offices, the Kalmykiyan government is attempting to build a stronger lobbying base for its own interests by "attaching itself to" the federal power structure and creating similar political institutions. - Vladimir Volgin in Elista

### **GORYACHEV ALLY NAMED ULYANOVSK CHIEF FEDERAL INSPECTOR.**

Former Ulyanovsk Oblast Presidential Representative Valerii Sychev has been named chief federal inspector to the oblast. At the official press conference introducing him to local federal representatives, Sychev announced that, should it be warranted, he would not hesitate to take any step necessary to correct violations of federal law within the oblast. The new chief federal inspector hastened to add that he would prefer to address any such inconsistencies through peaceful means.

The question of how Sychev will use his power is not an incidental one. His political career has followed the usual party-Komsomol trajectory, including work for the oblast administration as part of governor Yurii Goryachev's team. He had served as President Yeltsin's representative in the region and had not come into conflict with the oblast authorities, although the governor's activities often provided grounds for raising questions.

Sychev's appointment reflects the strength of his connections in Moscow. According to *Simbirskie gubernskie vedomosti* (22 September), Sychev benefited from intense lobbying within the presidential administration from his good friend, Presidential Administration Deputy Head Aleksandr Abramov. Ulyanovsk Mayor Vitalii Marusin, who will finish his term in office soon, was Sychev's main rival for the position, but the latter's ties to the presidential administration proved unbeatable. In addition, *Simbirskie gubernskie vedomosti* reported that Presidential Representative to the Volga Federal District Sergei Kirienko was opposed to Sychev's candidacy, but could not successfully oppose Abramov's pressure. Kiriyenko was, however, able to insist that 41-year-old teacher Aleksandr Ivanov of Tambov Oblast, the winner of the Kirienko-sponsored open contest for the post of federal inspector, be appointed to the position.

Sychev announced that one priority for the oblast will be ensuring the legality of upcoming elections. Kirienko's two main priorities for the federal government in Ulyanovsk Oblast are to support business and promote investment. - Sergei Gogin in Ulyanovsk

**TYVA REPUBLIC FACES CONSTITUTIONAL CRISIS.** Tyva, one of the Russian Federation's poorest republics, is undergoing a constitutional crisis that far exceeds the crises faced by other regions. In recent months, members of the republican parliament have considered two dramatically different republican constitutions, both of which call for the liquidation of the democratically elected parliament. Experts suspect that the ongoing legal uproar is a vehicle for the current republican president to stay in power for a third term.

When Federation Council lawyers recently visited Tyva, they issued a stern evaluation of the current situation regarding the republican constitution. Recently, the republic (population: 300,000) decided to change its 1993 constitution to include a bicameral parliament. The draft, prepared by the administration of republican president Sherig-ool Oorzhak, called for the creation of a separate executive branch, the pre-term dismissal of the current parliament (Verkhovnii Khural), and the transformation of the Velikii Khural (a representative assembly designed to amend the Constitution) into a bicameral parliament (Narodnii Khural) of almost 200 people. In other words, the membership in the legislature of this tiny republic, which receives 93 percent of its budget revenue from federal subsidies, would increase almost eight-fold. All the more striking is the fact that Oorzhak himself had until recently recommended parliamentary cutbacks, stating that the republic needed to economize on state resources.

Less than two weeks after the presentation of this draft, another draft appeared. This version of the constitution would do away with the office of the presidency and turn executive power over to the head of government. Although formally presented by members of the republican parliament, experts see this version as an attempt by the president to bend the republic's laws to his personal needs. In effect, this new constitution would allow Oorzhak to stay in power for another four years by combining the executive and legislative branches. It also would allow the president to evade federal legislation which forbids regional leaders from being elected to a third term in office. Oorzhak's tactics may fail. According to the federal law "On the General Organizational Principles of the Executive and Legislative Powers in the Regions of the Russian Federation," the positions of president and head of government are virtually identical, meaning that term limits would apply to both positions.

Members of the republican parliament, who will stay in office for another two years, dismissed the president's vision out of hand. Nonetheless, the situation remains extremely complicated, and even the Federation Council representatives who traveled to Tyva were unable to resolve it. Following a lengthy meeting with Oorzhak, Federation Council Representative Irina Machulskaya announced that the president was offered a compromise: if the bicameral parliament were approved, the House of Representatives would have minimal responsibilities (involving making changes to the Constitution and, possibly, approving personnel changes). This would be a partial victory for the president.

The president's Constitutional Commission has created yet another Tyva constitution, which it is intent upon offering for approval in a republic-wide referendum which they hope to hold around 17 December. Federation Council representatives recommend limiting the referendum to the first chapter of the new constitution, which deals with the republic's state structure, territory, and federal status. The president, on the other hand, has a vested interest in passing the constitution in its entirety without letting it

fall into the hands of the current parliament, members of which would likely insist upon changes to some of the main provisions.

Thus far Moscow has stayed remarkably silent on this issue. So has Presidential Representative to the Siberian Federal District Leonid Drachevskii, although he has called repeatedly for all local legislation to be brought in line with the Federal Constitution by January 1, 2001. The recently founded Siberian Federal District's Procurator's Office is also keeping quiet. The Tyva Republic procurator recently retired -- the unofficial version is that he succumbed to Moscow's displeasure over his failure to bring local law in line with federal -- and a new procurator has not yet been appointed. In other words, there is no official in Tyva ready to insist that the law be observed. - Maxim Shandarov in Novosibirsk

**DAGESTAN LEADERSHIP DEFENDS ETHNIC QUOTA SYSTEM.** During October, the Dagestan leadership actively defended those aspects of the republican state structure that are threatened by current federal reforms.

Among the most notable events was a meeting of the Dagestan State Council on 18 October, during which the deputies considered the adoption of the federal law "On Guaranteeing the Rights of Small Native Ethnic Groups of the Russian Federation." According to this law, the categorization of any ethnic group as "small," in addition to the advantages it provides in resolving socioeconomic problems, guarantees a representative quota within state institutions. It is customary to define a "small" ethnic group as one that has no more than 50,000 members. In Dagestan, the majority of the 14 titular ethnic groups exceed this number. For example, the republic is home to over 700,000 Avars and over half a million Dargins.

As the state structure in Dagestan is based on a quota system under which all of the republic's 14 titular ethnic groups are guaranteed representation, the State Assembly passed a law declaring all native ethnic groups in Dagestan to be "small." Prime Minister Mikhail Kasyanov was informed of this decision in a letter that asked him to include all of Dagestan's titular ethnic groups in the federal registry of small ethnic groups.

Additionally, since the end of October, Dagestan initiated a series of parliamentary hearings in the State Duma on the problem of preserving ethnic electoral districts. During prior meetings not attended by Dagestani representatives, it was decided that such districts needed to be abolished in order to bring local legislation in line with federal norms. Now, Head of the People's Assembly of Dagestan Mukhu Aliev, Dagestan Duma Deputy Segei Reshulskii, Head of the Dagestan State Assembly Judiciary Department Magomed Khalitov, and head of the republican electoral commission Siyabshak Shapiev are participating in the discussion.

These "ethnic districts" -- in which only members of the titular ethnic group may run for office -- were drawn six years ago. The ethnic principle is used not only in elections to the republican parliament, but also in local city and raion elections. Attempts to reconsider the ethnic quota system have been unsuccessful. In January 1999, the Dagestan Constitutional Court held that the ethnic quota system did not violate the Dagestan Republic Constitution. The Russian Federation Constitutional Court has yet to issue its own ruling. - Nabi Abdullaev in Makhachkala

## BUDGET ISSUES

**ROSTOV OBLAST: MORE MONEY, LESS INDEPENDENCE.** The Rostov Oblast budget will have significantly more money this year compared to the previous year, making local bureaucrats happy. However, thanks to the new division of power between the center and the regions, the oblast authorities will have significantly less power to influence the situation in the region (for a similar analysis of Samara's budget situation, see *EWI Russian Regional Report*, 23 October).

According to Rostov Oblast Finance Minister Nina Sverchkova, the region's 2001 budget will be balanced. Unlike previous years, the oblast plans to adopt the budget before 1 January. The oblast will not even wait for the adoption of the federal budget. If there are differences between the two budgets, the oblast will simply enact corrections later.

Sverchkova, often dubbed the oblast's "Iron Lady," said that she was optimistic about the budget, an unusual situation for her. She said that economic growth in the region will generate real resources to finance social programs.

However, the new division of funds between the federal and regional government will cost Rostov about 2 billion rubles in comparison with the old system of dividing funds between the two levels of government. But economic growth will allow the region to more than compensate for this loss of funds. The oblast budget for 2001 will be 10.5 billion rubles, 30 percent larger than the 2000 budget.

The 2001 budget places a special emphasis on social issues. Since Governor Vladimir Chub faces elections in 2001, he is particularly happy about his ability to address these social issues. The new budget sets up a special 52 million ruble fund for peasants providing them with interest-free loans. Another 200 million rubles will be set aside for buying agricultural equipment. Since Rostov is home to the agricultural machinery giant Rostselmash, these funds also will support local industry. Other funds will go to financing benefits for soldiers, even without federal help. In general, the federal government should provide these benefits, but last year it did not do so and there was no money for this purpose in the regional budget. These problems increased social tensions in Rostov, which is the headquarters of the largest military district in the country. The soldiers complained to Presidential Representative to the Southern Federal District Viktor Kazantsev about the situation. Now, there should be fewer such complaints.

For the first time, the oblast authorities have set aside money for families with many children (60 million rubles). Another 90 million rubles will go to poor families. Forty million rubles will buy special medicines for the extremely sick.

Despite this additional money, there are now significant limits on the financial policies that the regional authorities can implement. For example, for the last three years Rostov Oblast has conducted a policy of selective support for its most important enterprises. The gist of the program was that the oblast and city authorities signed trilateral agreements with the enterprises according to which the enterprises were given breaks in several local taxes. In exchange, the enterprises took on the responsibility of preserving jobs and increasing output, generating more taxes, which compensated for the money lost through the reductions. While approximately 10 enterprises participated in the program in 1998, more than 100 did so in 2000. As a group, these enterprises increased

output 200 to 300 percent, while industrial output in general only grew 150 percent, bringing in new revenue to the budget. It also showed that the regional leaders could lower taxes intelligently and bring in more tax revenue.

Now the oblast authorities no longer have the power to implement such a plan. First, since the redistribution of tax income favors the center, local taxes are much less significant and any benefits in their reduction do not amount to much. Second, on 1 January, the new tax code goes into effect and the very practice of concluding agreements between the administration and enterprises will become illegal. Now the Rostov governor and mayor are seeking different ways to stimulate enterprises at the local level. Already the Legislative Assembly has adopted a law on a tax investment credit and simplified the conditions for receiving a tax break according to the oblast law on supporting investment.

Another serious limitation on the governor's ability for financial maneuvering is connected with the reorganization of the system of off-budget funds. In the past, any governor could establish a "normal working" relationship with the head of the regional branch of the pension, road, employment, social insurance, or required medical insurance funds. The five funds alone controlled sums equal to the oblast's annual budget. Naturally, the regional leader directly or indirectly influenced the distribution of these funds to one or another recipient and thereby influenced the social sphere or political situation in his region. Now all of these funds will be consolidated in the budget and their distribution will be regulated directly from Moscow. Of course, this reform will reduce the number of bureaucrats and rationalize the financial flows. But the main aim of the reform is to deprive the regions of powerful financial levers. Now in Rostov Oblast a special committee for collecting money for the off-budget funds meets as often as twice a week, whereas in the past it met only once in six months. Most likely, the regional authorities will try to use these funds as much as possible before the end of the year, when they will cease to exist.

In short, the budget is much fatter this year and will be able to cover many social expenses that it could not cover in the past. On the other hand, the governor has been deprived of powerful levers in the off-budget funds and the ability to supply tax credits to local enterprises. This phenomenon is part of the overall reduction of the governors' independence. - Andrei Miroshnichenko in Rostov-na-Donu

**MORDOVIYA: A VICTIM OF ITS OWN SUCCESS.** Mordoviya President Nikolai Merkushkin has been making numerous trips to Moscow to participate in the drafting of the 2001 federal budget, which is now being readied for the third reading in the State Duma. In this reading the lower house will determine the concrete sums to be sent to each region. The numbers written into the budget will determine the financial situation in the majority of the country's oblasts and republics. At stake is the timely payment of salaries, stable financing for healthcare, funding for education, and many other issues.

The budget situation did not look good for Mordoviya from the start. The republican leadership believes that the federal government took over the most reliable and easily collected taxes for itself. For example, the regions will lose the 15 percent of the value-added tax, which played a significant role in their revenues. Additionally, the tax on the housing fund was eliminated and the road tax was lowered. The republic believes that it will lose hundreds of millions of rubles from such changes. On the other



hand, the only way the republic can make up for this loss is through additional transfers from the federal government.

But there are difficulties in doing this. The federal government is not putting a priority on those regions, such as Mordoviya, which have achieved relatively good results by increasing output and tax income. Thus, a contradictory situation ensues: regions that work better, receive less as a result. Thus, Mordoviya's case shows the need for a completely different policy of inter-budgetary relations.

Mordoviya is seeking powerful allies to help reform the system. For example, Otechestvo-Vsya Rossiya leader Yevgenii Primakov argues that the federal policy of equalizing regions is unacceptable. Instead, the job of the state should be to support those regions which show progress in expanding their economies and improving the social sphere. Primakov's faction promised to support Mordoviya in drawing up the new budget.

Additionally, Merkushev is seeking other allies at the federal level. For example, he is lobbying the Railroads Ministry to include Mordovian enterprises in the work to expand the country's rail network. There are also negotiations under way with Gazprom to increase gas supplies to the republic in 2001 as well as the size of the subsidy from the federal government. - Igor Telin in Saransk

#### **KARACHAEVO-CHERKESK PRESIDENT SEEKS MORE AID FOR**

**DEPENDENT REGIONS.** In Russia today there are 13 regions that generate less than 50 percent of the revenue included in their budgets. These regions are heavily dependent on federal subsidies. Karachaevo-Cherkesiya is one of these regions since it generates only 47-48 percent of its budget revenue.

At the end of October Karachaevo-Cherkesiya President Vladimir Semenov announced that he was going to seek a change in status for heavily dependent regions in their budgetary relations with Moscow. In making his case, Semenov pointed out that it is extremely difficult for the regions located in the North Caucasus and the Far North to attract their own investment. Investors fear the North Caucasus because of the high levels of violence, while the climate of the Far North makes investment there difficult. Nevertheless, Semenov believes that investment by the center would provide a strong impulse for development.

Semenov believes that the existing system for distributing funds from the federal government to the regions blocks the implementation of his proposal. Currently, the federal fund for financial support to the regions is divided 80:20 between stimulating economic growth and leveling out the differences between regions. Eighty percent goes for stimulating relatively well-off regions, and 20 percent goes for leveling out social indicators between rich and poor regions. Semenov believes that it is necessary to change these proportions because otherwise the difference between rich and poor will only grow. At the beginning of 2000, the deficit regions had three key debts: salaries for civil servants, children's benefits, and payment for communal services for public institutions. Now the situation is significantly worse. Debts for electricity and gas to federal suppliers have reached a critical level in these areas.

The lack of funds either makes it impossible to implement such federal laws as those giving benefits to veterans or puts a huge burden on the enterprises, which carry these costs. The federal law on veterans provides free access to public transportation for many veterans. However, the regional authorities do not have the money to make up for

the lost income. As a result, the energy suppliers must make up the difference. To offset, these losses, the utilities must charge other customers higher rates or face their own financial crises. Looking at the overall situation in education, hospitals, infrastructure, and public transportation, Semenov believes that the current system of inter-budgetary relations does not provide all citizens, regardless of the region they live in, with access to guaranteed state services.

At the end of September, Konstantin Titov, the Samara governor and chairman of the Federation Council Budget Committee, held a hearing on this issue. Titov supported the leaders of the poor regions in advocating a change in the proportion of how funds are distributed, assigning 40 percent (rather than 20 percent) for the purpose of leveling differences between regions. The committee also supported spending more federal money on meeting the ethnic needs of the poor regions. Many of them are multi-national and spend considerable sums on teaching local languages and literature. In the North Caucasus, more than 10 percent of the personnel expenses go to salaries for teachers of local languages. The federal government is now planning to take on the costs associated with paying children's benefits and providing benefits for veterans and the handicapped. It remains to be seen how the State Duma will vote on these issues. - Oleg Tsvetkov in Cherkessk

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Stephen D. Shenfield. *Russian Fascism: Traditions, Tendencies, Movements*. New York: M. E. Sharpe, forthcoming January 2001. 320 pages. \$66.95. ISBN 0-7656-0634-8.

The analogy commonly drawn between present-day Russia and Weimar Germany implies the likely rise of a new Russian fascism. To what extent has this expectation been borne out so far? This is the question that I address in my book – the first detailed study to appear in English of fascist traditions, tendencies, and movements in post-Soviet Russia.

In view of the confusion surrounding the word "fascism," my first concern is to clarify its meanings, both in general and in the Russian context, in order to give the study a firm conceptual basis. I argue that the defining characteristic of fascism is the aspiration to restore "heroic" pre-modern values in a revolutionary new order. This leads me to consider whether Russia has a living fascist tradition. I demonstrate the existence of a Russian fascist tradition that can be traced back to the nineteenth-century writer Konstantin Leontiev. However, I also conclude that the tradition is a very weak one, and this significantly constrains the potential of contemporary Russian fascism.

Turning to the political scene of post-Soviet Russia, I begin by discussing the relationship between Russian fascism and the broader spectrum of Russian nationalism. I proceed to assess the character and strength of fascist tendencies in the Communist Party of the Russian Federation and in other communist parties, in the Russian Orthodox Church, in the neo-pagan revival movement, and in the Cossack revival movement. While confirming that there are indeed strong fascist or proto-fascist tendencies in all these organizations and movements, I find the fashion of labeling them outright as fascist to be misleading and simplistic. No such proviso is needed when I come to describe the skinheads -- and the politics of some of Russia's soccer clubs.

The next focus of my attention is Vladimir Zhirinovskiy and the Liberal-Democratic Party of Russia. Is the LDPR, as widely assumed, a fascist party? I stop short of a definite positive answer, although there is certainly a self-consciously fascist wing in the LDPR.

The longest part of the study is a detailed examination of Alexander Barkashov's Russian National Unity (RNU), which was until very recently the largest unequivocally fascist organization in Russia. I analyze not only the RNU's program and ideology, but also its symbols, its internal structure, its mode of operation, its role in Russian politics, its strategy, and its strengths and weaknesses. Of special interest to readers of RRR will be the regional case studies of the interaction between the RNU and the local authorities of the Stavropol and Krasnodar Territories in southern Russia, and of the Orel and Voronezh Oblasts in the south-west. The split in the RNU that took place in September 2000 is assessed in an Afterword

Following the RNU, I discuss an expanding "left" fascist organization, the National-Bolshevik Party. I also look at its leader, the writer Eduard Limonov, and his long-time collaborator, the philosopher Alexander Dugin, as influential fascist cultural figures. Then I portray at lesser length a number of smaller fascist organizations of various types -- paramilitary and party-political, Christian and pagan, nativist and mimetic (i.e., imitative of foreign fascisms). Finally, I offer a comparative overview of all the fascist, semi-fascist, and proto-fascist organizations that have been described.

In the Conclusion, I return to the "Weimar Russia" analogy. I argue that the very limited success of Russian fascism to date casts serious doubt on the value of the analogy. At the same time, I point out that the evidence presented in my study does not permit one

to dismiss the fascist tendencies and movements of contemporary Russia as insignificant and purely marginal phenomena.

The book can be ordered from M. E. Sharpe at 80 Business Park Drive, Armonk, NY 10504, tel. 800 541 6563, fax 914 273 2106, website [www.mesharpe.com](http://www.mesharpe.com).

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## **BREAKING NEWS**

### **CHUVASHIYA'S FEDOROV, LEGISLATURE CLASH OVER NEW**

**CONSTITUTION.** Chuvashiya President Nikolai Fedorov and the republican legislature have come into conflict over provisions of the republic's new constitution. Although everyone agrees that it is time to amend the republican constitution, 55 members of the legislature (of 83 present) voted against a provision that would allow the republican president to serve three consecutive four-year terms. Fedorov is already serving his second term and clearly wants another one. However, the legislators wanted to set the limit to two terms. Additionally, the legislators voted against the possibility of combining the offices of republican president and prime minister. Before the deputies could vote on the draft as a whole, Fedorov announced that he was going to put the document up for a popular referendum on 14 January 2001. In response, the legislators decided to stop the work of the parliament for an undetermined amount of time. According to the law, the constitution can be approved either by the legislature or by a popular referendum (*Kommersant Daily*, 3 November).

**FEDOROV FILES CASE AGAINST FEDERAL REFORMS.** After the Federation Council failed to file a case collectively against Putin's federal reforms, Chuvashiya President Nikolai Fedorov has filed a case on his own. He is questioning the president's right to fire governors and to coordinate with the State Duma in disbanding regional legislatures as well as the right of governors to fire mayors. Legal observers believe that Fedorov's case has a strong chance of success (*Segodnya*, 3 November).

The overall effect of these reforms and the significance of their potential cancellation remains uncertain. Firing governors is a blunt and unwieldy instrument. Putin has been much more effective in reducing the governors' power through other means.

**MARI EL PRESIDENT REGISTERED FOR ANOTHER TERM.** Marii El President Vyacheslav Kislitsyn has registered for the republic's 3 December presidential elections. His main opponent will be the republic's minister of internal affairs, Anatolii Ivanov, who apparently has the support of Moscow, and former State Duma Deputy Leonid Markelov.

Observers believe that the federal government may ultimately force Kislitsyn from the race. Already a federal committee has visited the republic to investigate the connection between crime and the authorities in the region. After this inquiry, criminal charges were filed against republican Central Electoral Commission Chairman Yuri Petrov. After meeting with Presidential Representative to the Volga Region Sergei Kirienko, Kislitsyn said that he still intended to

compete in the race. Kislitsyn even claimed that Moscow had supported him by paying pensions and making transfers to the region on time (*Kommersant Daily*, 3 November).

**NORILSK NIKEL DIRECTOR SEEKS TAIMYR GOVERNORSHIP.** Norilsk Nickel General Director Aleksandr Khloponin announced that he will seek the governorship of the Taimyr Autonomous Okrug in elections set for 28 January. Khloponin said that running the region would be similar to running a large corporation. Incumbent Governor Genadii Nedelin does not plan to seek another term and Khloponin does not face any serious opponents (*Kommersant Daily*, 3 November).

Taimyr is located on the territory of Krasnoyarsk Krai. Members of the Krasnoyarsk legislature are worried that if Khloponin wins the election, then all the tax revenue that Norilsk Nickel now pays into the krai budget will go to the Taimyr Autonomous Okrug budget. Currently, Norilsk Nickel's payments make up 70 percent of the krai's budget. The company is currently restructuring, resulting in a transfer of assets to the Norilsk Mining Company (NGK), which had been registered in Taimyr and would pay taxes to the okrug rather than the krai budget. Only Krasnoyarsk Governor Aleksandr Lebed's personal intervention forced NGK to register in the krai rather than the okrug. Khloponin said that he does not plan to change the way taxes are paid.

Along with Roman Abramovich's pursuit of the governorship of Chukotka, Khloponin's decision to enter the Taimyr race marks a new trend in which "oligarchs" are personally seeking governors' seats. This trend suggests that, despite Putin's reforms, the governors' position is still important. Governors have extensive control over local resources.

**PSKOV GOVERNOR QUESTIONS REPUBLICS' RIGHT TO NAME TAX INSPECTORS.** The Constitutional Court is examining whether the republics within the Russian Federation have the right to name the head of the republican tax police branches. Pskov Governor Yevgenii Mikhailov initiated the case, which focuses on two points in the federal law on the tax police. The law gives the executive branch of the republican governments the right to approve the appointment or dismissal of the tax police heads, while the krai, oblast, and federal city executives are denied such rights. Mikhailov argues that this law violates the equality of all regions within the Russian Federation.

Mikhailov pointed out that article 72 of the constitution puts law enforcement organs under joint federal and regional control. He wanted the federal government to extend the right of regional approval to the krajs, oblasts, and federal cities. However, representatives of the Kremlin and State Duma argued that the tax police was a federal body and it made more sense to take away the republic's control over these bodies rather than extend the right to the other regions. The decision is now up to the members of the court. (*Kommersant Daily*, 1 November).

**RUSHAILO HAS BIG PLANS FOR POLICE.** Minister of Internal Affairs Vladimir Rushailo has big plans that could turn Russia's police force into one of the most politically powerful law enforcement agencies, *Vremya novosti* reported on 4 November. The plans have been under discussion for two months and will likely be implemented after the November

holidays. The reforms would greatly increase the power of the MVD and tip the current balance existing between the different law enforcement ministries, the newspaper said.

The gist of the plan is to greatly increase the scope of work carried out by the Main Administration for the fight against Organized Crime (GUBOP). It will be renamed the Federal Committee for the Battle Against Organized Crime and Corruption under the auspices of the MVD. This group would have extensive powers to deal with all aspects of the battle against organized crime and corruption. These powers currently are divided among many different divisions.

**ISHAEV FOR PRESIDENT APPOINTING GOVERNORS.** In an interview with *Izvestiya* (4 November), Khabarovsk Governor Viktor Ishaev repeated his proposal that the president should appoint governors directly rather than allowing the residents of a region to elect them. Ishaev said that he had more than once told the president that trying to create a hierarchy of power through the seven presidential representatives was only a half measure that was unlikely to achieve the kind of reform Putin sought. He said that nothing was needed beyond the president, government, and governors and that the president should appoint key members of the federal and regional executive branches from top to bottom.

Ishaev also criticized the reform of the Federation Council, pointing out that it had been a "stabilizing organ." He noted that the reform had some funny features. For example, the governor, who no longer has immunity from prosecution, would appoint a representative to the council, who then would have immunity.

## **COMPARING MEXICAN AND RUSSIAN FEDERALISM**

**WHAT IF PUTIN WERE MORE LIKE FOX?** Mexican and Russian federalism have a lot in common. The Revolutionary Institutional Party (PRI) ruled Mexico for 71 years, centralizing power and largely preventing the country's formally federalist institutions from functioning. State governors were essentially the agents of the president and not accountable to their own constituencies. The governors, in turn, exerted enormous influence over the local governments. Vicente Fox's victory in the July 2000 presidential elections brought an end to this system, removing the PRI from the presidency and handing it to Fox's National Action Party (PAN). (This analysis of Mexican politics is based on the report by Yemile Mizrahi available on the website of the Forum of Federations: An International Network on Federalism, [www.forumoffederations.org](http://www.forumoffederations.org).)

As newly elected leaders of their countries, Russian President Vladimir Putin and Fox face the same general questions: how to build an effective state that generates economic prosperity. Both men lead countries with federal institutions and face the common problem of dealing with regional leaders who do not necessarily share their agenda. With his background in Russia's secret services, Putin sees the answer in a centralization of power. He has created seven federal districts with presidential representatives who will better coordinate the activities of federal ministries in the regions and better monitor the activities of the regional authorities to ensure that they follow federal norms. He believes that this system will compensate for the sloppy devolution of power that occurred under Yeltsin.

Fox is taking a radically different approach from the Russian president and one that demonstrates a possible alternative for Putin. Fox's background is very different from Putin's. Before becoming president, Fox was the president of Coca Cola in Mexico and from 1995 to 1999 served as the governor of Guanajuato State. In both jobs, he learned the benefits of devolving power. According to Mizrahi, at Coca-Cola he found that "spreading functions and responsibilities throughout the organization increased administrative efficiency and efficacy." As governor, Fox gave local governments "the resources and the decision-making authority to plan and pay for their own public works," regardless of which of three parties controlled them. Additionally, Fox linked this new spending authority to mechanisms that allowed for the participation of civil society. Mizrahi points out that public works projects had to be approved by representatives of civil society in each municipality. Governor Fox also realized that if he was going to devolve this spending power to lower levels, he would have to train the municipal authorities in planning and administering their budgets and in working with organized groups in the community, including NGOs.

As the new president, Fox is creating a new federal office, whose head will be the "czar of federalism" in Mexico. This position will be above the cabinet and close to the president. Its function will be to ensure that each ministry is more sensitive to the issues of federalism. This office will be responsible for redefining the roles of the three different levels of government and evaluating the results of government actions and policies at all levels. This position sounds like a variation on the theme Putin struck in creating the seven federal districts in Russia and in giving extensive coordinating and monitoring responsibilities to his representatives. Many in Mexico are skeptical that the new federalism czar will be able to work with all the different federal bureaucracies and with the state and municipal governments.

While in Russia, Putin is centralizing control of state funds - taking from the regions access to money they controlled in the past and concentrating it in the hands of the federal government - Fox is contemplating giving greater power to the state and local governments. But Fox faces a problem that is very familiar to Putin. In Mexico, the PRI continues to control many of the country's governorships. Handing greater power to these governors could be politically dangerous for Fox and the PAN. The governors could use their power to sabotage federal policy. They could also use it to enrich their associates in ways that are harmful to society at large.

Among Fox's advisors, the most popular strategy for checking the power of the governors is to work through the local governments. In Russia, Yeltsin made some efforts to organize the mayors to serve as a check on the power of the governors. Putin, however, seems to have abandoned the idea. When he took the right to fire governors, he gave the governors the right to fire some of the mayors in their territory (excluding the mayor's of regional capitals).

Putin has chosen to centralize power, arguing that the federal government can do a better job of governing than regional governments. Fox plans to decentralize power, assuming that those closer to the problems can make better policy. To avoid abuses of power, particularly by governors, he is seeking to empower and energize local governments and civil society. Putin's reforms largely ignore local government and civil society and Fox's reforms may be much more effective as a result. - Robert Ortung

## GOVERNORS' ELECTIONS

**COMMUNIST MIKHAILOV DEFEATS KREMLIN'S FSB MAN IN KURSK.** As Russian Communists prepared to mark the 83rd anniversary of the Bolshevik Revolution, their comrade, State Duma Deputy and Kursk Oblast Obkom First Secretary Aleksandr Mikhailov, won the 5 November runoff in the Kursk Oblast gubernatorial campaign, convincingly defeating the Kremlin's candidate, Chief Federal Inspector Viktor Surzhikov, once the head of the Federal Security Service in the region. Mikhailov won more than 55 percent of the vote, while Surzhikov took less than 38 percent, according to preliminary returns. Turnout was relatively high for the region at over 47 percent, down about 5 percent from the first round.

The battle between the two main contenders was relatively sluggish since the main fight had been to remove incumbent Governor Aleksandr Rutskoï from the race. Four days before the voting the Supreme Court refused to overturn the oblast court decision eliminating the incumbent. According to Rutskoï, these events are a "flagrant violation of Russian law" and a "flagrant violation of the voters' rights." Rutskoï declared that he will appeal the Supreme Court's decision to its presidium. The charges against Rutskoï originally were filed by Surzhikov and Kursk Mayor Sergei Maltsev. Earlier Rutskoï had said that he did not believe that the Kremlin had been involved in the attempt to remove him from the campaign, but now he says that he believes that these assertions are true. Rutskoï had hoped that many of the voters would vote "against all," but only 6 percent did so.

Surzhikov energetically sought to win over the voters who had supported the other candidates in the first round (Sergei Maltsev, Nikolai Greshilov, Vladimir Stekachev, and Vyacheslav Klykov) and these candidates supported him. They declared that only Surzhikov will "deliver us from the plague of corruption," "will prevent Kursk from being lost," and be "a manager concerned with day-to-day work rather than politics." If all the voters who had supported the four candidates listed above in the first round had backed Surzhikov in the runoff, he would have won the race. While Surzhikov won 15 percent more in the second round, it was not enough for victory.

In contrast, Mikhailov conducted a confident and quiet campaign. He had good reason to be confident. First, Kursk Oblast has a stable Communist electorate that is active at the polls. Its base is the rural population from the less developed northern and eastern parts of the oblast, where 65 percent of the population is over 55 years old. Mikhailov won convincingly in these areas by clearly identifying himself with the Communist Party. He often addressed voters as "We Communists" and "We patriots." Second, the Communist Party used all of its resources to help Mikhailov. Party leader Gennadii Zyuganov came to the region and campaigned with Mikhailov in six rural raions and the large cities of Zheleznogorsk and Lgov. Communist State Duma member Nikolai Ivanov headed Mikhailov's campaign team and Communist members of the Oblast Duma and Kursk City Assembly participated in the campaign effort.

Third, the Communists ran an excellent campaign, striking themes that were in line with popular sentiment in the region. Their posters included clear slogans and were professionally printed. The television commercials were also of very high quality and professionally produced. The message of the red flag, hammer and sickle, and slogans "For victory" and "Mikhailov will

not cause harm," an obvious reference to Rutskoï, were clear to everyone. The campaign appealed to emotions rather than logic.

Three days before the election, Mikhailov announced that he was confident of victory and that he intended to work with Surzhikov in his capacity as chief federal inspector in Kursk Oblast. Mikhailov's term will last five years. He was born on 15 September 1951 in the Kursk Oblast village of Kosorzha and graduated from the Kharkov Institute for Railroad Engineers. After working in the railroad, he switched to Communist Party work, and since 1991 "has sought to restore the position of the Communist Party in Kursk Oblast," as he puts it. This work represents the new governor's political background.

Mikhailov takes office on 19 November and will likely quickly fire the current oblast government and form a new one with a majority of Communist Party members. The Kursk Oblast Duma will now have a Communist majority and it will likely soon meet to adopt a new oblast charter in line with federal norms (in September and October, the body was unable to achieve a quorum because of protests by the Yedinstvo faction). The regional legislature will itself be reelected on 14 January 2001.

Kursk's relationship with the federal government will change. Mikhailov will now name a representative to the Federation Council, most likely a Communist. Federal Inspector Surzhikov will monitor the activity of the oblast authorities with special care and interest, in the spirit of the current presidential administration. Mikhailov will work to improve the region's relations with the president. On 6 November he told NTV that "Putin is not Boris Nikolaevich Yeltsin, objectively we are allies with Putin." - Sergei Sarychev in Kursk

**VORONEZH ADMINISTRATION LINKED TO MISUSE OF FUNDS.** In the Voronezh gubernatorial campaign, Federal Security Service General Vladimir Kulakov now has officially registered and continues to hold a commanding lead. According to the latest polls, he has 35.3 percent of the popular support compared to Governor Ivan Shabanov's 9.5 percent.

A new scandal in the region will certainly not improve Shabanov's standing. With increasing frequency, local newspapers are writing now about the "Sodeistvie" group's ability to lobby the oblast administration. In 1998, the Voronezh Foundation for Development and Investment transferred to the Sodeistvie corporation veksel issued by the Novovoronezh Nuclear Plant worth 20 million rubles on very easy terms. In effect, Sodeistvie gained control over 20 million rubles of the oblast's budget, a sum that represented 1.5 percent of the oblast's funds.

The main figure in the case is Deputy Governor Vadim Sukhoverkhov, who was arrested in September 1998 (see *EWI Russian Regional Report*, 1 October 1998) and by implication the governor himself. The fact that this scandal has come to the fore now will complicate the governor's attempts to win popular support. Since Kulakov has support from all levels of society, Shabanov is looking increasingly weak. - Yuliya Fedorinova in Voronezh

**MEDIA ABUSES CHARACTERIZE PSKOV ELECTIONS.** The Pskov Oblast branch of the All-Russian State Television and Radio Company recently broadcast a documentary glorifying the childhood and current accomplishments of incumbent Governor Yevgenii Mikhailov, who is seeking another term in the region's upcoming elections. A group of citizens

had tried to protest the broadcast and Pskov Oblast Electoral Commission Chairman Gennadii Sudakov had personally warned Mikhailov that by law such campaign material had to be broadcast during paid airtime and at a time that had been determined in coordination with other candidates. Accordingly, the electoral commission decided to fine the broadcaster more than 40,000 rubles and present evidence about the actions of the television station's leaders to the regional procurator.

This is not the only incident in the campaign involving the media, and the law enforcement agencies are becoming increasingly interested. It is now possible that the new Pskov Oblast procurator, Nikolai Lepikhin, will try to play a more active role in the region. Before gaining his current position, Lepikhin worked as the deputy procurator of Vologda Oblast. According to oblast law, his appointment had to be approved by the oblast legislature. Lepikhin won the legislature's support on 26 October. On coming to power, one of Lepikhin's first steps was the removal from office of the chairman of the Pskov Oblast State Television and Radio Company, Leonid Kuznetsov. He secured from Kuznetsov a statement that he would not leave the region while a preliminary investigation was conducted in connection with Kuznetsov's failure to implement a court ruling requiring the station to show ads paid for by Governor Mikhailov's opponents.

On 31 October, Chief of Staff for State Duma Deputy Mikhail Kuznetsov (Mikhailov's chief opponent) Yevgenii Yelfimov and *Panorama* and *Tak nado!* newspaper editor Aleksei Panasevich came to the television station headquarters accompanied by two bailiffs and their security detail. They brought the court's decision ordering the station to provide airtime for the broadcast of advertising materials prepared by the company Vest. The leadership of the TV station made clear that they had no interest in broadcasting the material for the governor's opponent. Then the representatives of the court broke through the studio door and attempted to put the material on the air themselves. The directors of the station blocked the broadcast, leading the procurator to file new charges against them.

Similar events occurred at the Telekom 7 private television and radio company. The owners of this company, which include the Pskov mayor's office, businessman Viktor Bibikov, a candidate for the governor's office himself, and several other companies, decided to remove the programs "Pskovskoe Oko" and "24 chasa" from the air. These programs actively promoted Governor Mikhailov's candidacy and discredited his main opponents. The station owners adopted this decision after receiving a warning from the oblast electoral commission that they were illegally broadcasting campaign material. Mikhailov then used the full extent of his administrative powers to force Telekom to change its mind. Fire inspectors quickly arrived at Telekom's studio and immediately discovered numerous code violations, leading them to seal off the premises. Accompanying them were the police and representatives of the oblast Department of Civil Defense and Extraordinary Situations, including the department chief Deputy Governor Viktor Komissarov. Despite these events, the TV executives were able to continue broadcasting from a back-up studio. These broadcasts included the pro-Kuznetsov Pskovskaya Lenta Novostei. After these events Telekom Director Viktor Solov'ev disappeared. He was last seen in the company of well-built young men seating him in a train headed for Moscow. The pro-Kuznetsov newspaper *Panorama* claims that he was kidnapped. Another possibility is that he simply fled a difficult situation.

In an interview with the new agency Pskovskaya lenta novostei, Telekom General Director Marina Kozhevnikova said that the pro-governor newspaper *Pskovskaya pravda* had reported incorrectly what happened at the studio. The paper claimed that a group of bandits, led by Kuznetsov and his associates, had descended on the studio. She said that that account was a fabrication. Instead, she claimed that the governor's people had tried to block General Director Viktor Solovev's attempt to carry out the court decision to remove the two shows from the air. However, after Solovev disappeared from the oblast, Kozhevnikov changed her statement. She appeared on the Pskovskoe oko program, which Telekom continues to broadcast, and claimed that everything that she had said to Pskovskaya lenta novostei was not true. In Solovev's absence, she is backing the governor. The news agency is continuing to track developments in the conflict at <http://pln-pskov.ru/>. - Andrei Shcerkin in Pskov

**KALININGRAD RACE HEADING INTO RUNOFF.** After first round voting on 5 November, Kaliningrad Oblast faces a runoff pitting the 62-year-old Baltic Fleet Chief Vladimir Yegorov, who won about 38 percent in the first round and incumbent Governor Leonid Gorbenko, who took about 21.5 percent. Turnout was just over 49 percent. *Izvestiya* (3 November) described the elections as very important because they would determine which path Russia would follow in its relations with the European Union.

Yegorov has the support of the pro-Kremlin Yedinstvo party and built his campaign around images showing him with the president plastered all over the region. According to *Izvestiya* (2 November), Yegorov tried to present himself as a military leader with clean hands fighting against corrupt politicians. However, the paper suggested that local voters were generally too sophisticated to give these claims much credence. Ultimately, the campaign lacked ideas and was simply based on trying to convince the voters who was a better person.

**MAGADAN INCUMBENT WINS.** Magadan Governor Valentin Tsvetkov took more than 63 percent of the vote in the region's 5 November elections to score a decisive victory. State Duma Deputy Vladimir Butkeev won only 14 percent of the vote. (nns.ru, 6 November)

## **DISPATCHES FROM THE FIELD**

### **CHUKOTKA AND ABRAMOVICH ON THE EVE OF THE GUBERNATORIAL ELECTIONS**

*Anna Reid has spent five months traveling round Siberia researching a history of its indigenous peoples. Titled "The Shaman's Coat" it will be published by Weidenfeld & Nicolson next year. She has just returned from Chukotka, where the campaign for gubernatorial elections, due on 24 December, was getting underway. These are some rough impressions of her trip.*

Chukotka was much the worst-off place I have been to in Siberia. There seemed to be almost no economic activity, legal or black-market, at all: very few shops, no kiosks or bazaars, no



private cars or dachas. In Provideniya, whose population has halved to 2,500 in the past decade, the tanning, reindeer-meat processing, and building-block manufacturing factories had closed, the port was down from 1,500 to 90 employees, and the dockside cranes were being dismantled for transportation to St. Petersburg.

Public services have completely collapsed as well - Provideniya has lost its pig and chicken farm and dairy, which used to supply fresh milk, eggs and meat, and its public transport, the few remaining flights between settlements being prohibitively expensive (Anadyr to Provideniya, for example, is \$80.) Only one apartment block in the town had heating or hot water; in most of the rest, the electricity only came on twice a day. Fuel is also in short supply, with the result that transport by private boat or "vezdekhod" - a sort of mini tank used for crossing the tundra - is very limited. All these familiar problems are far worse in Chukotka, because its climate and remoteness are such that it is impossible for private enterprise to take up the slack - it is too cold to grow vegetables, and transport is too scarce and expensive for black-market trading (the region has almost no roads.) No wonder that the hospitals are full of scurvy and tuberculosis cases, and at least one in four men on the street is visibly drunk or has a black eye. Officials refused to give me total numbers of suicides and murders, but, according to a local radiologist, Provideniya has seen seven young people kill themselves so far this year.

Despite these problems, Sibneft Director Roman Abramovich has made a big effort to win the region's governorship in the 24 December elections. Last December he was elected as the region's representative to the State Duma. Presumably he wants to gain control of the oil and gold resources in the region. So far, as part of his campaign, he has:

- paid for a shipload of food aid to tour the coastal settlements. Each registered inhabitant - adults and children - received 50 kilos of flour, 25 kilos of sugar, 1.5k of dried milk, 5 packets tea, 4k rice, 6k kasha, 5 liters of oil, 10k of salt, and 5k of pasta.
- paid for 3,300 schoolchildren to go on summer holidays to Central Russia and the Black Sea.
- distributed grants to cover electricity bill debts, plane tickets for would-be emigres, kindergarten fees, etc.
- set up a newspaper, the "Pole of Hope", staffed by nice young journalists from Moscow, to advertise his generosity.
- placed his own representatives - more nice young Muscovites - running his campaign in each of the larger outlying settlements.
- traveled to Alaska to talk about wind power and development aid.
- and arranged for a representative of the Central Electoral Commission in Moscow to come and lecture regional mayors on not favoring the incumbent.

As a result, everybody I met in Chukotka seemed to be going to vote for him. Many appeared genuinely to hope that he would be the region's savior - young, rich, clever, "*aktivniy*". Others just seemed to think that he couldn't possibly be worse than the incumbent governor, Aleksandr Nazarov. All were grateful for the food aid, saying that even if he does nothing else, he's already done more for Chukotka than anyone else has in nine years. "We've had enough words, we want somebody who actually does something" was the general cry.

Seeing him at a public meeting in Provideniya on October 17th, though, I didn't get the impression that he cares about much beyond winning votes. He arrived late, looked conspicuously bored, didn't bother to give a speech, and hardly bothered to answer questions. He was also uncomfortable on stage and a bad speaker, brief, stumbling and nervous. Even his clothes - jeans, down jacket, designer stubble - looked inappropriate. When I asked him what his program for Chukotka was, he refused to answer, saying that as he had not yet officially declared his candidacy, this was premature. It is hard to imagine him becoming a national politician: he would be terrible on TV.

He did say, though, that he was in favor of lifting the visa regime that keeps critical foreigners out of Chukotka. Just doing this would quickly make a difference. Until Nazarov clamped down a couple of years ago, there had been the beginnings of a tourism industry, with boat-loads of Americans coming over from Alaska to look at the Chukchi and Eskimo villages on the coast, and increasing numbers of anthropologists, archaeologists, wilderness-seekers, wildlife documentary-makers etc. Several of the people I met - drivers, Bed & Breakfast ladies, interpreters - had had nice little summer businesses going taking people out to visit reindeer herders, look at migrating whales and birds. This summer and last, though, Nazarov has allowed almost no visitors at all. To get four days in Provideniya, I had to fight with the border-guards, who falsely claimed that my papers were out of order. They threatened to use force to put me straight back on the plane for Anadyr, and said that if I did not leave, I would be excluded from the Russian Federation for five years. While I was there I had to report to the police every day, and the deputy-mayor kept calling up to ask where I had been and whom I had met. As a result of this kind of experience, aid projects organized by the Red Cross and by evangelical missionaries have ground to a halt, as have efforts by the wildlife department in Barrow to supply Eskimo and Chukchi with the equipment to resume whale and walrus hunting. Abramovich could revive all this very quickly if he gets in.

Ironically, though, many ordinary Chukotkans, as well as officials, actually seemed to favor keeping the "closed zone regime" in place, for fear of "speculators, tricksters", and out of concern for the "naivete" of the indigenous peoples. They have been brought up on tales of pre-revolutionary American whalers swapping walrus-ivory for rum, regard foreigners as alarming oddities, are ashamed of their poverty, and didn't seem to mind that their own relatives have to get special permits to visit. A very sad place.

## **CENTER-PERIPHERY RELATIONS**

**KALMYKIYA COURT OVERTURNS ILYUMZHINOV DECREES.** The Kalmykiya Republic Supreme Court has declared unconstitutional and no longer in effect Kalmykiya President Kirsan Ilyumzhinov's 13 August 1999 decree regulating the sale of alcohol in the

republic (*Vremya Kalmykii*, 4 November). The decree created a republican system for guaranteeing the quality of alcoholic beverages sold in the republic that duplicated the federal system. All bottles sold in the republic had to have a certificate of quality that cost 2.5 rubles per bottle. Bottles without the stamp could not be sold in the republic. The authorities could remove from sale bottles that did not have the proper certification and penalize the seller with sanctions up to confiscating his license to do business. Additionally, individual entrepreneurs were forbidden from importing alcohol into the region for sale by other businesspeople. Selling alcohol in the republic became the prerogative of specially authorized wholesalers. The republican authorities adopted this measure to gain greater control over the lucrative cash flows generated by the republic's alcohol industry.

The republican procurator charged that Ilyumzhinov's decree violated the Russian constitution, the federal law regulating the sale of alcohol, and federal anti-monopoly statutes. The procurator filed a case in the republican Supreme Court, which concurred with his findings. Ilyumzhinov's representatives argued that the republican president's decree was necessary to protect the population from illegally produced and low quality alcohol. The court did not accept this argument, however.

Since Putin launched his reforms, Kalmykiya has worked actively to bring its legislation in line with federal norms. At Ilyuzhinov's initiative, the republic has overturned more than 20 legal acts that violated federal laws. This work is still continuing.

Simultaneously, the republican procurator and Supreme Court, institutions that are both federally controlled, have begun to play a more active role. During October the court ruled another two presidential decrees unconstitutional after the procurator had filed suit. One of the decrees levied a fine on trucks and cars passing through the republic for the pollution they added to the air. The other decree sought to reduce the amount of cash used in business dealings by limiting the amount of cash businesspeople and corporations could hold. Both of these decrees had been in effect since the first part of 1999. - Vladimir Volgin in Elista

### **PRESIDENTIAL REPRESENTATIVE LATYSHEV LOOKS FOR NEW HOME.**

Presidential Representative to the Ural Federal District Petr Latyshev has announced that he has asked Vladimir Putin to overturn a decree establishing his headquarters in a building currently serving as a children's cultural center. The scandal surrounding Latyshev's proposed residency in Yekaterinburg began several months ago when the presidential representative was offered quarters in the pre-revolutionary Kharitonov mansion, converted in 1937 into a Palace of Children's Creativity. The prospect of the children being ousted from this cultural center did not sit well with the local population, which organized marches and pickets in protest. The teenagers who attended after-school lessons at the Palace categorically refused to evacuate the premises, although they were offered a variety of alternatives, notably the city and oblast's proposal to build a large and better-equipped Palace to serve the city's children.

Latyshev's decision to put an end to the scandal was not unexpected. Rather, it was the only way for him to gracefully disentangle himself from a situation forced upon him by the oblast administration. From the very beginning, the presidential representative had no intention of using force to take over the mansion. Doing so would have made him the permanent, symbolic enemy of children's creativity and unpopular in the eyes of the people.

While the scandal is over and local children may take pride in their iron will, which has swayed government leaders' decisions, two interesting issues await resolution. First, how will Latyshev deal with the oblast administration's attempts to avoid all responsibility for the suggestion that the presidential representative inhabit the mansion in the first place? Second, what will become of the Kharitonov mansion now? According to Oblast Deputy Prime Minister Danilov, the building is in terrible condition, and the unfinished complex that was suggested as a viable alternative for local children remains just that: unfinished. It is unlikely that the oblast administration will provide for either the restoration of the current palace or the construction of the new one. Meanwhile, Latyshev will look for a new home. This time the federal government, in an attempt to avoid further scandals, will serve as location scout. - Natalya Mints in Yekaterinburg

### **DRACHEVSKII SEEKS CHANGES IN FEDERAL FAR EASTERN FISHING**

**POLICIES.** Fishermen in the Far East are outraged by the government's proposed new system for distributing commercial fishing licenses. "We are not satisfied," said Presidential Representative to the Far East Federal District Konstantin Pulikovskii at the conclusion of a meeting with the heads of the Far East's fishing industry. The presidential representative has ordered that a state committee on the rational use of maritime resources be set up in the federal district.

The new system for distributing commercial fishing licenses is slated to take effect on 1 January 2001. In effect, the licenses will be sold to the highest bidders -- a decision that has sparked the ire of local fishing industry workers. As Primorskii Krai Governor Yevgenii Nazdratenko wrote in an open letter to Prime Minister Mikhail Kasyanov on 1 November, "In making these resources available on a payment basis only, we are pointing a loaded gun at the heads of the fishermen who feed us. Russian fishermen have stopped asking the state for the sizeable subsidies they once received. Today they are only asking for the right to work unfettered. But, as if in a test of their endurance--to see whether or not they will survive--they will soon be required to pay for their use of natural resources." According to the temporary regulation, fishing licenses will be granted only to those who pay a one-time fee equal to 10 percent of the total cost of the license. The remaining cost will be paid in quarterly installments.

Deputy General Director of the Dalryba company Vladimir Pautov estimates that, at the proposed rates, fishermen in the Far East will end up spending 3.6 billion rubles on commercial fishing rights, with Primorskii Krai fishermen alone paying 1.4 billion. He envisages a situation in which many enterprises, unable to foot the bills, will have to turn to foreign banks for credit.

Local fishermen say that the only people who will benefit from the new system are foreigners, whose stronger financial standing will allow them to outbid domestic companies for the licenses. "Our foreign competitors openly view the new system as evidence that Russian bureaucrats lack the smallest understanding of the fishing industry, its specific situation, its special national significance. 'You are giving us an unbelievably valuable gift,' they say, thanking the Russian government," continues Nazdratenko's letter to Kasyanov.

Experts say that the new quota system is certain to lead to higher domestic prices on seafood products. Many heads of fishing enterprises also think that the regional unemployment

rate will increase as a result of the new system. Primorskii Krai alone is home to 80,000 fishermen.

While Far Eastern fishermen are unanimously against the new payment system, they are nonetheless divided along regional lines. The State Fishing Committee's policy will remove Primorskii Krai fishermen from the seas of the Far East, says Head of the Nakhodka Fishing Base Anatolii Kolesnichenko. The committee's quotas allow Primorskii locals to catch only 60 percent of what they are capable of catching in the Okhotsk and Bering Seas and the Sea of Japan. As a result, 20,000 fishermen in Vladivostok and Nakhodka could lose their jobs this coming year.

Kamchatka, Sakhalin, and the Koryakskii Autonomous Okrug have priority when it comes to obtaining fishing licenses, as Russian legislation privileges those territories that border the seas where the fish stocks are located. As a result, these regions do not support Primorskii Krai's demands for higher quotas. Primorskii Krai does not border these fishing areas, but it has the largest fishing fleet in the region.

The fishing fleets based in Kamchatka and Sakhalin have grown larger and therefore want to take some of the business previously controlled by the Primorskii fishermen. At the same time, the fish supply in the seas of the Far East have fallen off dramatically. Thus it is only natural that the fight over a limited supply of fishing licenses is a fierce one. A compromise that would satisfy all parties is not likely to be found in the near future. - Oleg Zhunusov in Vladivostok

## **ETHNIC ISSUES**

**SIXTH KOMI CONGRESS HELD IN SYKTYVKAR.** The sixth congress of the Komi people was held 27-28 October in Syktyvkar. The first such congress was held in 1990. In 1992, the local parliament passed the law "On the status of the Komi people's congress," declaring it the highest representative assembly of the Komi ethnic group and calling for government both to finance the congress and put its decisions into law.

After the fifth congress, held in 1997, the republican president signed the decree "On legislating the decisions of the fifth congress of the Komi people." In the opinion of Congress Executive Committee Head Valerii Markov, 70 percent of the decisions taken at the fifth congress have been carried out (*Respublika*, 27 October). The Komi national movement is currently the strongest and most organized political force in the republic. This strength is due in no small part to support from the regional government, whose interests lie in engaging these activists in open dialogue and ensuring that they remain relatively and controllable political partners.

During preparations for the sixth congress, some locals were of the opinion that the current political atmosphere calls into question the very existence of ethnic congresses. Nonetheless, preparations continued actively, and the administration was quick to use the congress to its own political advantage.

Congress delegates supported the administration in their speeches and resolutions, one of which read: "The congress has been paying attention to new trends in federal policy. In the absence of an adequate concept for the development of federal policy, attempts are underway

to reform Russian legislation in the field of federal relations. Republican constitutions have been under examination this year, specifically as regards their sovereignty under the Constitution of the Russian Federation. This signifies a change in the federal center's ethnic-state policy. Without rejecting the need for unified Russian legislation, the Congress considers a return to a unitary state structure to be unacceptable."

As a result of changes in federal tax legislation, Komi, which is a donor region, will lose 1.5 billion rubles, or one-fifth of its tax revenue, in 2001. The republican administration has been able to express its dissatisfaction with these policies in the resolutions of the congress.

Several speakers at the congress accused the Russian media of misrepresenting what the congress was all about. In fact, most of the congress' attention was devoted to the problem of developing Komi's poor villages, which are in a state of severe crisis. Federal authorities, including the republican procurator, paid close attention to the political part of the congress. However, effective work in selecting the speakers prevented anyone from making unauthorized speeches or presenting unsanctioned political slogans. - Yuri Shabaev in Syktyvkar

## **ECONOMIC ISSUES**

**GLAZEY SEES VOLGOGRAD AS MODEL FOR NATIONAL ECONOMIC POLICY.** The months following the economic crisis of August 1998 proved very profitable for Volgograd Oblast, whose companies were able to substitute domestic products for imports and in general to take advantage of the newly healthy economy. As regional elections approach, leftist political movements have recognized that recent local economic history has a high propaganda potential. Governor Nikolai Maksyuta, never considered to be a well versed economist even by the Communists who advocated his candidacy in 1996, and who was later criticized roundly for failing to fulfill the Communist Party Oblast Committee's instructions, is now being hailed as a shining example of leftist economic policy.

The opposition's top economist, Head of the State Duma Committee on Industrial Policy and Entrepreneurism Sergei Glazev, visited Volgograd last week. Glazev heaped praise upon the region: "Industrial production growth rates in Volgograd Oblast are at 13-15 percent - about twice as high as the average national rate. So it's hard to call this region ordinary. This, in my opinion, is due to the educated policy of the oblast administration. It's clear that economic development issues are being studied here, that there's a concrete action plan at work, that the investment climate is being stimulated, and that leaders are working on creating state demand," he said.

In an interview with the weekly *Novye delovye vesti* (4 November), Glazev was overwhelmingly critical of German Gref's economic program, calling it "the desire to maintain the status quo" under which "the most profitable sectors of the economy -- the oil industry, metallurgy, chemicals -- are controlled by the oligarchs. In essence, all these sectors are in the hands of some 50 people... In the majority of industries, competitive mechanisms are practically nonexistent."

In Glazev's opinion, if the current government program is carried out, "In three years current production resources will fall by 25 percent, and in seven years by 50 percent."

In lieu of Gref's program, Glazev offers his own, elements of which are already visible in Volgograd Oblast. "The state should actively engage in the formation of an economic structure and the creation of conditions for growth. While property rights are not the deciding factor here, they do play an important role... On the other hand, there are very specific prerequisites for facilitating rapid rates of economic growth in the country. Today the population 'saves' up to 30 percent of GNP, while the entire investment volume does not exceed 14 percent. In other words, in funneling the population's resources into production, we simultaneously will raise investment levels two-fold. If we were to create conditions for the repatriation of the colossal amounts of capital that have fled abroad, we could also increase our own investment potential ten times over. It is vital that we focus our finances on production. And here the state has a very important role to play, as the current governmental and Central Bank policy is aimed only at supporting the interests of financial speculators. Instead, the most important thing is a development program. Strong financing and full state support for those spheres in which the Russian economy still remains competitive are vital. Russia has enormous potential in leading industries. Taking advantage of it would allow us to bring the domestic economy to relatively stable and quick economic growth," he said. - Ivan Kurilla in Volgograd

## **FOREIGN TIES**

### **VOLGOGRAD GOVERNOR MEETS WITH BELARUSAN PRESIDENT**

**LUKASHENKO.** Volgograd Governor Nikolai Maksyuta visited Minsk last week, returning the May 1999 visit of Belarus President Aleksandr Lukashenko to Volgograd (see *EWI Russian Regional Report*, 12 May 1999).

The main problem the two politicians discussed in Minsk was the fate of the Belarus trade house, opened with a fair amount of pomp during Lukashenko's visit to Volgograd. Ultimately, the trade house proved unprofitable, and the decision to close the company was taken this summer.

Nonetheless, for the Volgograd administration the Belarus trade house was not simply a means of developing economic ties with that country, but a symbol of political union between Russia's leftist politicians and the Belarusian leader.

For this very reason, not long before the official commencement of the electoral season (Volgograd elections are scheduled for 24 December), Maksyuta took measures to reopen the trade house. The company, previously a limited partnership, will reopen as a joint stock company which seeks to attract outside investors. In Minsk Maksyuta signed a protocol on the development of economic, trade, scientific, and cultural cooperation between his oblast and Belarus. The Belarus trade house is prepared to supply televisions, refrigerators, clothing, furniture, and other consumer goods to Volgograd.

It appears that Maksyuta will not share all the details of the treaty he signed in Belarus right away, preferring to divulge the information during the upcoming gubernatorial race. - Ivan Kurilla in Volgograd

**FOREIGN MINISTRY CONSIDERING OFFICE IN IRKUTSK.** The Ministry of Foreign Affairs (MID) will likely soon open a regional office in Irkutsk. This step has been

under discussion for years, but now Governor Boris Govorin is ready to move forward. Irkutsk, the capital of Eastern Siberia, continues to strengthen its foreign ties, and contacts with international companies are rising steadily. The absence of a local MID office aggravates the already complex process of interacting with foreign companies and nations. The oblast administration believes that founding such an office would facilitate better information exchange and the development of sound international economic trade relations. - Teleinform in Irkutsk

## **CHEMICAL WEAPONS DESTRUCTION**

**STATE DUMA SETS UP INTERDEPARTMENTAL COMMISSION ON CHEMICAL WEAPONS DESTRUCTION.** The State Duma has decided to create an interdepartmental commission to address issues related to chemical weapons' destruction. Representatives of Bryansk, Kirov, Penza, Kurgan, and Saratov Oblasts and the Republic of Udmurtiya, as well as scientists and other leaders, will serve on the commission. Russia's chemical stockpiles are located in these regions. The commission will analyze how the provisions of the 1993 international convention on the destruction of chemical weapons and the banning of their development, production, storage, and use are being implemented.

According to this document, ratified by Russia in November 1997, the country's chemical weapons supply (estimated at 40,000 tons) must be gradually destroyed over the course of the next 10 years. The convention calls for the creation of seven sites in the aforementioned six regions to oversee this process. Three of the sites are being built with international participation: the Gornii, Saratov Oblast site with the help of the German government; the Kambarka, Penza Oblast site with the help of the Swedish government; and the Shchuch, Kurgan Oblast site with the help of the US government.

According to the program schedule, destruction of Russia's chemical weapons should have begun in 1998. Of top priority is the destruction of substances currently located in special arsenals in Gornii and the Kambarsk raion. The construction in Russia of the first destruction site in the Gornii settlement in conjunction with the federal special program "The destruction of chemical weapons supplies in the Russian Federation" was supposed to be completed by 1998. While some construction and assembly has taken place, lack of financing for the program in 1997-1999 means that the site is not yet active, making the threat of Russia's failure to comply with its international obligations a very real one. Each year, the federal budget allots a mere 2-7 percent of declared funds to the program. Such financing has not facilitated the timely construction of the Gornii site, even though roughly 70 percent of the funds actually made available for the program have gone to Saratov Oblast. Of the 3.6 billion rubles allotted for the program in 1997-1999, only 450 million has been received. Thus Russia, which in April 2000 was supposed to have completed the destruction of one percent of its chemical weapons supply (or some 400 tons), is still waiting to finish building the destruction site.

What's more, any destruction site must contain facilities for the burial of byproducts from the destruction process. In Gornii, the Giprosintez Scientific-Research Institute won the design contest for the facility, the construction of which is also lamentably behind schedule. Russia has turned to the international organization on outlawing chemical weapons for help in



sorting out the process. The organization, whose representatives visited Gornii earlier this year, has extended the construction date to April 2002.

Construction of the site, which is of the utmost importance to the whole federal program, has been held up due to financial problems on the Russian side. However, the Saratov Oblast administration's persistent appeals to the federal government, as well as the recent agreements between Governor Dmitrii Ayatskov and Prime Minister Mikhail Kasyanov, have led to some progress. The Finance Ministry has sought innovative ways to allot 3 billion rubles (six times the amount received in 1999 and 2000) to the federal program next year. Over 1.2 billion rubles will be slated to finishing construction of the Gornii site.

Saratov Oblast Minister of Industry Sergei Lisovskii describes the destruction of chemical weapons as a complex, large-scale, and extremely difficult problem. "When the decision to liquidate Russia's weapon supply was made, a number of programs were developed prior to the launch of the federal special program," says Lisovskii. The leading role in destroying chemical weapons supplies in Saratov Oblast was to be played by the famous State Institute of Organic Synthesis Technology (GITOS). The institute, with its numerous engineering specialists, was better equipped than any other institution in the region to address these issues. However, the local population was against the program, which required that an expensive site be built from scratch in the Gornii settlement. This made fulfilling the Convention's obligations more difficult than had been expected.

Following a recent hearing in the State Duma, a summary report was prepared and sent to the President and the government. A participant in the hearing, head of the department of chemical industry and conventional problems of the Oblast Industry Ministry's Department of Chemical Industry Yuriy Rayushkin, believes that the federal program needs to be modified to better reflect current resources. In addition, he says, the State Duma must pass normative acts and federal laws to regulate the storage, transportation, and destruction of chemical weapons; support industrial and ecological safety; protect the population; and provide compensation for damages incurred as a result of potential accidents at chemical weapons sites. Radyushkin announced that at the insistence of the Saratov Oblast Administration delegation, the hearing's resolutions include a point on the renewed participation of GITOS. - Yuliya Yeliseeva in Saratov

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## **BREAKING NEWS**

**KALUGA ELECTS FORMER VICE GOVERNOR AS GOVERNOR.** In its 12 November gubernatorial elections, Kaluga Oblast elected Deputy Governor Anatolii Artamonov as its new governor, giving him 56 percent of the vote. Artamonov's main opponent was Kaluga Sberbank head Aleksei Demichev, who won 17 percent, according to preliminary returns. Turnout was just over 35 percent, low by Russian standards.

In the campaign Artamonov had the support of both the pro-Kremlin Yedinstvo party and the Communist Party of the Russian Federation. Incumbent Governor Valerii Sudarenkov did not participate in the race and backed Artamonov, naming him as his successor. *Kommersant Daily* (7 November) reported that the Kremlin did not want Sudarenkov to seek a second term and suggested that he retire peacefully. Sudarenkov is a Communist who had defeated Yeltsin's appointed governor in the region's 1996 election. The paper described

Artamonov as a "creature of Gazprom." Although Artamonov said that he had the support of the Kremlin, there was no evidence that he actually did. The Communist Party is very popular in the region and the Kremlin probably had little choice in terms of finding a viable candidate. Beyond Gazprom, Artamonov had the backing of two hundred joint ventures with foreign capital formed with the support of the oblast administration. Artamonov is now likely to appoint Sudarenkov as his representative in the Federation Council (*Nezavisimaya gazeta*, 14 November).

#### **LEBED AND CHUBAIS AGAINST DERIPASKA AND ABRAMOVICH.**

Krasnoyarsk Governor Aleksandr Lebed and Unified Energy System head Anatolii Chubais, once enemies, have now formed an alliance against Russian Aluminum's Oleg Deripaska and Roman Abramovich, according to *Vremya novosti* (10 November). The region's energy commission has determined that the Krasnoyarsk Aluminum Factory, owned by Russian Aluminum, would no longer benefit from cheap electricity, a move that will cost the plant millions of dollars. Both sides want to create an energy and metals conglomerate and therefore must defeat the other to win the necessary resources. Given these ambitions, the conflict is far from over.

**PRESIDENTIAL REPRESENTATIVES TO GAIN MORE POWER.** President Putin appointed the seven representatives to the federal districts six months ago, on 13 May, and now is considering giving them more power, according to *Izvestiya* (11 November). Initially, the representatives were mainly charged with reporting to the Kremlin about regional developments. The Presidential Administration had discussed giving them more power from the start, but officials within the administration blocked this idea. According to recent announcements, the representatives will monitor various transfers, loans, and other federal budgetary flows to the regions. The representatives are discussing social-economic development plans such as in the Southern District (see related article in this issue). Once regional laws are brought into line with federal norms, the representatives will start to play a larger role in the economy. The paper reported that the Kremlin is preparing a presidential decree authorizing the seven representatives to issue instructions to the governors. However, the Territorial Department within the presidential administration opposes increased power for the representatives. According to *Izvestiya*, power is nevertheless tipping in the representatives' favor because they have the support of Security Council Secretary Sergei Ivanov, a close associate of Putin.

**SOBYANIN MAY SEEK TYUMEN GOVERNORSHIP.** Sergei Sobyenin, the former chairman of the Khanty Mansii Legislature who in June became the assistant to Presidential Representative in the Urals Regions Petr Latyshev, told *Izvestiya* (11 November) that he is considering running for the post of Tyumen Oblast governor. If he did so, his campaign would represent another Kremlin attempt to replace sitting governors with a candidate more beholden to the federal government. Yamal Nenets Governor Yurii Neelov is also likely to run, meaning that incumbent Tyumen Governor Leonid Roketskiï could face opponents from both of the okrugs that make up part of Tyumen Oblast. The okrug officials are interested in the oblast



governorship because they believe that the okrugs may be abolished soon, creating a unified oblast.

#### **NORTH OSETIYA DELEGATES FIRST REPRESENTATIVE TO FEDERATION**

**COUNCIL.** The legislature of North Osetiya is the first regional executive or legislature to delegate a member to the Federation Council according to the new rules governing its membership. During the summer, Putin won passage of legislation that removes the current governors and regional legislative chairmen by 1 January 2002. On 9 November, the North Osetiyan legislature elected the head of the republican agriculture committee Valerii Kadokhov as its representative. Kadokhov will join the upper house of the national parliament on 24 November. The new legislative speaker, Teimuraz Mamsurov, elected to the post on 19 October, initiated this process. Other regions where elections have taken place have not yet named representatives to the body. In Irkutsk, for example, the oblast legislature elected in September has not been able to elect its speaker. North Osetiya President Aleksandr Dzasokhov plans to remain in the Federation Council until the last moment (1 January 2002). The new members will not be able to chair any of the committees because the old members continue to monopolize them.

Kadokhov also will have trouble with housing and receiving his salary. There is currently no Moscow housing available for the new members of the upper chamber and Kadokhov will likely have to live in the Rossiya hotel. Currently Federation Council members make half of the salary set by law for ministers and Duma members (6,000 rubles a month for both). The Finance Ministry refuses to raise this level until a new law is passed. (*Kommersant Daily*, 10 November)

#### **GOVERNORS' ELECTIONS**

**MIKHAILOV WINS ANOTHER TERM IN PSKOV.** On 12 November Pskov Governor Yevgenii Mikhailov won a second term after securing approximately 28 percent of the vote. For Mikhailov to secure victory in the first round, he only needed to win more than 25 percent. Businessman Vladimir Bibikov came in second with just over 15 percent, while State Duma Deputy Mikhail Kuznetsov trailed close behind also with just over 15 percent. Pskov has approximately 600,000 voters and 13 candidates sought the governor's office. Turnout was just over 50 percent.

Pskov Oblast Electoral Commission Chairman Gennadii Sudakov did not cite any serious violations of the electoral law during the campaign. During the campaign, however, Pskov judges were flooded with suits filed by the candidates. Sergei Korsakov, for example, accused Governor Mikhailov of illegally using his office to win an unfair advantage during the campaign. Other candidates accused Bibikov of illegally campaigning among the military. However, the judges decided to reject all of the cases. As a result, no candidates were removed from the race.

As the opposition newspaper *Pskovskaya Guberniya* pointed out, less than 12 percent of the oblast's population actually voted for Mikhailov. Most of his electorate was senior citizens who were thankful to the governor for paying pensions on time. However, the

paper noted, many of them do not realize that paying pensions is actually a federal function. The paper pointed out that one cause for concern is that 60,000 people, 20 percent of those who voted, did so outside of the normal election day polling stations. The law makes provisions for such voting, but the paper questioned why the number was so large. Such votes are more easily falsified than those cast in the normal way.

Only Bibikov is planning to protest the election results. He will protest the decision of the oblast court which found no violations in Mikhailov's campaign activities to the Supreme Court. Bibikov believes that Mikhailov spent more than the legal limit on his campaign, charging that Mikhailov's billboards alone would have used up all of his official campaign funds. - Andrei Shcherkin in Pskov

## **PATTERNS OF REGIONAL DEVELOPMENT**

**NEW KURSK OBLAST GOVERNOR MAKES ANTI-SEMITIC REMARKS.** Kursk Oblast is suffering a relatively difficult transition from the governorship of Aleksandr Rutskoï to that of Aleksandr Mikhailov, who won the 9 November election. His inauguration is scheduled for 18 November, and the new governor already has relinquished his former posts as State Duma Deputy and First Secretary of the Kursk Oblast Committee of the Communist Party of the Russian Federation.

In addition, personnel and policy changes are underway. "Rutskoï's whole team will have to leave office, we have warned them of this," said Mikhailov. During his final few days in office, Rutskoï is doing what he can to make the life more difficult for his successor: On 1 November, he doubled the salary of oblast doctors and teachers. It is unlikely, however, that this order ultimately will be enforced.

The enmity between the two governors was never more apparent than on 7 November, the Day of Reconciliation. On this holiday, Kursk Communists celebrated the anniversary of the 1917 October Revolution and the revolution in Kursk which, according to their boasts, occurred on 5 November -- the day that Mikhailov was elected governor. During demonstrations and meetings, speakers bellowed phrases such as "Hateful Rutskoïsm Has Gotten the Axe" and "The Yoke of Rutskoï Has Been Thrown Off" from the tribune. The most joyful demonstrators were the exultant elderly, who were thrilled that their efforts to ensure a Communist future for their children and grandchildren had finally succeeded. The demonstrators, who rallied around the governor's residence, called for Mikhailov to "Put a halt to the removal of property from the administration under the cover of night." The whole affair resembled nothing so much as a scene from a Soviet film depicting the 1917 Revolution.

During the demonstration, participants paid special attention to two statements by Mikhailov: "The Soviet Atlantis has not yet sunk" and "We have won the battle against international Zionism. Boris Berezovskii, while he was still a State Duma deputy, told me more than once that he wouldn't give us Rutskoï, he wouldn't give us Kursk Oblast. We have taken Kursk Oblast back from Berezovskii and Rutskoï."

This latter theme was further developed during Mikhailov's first interview as governor-elect with Moscow's *Kommersant* (9 November) newspaper. "Vladimir Vladimirovich [Putin] twice sent his personal representative to meet with me... this is a woman, she is Putin's personal

psychologist. She has played a key role on his team, and together we determined the main elements of our collaborative work... Kursk Oblast, keep in mind, has solved the problem not only of Kursk Oblast and who will win there... Do you know what the All-Russia Jewish Congress is? You know what Rutskoi is, and behind him was Boris Berezovskii. And we beat them here. I think that this is symptomatic and speaks to the fact that Russia today is freeing itself of all the filth that has accumulated over the last 10 years. We are allies with the president, not rivals. Vladimir Vladimirovich, by the way, is Russian through and through. As am I. But Rutskoi's mother, for those who don't know, is a Jew -- Zinaida Iosifovna."

In other words, Mikhailov believes that Putin supported him in order to help the governor-elect defeat the Zionists, Rutskoi and Berezovskii, in the election. The same day that *Kommersant* published its interview with Mikhailov, the Interfax news agency issued a commentary from "a highly placed member of the presidential administration." In response to Interfax's request that he comment on Mikhailov's statements, the representative said, "This is complete nonsense, from the reference to a nonexistent personal psychologist to all the ensuing absurdities." The commentator also denied that there had been any contact between the presidential administration and Mikhailov.

On 11 November, *Komsomolskaya Pravda* newspaper covered the reaction of the Russian Jewish Congress (in all likelihood the organization to which Mikhailov referred). The organization announced that it has never participated in any election campaign, and that "we consider Mikhailov's allusions to some sort of 'collaborative' relationship with Russian President Vladimir Putin and the 'freeing' of the country from Jews to be a serious political provocation." KPRF leader Gennadii Zyuganov also spoke up, advising his fellow Communist to do his job and stop investigating other people's family background.

On 10 November, in response to the Mikhailov interview, *Kommersant* published an interview with Rutskoi with the remarkable title "As a Person, I Would Punch Mikhailov's Face In." Rutskoi correctly considers the governor-elect's comments a "kindling of interethnic enmity" and promised to file suit against him.

The questions of "Who Is To Be Blamed?" and "What Is To Be Done?" were formulated in Russia back in the 19th century. Today it is the executive branch of government that must respond to them, especially if its members have been elected by a dissatisfied electorate. At one time, it was Rutskoi's job to answer these questions. His answer to the first question was: "The local elite is to blame." While his answer to the second question involved battling with the establishment, he never followed through on his promises. As a result, the local elite is still in place, and Rutskoi is gone.

Mikhailov believes that he has found his own answer to the first question. When one's position of power is precarious, naming an enemy can serve to unite people. The farther away the enemy, the easier it is to unite a large group of people against him. - Sergei Sarychev in Kursk

## **CENTER-PERIPHERY RELATIONS**

**PUTIN LAYS OUT PRIORITIES FOR SOUTHERN FEDERAL DISTRICT.** On 8 November, President Vladimir Putin visited Rostov-na-Donu and laid out the Kremlin's new

policy for the Southern Federal District. Putin identified three key problems in the district: 1) the conflicts in the North Caucasus; 2) the social situation, including a level of unemployment that is twice as high as in Russia in general; and 3) migration. The Russian government does not have a clear policy in this area, Putin said. The president said that people are not moving where they are needed. He argued that there should be priorities and that people should be sent "where we expect to have growth." He said that migration should not cause problems, but should be a source of growth and therefore should be directed.

Putin said that he was developing a new federal program for the district, but that future such programs would be different from those developed in the past. There had been a program for the North Caucasus, but it was too narrowly focused on specific regions and economic sectors, the president argued. Putin said that the number of such programs should be reduced and that they should be made more realistic. He said that a program for the social and economic development for the Southern Federal District would be ready for inclusion in the 2002 budget. The key areas of strategic development should be the expansion of transportation corridors, development of oil and gas export infrastructure, and the development of the tourism and spa industries. He said funding could come from the budget and domestic and foreign investors. - Andrei Miroshnichenko in Rostov-na-Donu

**KIRIENKO FINALLY VISITS BASHKORTOSTAN.** Sergei Kirienko made his first trip to Bashkortostan since being appointed as the presidential representative to the Volga Federal District on 10-11 November. Kirienko had visited many of the other regions, but waited to come to Bashkortostan until the republic had brought its constitution in line with federal norms. Bashkortostan adopted a new constitution on 3 November. The new version of the constitution places limits on the republic's sovereignty, no longer declares its laws above Russian laws, removed claims that the republic is a subject of international law, and introduced procedures for appointing judges and procurators in line with federal norms. However, the new text includes the full text of the republic's power-sharing treaty, significantly bolstering the status of this agreement at a time when the Kremlin seems interested in abolishing such treaties, and removes the clause limiting the republican leader to two terms. Bashkortostan President Murtaza Rakhimov sold the revised document to the local population by declaring that it is "not a new constitution." Rakhimov also stressed that the republic would continue to assert a form of "sovereignty" but that it nevertheless remains "within the Russian Federation."

Although the federal government still has some questions about the new republican basic law, Kirienko believes that the new version removes the threat to Russia's state security since the new text clearly defines the limits of the republic's independence and sovereignty. Kirienko thanked the republican leadership for addressing the main problem dividing the Russian and republican leaderships, but reminded the republican authorities that they still had to bring the body of republican law into line with the new constitution. Currently, over 50 republican laws are in violation of the federal constitution and Bashkortostan is considered one of the worst violators in this regard. Kirienko also pointed out that the federal government was concerned that the republican authorities continue to preserve the peace in a region that has more than 100 nationalities.

During the visit Rakhimov asked Kirienko to help attract federal investment for the region. Kirienko said that the federal government would help solve the republic's problems. But, he also pointed out that the Bashkortostan Fuel Company, the state-owned holding company for extracting, processing and selling oil, was responsible for investing in the republic. Kirienko pointed out that the republic should make the main investments and that he expected action from the republican leaders. Kirienko made clear that the federal government would not restore benefits the republic once enjoyed in paying taxes to the federal budget. He said that all regions should pay a similar percentage of their earnings to the federal budget. Kirienko said that such an approach gives all regions incentive to develop their economy and ensures equality in the relationship of all regions to the federal government.

Kirienko introduced the chief federal inspector for Bashkortostan, Rustem Khamitov, to representatives of federal agencies working in the region. Until the middle of 1998 Khamitov served as the republic's emergency situations minister, and thus is well known to the republic's leadership. Kirienko warned the federal agents against minor interventions into the activities of the republican authorities, pointing out that restoring the hierarchy of authority referred only to the federal executive.

Kirienko said that he did not support the opinion of some regional leaders that the federal authorities should consult them in appointing top federal employees working in the regions. Kirienko said that he would listen to the opinions of the regional leaders, but that the federal authorities would make the final decision independently. - Igor Rabinovich in Ufa

## **INTERVIEW WITH PERM'S CHIEF FEDERAL INSPECTOR**

*RRR Correspondent Grigorii Volchek recently interviewed Perm's chief federal inspector, Vladimir Solomonov. Solomonov served as the head of the Perm Anti-Monopoly Department from 1997 to 2000. He unsuccessfully ran for mayor of Perm in 1996. Below we publish some excerpts of their conversation.*

RRR: How does your position compare with others in the state hierarchy?

Solomonov: Most likely, it is closest to a deputy minister or a deputy head of the presidential administration.

RRR: Where is your office now?

Solomonov: On the second floor of the oblast administration's building. There we have several small offices. Overall, our staff includes two civil servants (myself and Federal Inspector Aleksei Petrenko), assistants and consultants who work on the basis of short-term contracts, plus additional advisors who are not permanent staff members. Overall, there are approximately ten people, including a press secretary. We will work actively and fruitfully with the press. I consider this a principally important issue.

RRR: The president appointed his representatives and they appointed inspectors. Is your function to limit the powers of the governors?

Solomonov: No. The governors should deal with their problems and we federal employees should deal with federal issues. This should not squeeze the governors' powers in any way.

RRR: Nevertheless, earlier the governors acted like a czar or god on their territories and now this is no longer so...

Solomonov: Why should the governors take federal powers for themselves? This does not make sense ideologically or practically. Ask any citizen what he wants: for his governor to get mixed up in political issues somewhere in Moscow or to resolve the key problems facing the region? I think that they will have a unanimous answer.

RRR: That means you think that the governor should be a manager? We have become used to thinking of the governor as a political position.

Solomonov: Why should we fight over terms? Yes, an elected governor is an important politician since he is elected by his constituents. But his first priority should be economic issues: the budget, industrial development, agriculture, and meeting the social needs of his constituents. We divide power horizontally, working at the federal, regional, or local level. No one should interfere in the other's work. There must be coordination, but no usurpation of someone else's functions.

RRR: What does your work consist of?

Solomonov: Monitoring the implementation of federal policies, legislation, and federal programs. Coordinating the activities of federal agencies in the regions, including personnel questions. Analyzing the situation in the region. Carrying out projects initiated by the presidential representative of the entire Volga federal district.

RRR: Does that include monitoring the use of transfers from the federal budget?

Solomonov: Yes

RRR: Will you provide feedback from the region to the center?

Solomonov: Of course. In the near future, we will open an office in Perm to receive citizens' input for Presidential Representative to the Volga Region Sergei Kirienko. We will work with citizens directly.

RRR: Where will the office be located?

Solomonov: Next to the governor's reception office. But we do not intend to send people there. Until the office is open, citizens can reach us by phone.

RRR: That means that now people can protest outside of your window, not just outside of the governor's or mayor's window.

Solomonov: No problem. We have a democratic state. If some problem requires my intervention, I will intervene.

RRR: Your predecessors [Yeltsin's presidential representatives] did not intervene. They were quiet and passive. Most people had no idea who they were or even that they existed.

Solomonov: I have great respect for the former presidential representatives Sergei Kalyagin and Gennadii Zaitsev. It is not up to me to evaluate their work. I will only say one thing: today my powers and opportunities to influence the situation are greater.

RRR: How often will you meet with Kirienko? With Putin? Earlier, the representatives did not see the president for years.

Solomonov: I will meet with Kirienko monthly. My last meeting was 3 November. Putin will meet with his representatives once a month. With us, he will meet no less than once a year.

RRR: How do you like working with Kirienko?

Solomonov: Excellent. We completely understand each other. He is very accessible. Sometimes I talk to him on the phone several times a day.

**NEW FEDERAL INSPECTOR ARRIVES IN VLADIVOSTOK.** The new power hierarchy developed by Vladimir Putin has not yet taken root in the regions. New Chief Federal Inspector to Primorskiy Krai Pavel Lysov still feels like an outsider, he announced at his first press conference on 9 November. A month has already passed since he was introduced to the public in his new capacity, but he is still living in a hotel. "When I'll return home from work to a place with a kitchen and my wife's borsch simmering on the stove, then I'll feel at home. I keep finding myself saying, 'In your region, Primorskiy Krai.'"

Lysov is currently looking to rent an apartment. He hopes that his employer will pay for it. He is still registered to live in Moscow, where his children have remained, although his wife has moved with him to Vladivostok.

Lysov himself has an explanation for the lack of infrastructure. Because the new federal representative structure was unexpected, no funds were allotted for it in this year's federal budget. However, it was earlier announced that such funds had indeed been allotted for the presidential representative offices in krais and oblasts. Observers believe that the real reason behind Lysov's "homelessness" has more to do with the fact that not all of Primore is happy with his appointment.

The fact that Lysov's office is located in the krai employment center, while Yeltsin's presidential representatives had worked in the krai administration building, also supports this hypothesis. The administration contains a committee to handle relations with the federal government which for all intents and purposes duplicates the functions of the federal inspectors. The committee is headed by Deputy Governor Valentin Kuzov, formerly the presidential representative to Primorskiy Krai, and the krai administration actively sought to have him appointed chief federal inspector.

"As federal inspectors, we have the same powers as the seven presidential representatives, but on the krai level," said Lysov. "[Presidential Representative to the Far Eastern Federal District] Konstantin Pulkovskiy said, a presidential decree on the powers of the federal inspectors is being prepared." In the meantime, the chief federal inspector plans to look

after law and order, work with far eastern associations, and coordinate the appointment of personnel to federal positions in the krai.

Lysov also is familiarizing himself with the region's problems, paying particular attention to forestry issues. "I can recite statistics from one region. Official figures estimate that only 185,000 cubic meters of timber are being felled, whereas in actual fact the figure is closer to 6 million cubic meters. This situation needs to be resolved," he said.

Special attention also will be paid to the upcoming election campaign in December. "Primorye is famous for the fact that elections are always breaking down here. This is one of the reasons why I consider this krai a difficult region," said the chief federal inspector. "We already are monitoring the situation in which one candidate in the upcoming election was threatened. She was told in an anonymous phone call not to forget that her daughter studies in Vladivostok." Lysov is determined to make sure that in the future incumbents do not use "administrative resources" to secure another term in office. - Oleg Zhunusov in Vladivostok

**HOW THE PRESIDENTIAL REPRESENTATIVE WORKS IN THE SOUTHERN FEDERAL DISTRICT.** Deputy Presidential Representative to the Southern Federal District Viktor Krokhhmal recently answered a series of questions from Krasnodar journalists on economic issues, the upcoming election campaign in the region, and the situation in Chechnya. Krokhhmal, who is responsible for the financial-economic block in the Southern Federal District, sees his main task as ensuring that "all federal property works at full capacity." To ensure this, the presidential representatives plan to adopt the necessary measures at all regional enterprises with at least 10 percent state ownership -- even if it involves replacing the general director. To meet this goal, they are planning on ensuring that positions on the boards of directors of these companies be filled by federal commissars.

Krokhhmal considers sending revenue to the federal budget to be another important task. Toward this end, it is crucial to ensure that all payments are received, that default not be an option, and that every single ruble of federal funds go where it is allotted. Krokhhmal heads the working commission on the development of the port industry. He has great hopes for the development of the Novorossiisk port. After the completion of the pipeline from Kazakhstan, the port will be able to transfer 100 million tons of oil per year. It will be a crossroads for the transportation of timber and other building materials. The question of building a bridge across the Kerch Strait is also being considered.

Krokhhmal discussed the federal program for the development of the regions that comprise the Southern Federal District. The program, which envisions activities through 2005, consists of 242 different projects. The projects most relevant to Krasnodar Krai involve the building of a water pipe in the Armavirsk zone and a program for the development of the Sochi resort town. Federal funds have been allotted to these projects, but primary support will come from investors.

Krokhhmal is also devoting attention to the election campaign in the region. "After 10 years of political squabbling, Krasnodar Krai has at last received a gift of sorts: we have only three candidates for governor, one of whom is the clear leader. After the 10 years we have survived, the krai needs a governor elected by a strong majority. The leader of the current



election campaign meets this requirement: he is supported by the people, the federal government, and the main political forces," he said (*Krasnodarskie izvestiya*, 9 November).

During his most recent visit to Krasnodar Krai, Presidential Representative to the Southern Federal District Viktor Kazantsev held a meeting with the heads of law enforcement agencies, where they decided that "criminal forces shall not be allowed to take office." The meeting also touched on the election campaign, deeming it as being carried out in line with federal law with the exception of Sochi. All primary candidates for office were invited to the meeting, where they were asked to behave in a civilized manner during the course of the elections.

Krokhmal has also named the priorities for the Presidential Representative's team in Chechnya, which he recently visited. Restoration of the Chechen economy and its integration into the larger Russian economy is estimated to take two years. The program was initiated in mid-October. The most fundamental problems are being addressed: roads, housing, gas, schools, hospitals. Carrying out the project to its fruition will be costly, but "There is simply no other way. We are the only ones in the world to address Chechnya and its problems. If we leave residents of the republic impoverished, in a year they will once again pick up their weapons," he said. Krokhmal also noted that not a single bank is working in Chechnya, and discussion of opening a branch of the Central Bank of the Russian Federation is underway. - Ariadna Popova in Krasnodar

## **COURT SYSTEM**

### **PUTIN SEEKS ADMINISTRATIVE COURTS AS TOOL AGAINST GOVERNORS.**

The State Duma now is considering a law that would create federal administrative courts on 1 January 2001. The courts would serve as part of the mechanism that would allow the Russian president to fire governors if they adopt measures that violate federal legislation. The courts also will help governors fire mayors if they make the same kind of legal violations. In order for Putin to fire a governor (or for a governor to fire a mayor), there must first be a court decision that the official has violated the law.

According to current Russian law, courts of general jurisdiction must hear cases concerning the administrative responsibilities of federal, regional, and local authorities. However, these courts cannot deliver quick and high-quality decisions. In recent years, the court system has received about half of the necessary funding. The judges are overburdened with the dramatic increase in cases brought by citizens and many have resigned to pursue more lucrative jobs in the private sector. Additionally, it is unlikely that the judges working in the courts of general jurisdiction would be able to return decisions against the regional leaders because they often receive material support from the governors to make up for the federal funding shortfalls.

Even without Putin's reform of the federal system, the number of administrative cases is rising dramatically. In 1999, there were more than 350,000 such cases. This figure included 3,899 complaints about the authorities' adoption of illegal acts, 134,355 dealing with complaints against various types of officials, 83,427 cases addressing tax law violations, 2,320 concerning electoral law violations, and numerous others.

To address these issues, the Russian Supreme Court is sponsoring legislation to create a system of administrative courts within the system of courts of general jurisdiction. The new system will create 21 federal district courts within the seven federal districts and a network of interraion administrative courts with jurisdiction in several raions within a region, according to the bill, which has already been approved by the Duma Committee on State Building. The authors hope that the system will remove the judges from the influence of the regional leaders.

The district administrative courts will be the lowest level courts examining the legality of decisions made by the regional leaderships, including both the executive and legislative branches, and also arguments between regions that are part of the judicial district. Appeals arising from the decisions of these courts will be heard in a specially created administrative collegia of the Supreme Court, which will also deal with presidential and governmental legal acts, the decisions of the Central Electoral Commission, and conflicts between the federal and regional governments. In the interraion administrative courts, it will be possible to file suit against local executive and legislative decisions.

The establishment of the administrative courts will take place in two steps. In 2001, the sponsors plan to set up 21 district administrative courts and an administrative collegium in the Supreme Court. To finance these operations, the Supreme Court will need about 200 million rubles a year and 1.5 billion rubles to purchase the appropriate buildings. Beginning in 2002, they plan to create 600-700 interraion administrative courts and completely remove administrative cases from the courts of general jurisdiction. However, the government has not set aside any money for this new court system and none is included in the 2001 federal budget. (For a list of the 21 administrative court districts, please see *Rossiiskii Regionalnyi Bulletin*, no. 20, <http://www.iewe.org/rrrabout.nsf/pages/rrb+page>) - Svetlana Mikhailova in Moscow

## **NATURAL MONOPOLIES AND THE REGIONS**

### **CHUBAIS, SIBERIAN GOVERNORS DISCUSS ELECTRIC UTILITY REFORM**

by Sergei Predein, Irkutsk Governor Boris Govorin's press secretary (via Teleinform in Irkutsk)

On 10 November, the Council of the Siberian Federal District met in Omsk under the leadership of Leonid Drachevskii to discuss the reform of the Unified Energy System (EES) electricity monopoly with its leader, Anatolii Chubais. In addressing the Siberian governors, Chubais said that despite some improvements, Russia's energy system was facing a crisis. He said that 85 percent of the utility's equipment in the European part of the country was worn out and that no replacements had been made for more than 10 years. As a result, the system burns twice as much coal as necessary. Electricity prices are set according to political rather than economic needs. Chubais declared that the system of planned losses in the electricity sector, in place since the Soviet era, did not allow this sector to grow. The level of investment in electricity has dropped to a third of the 1985 level.

Chubais warned that if a reform of the energy system was not implemented by 2004, Russia would begin to experience noticeable electricity deficits. He said only investments of \$50 billion would resolve this problem. However, next year the federal budget can only invest \$10

million. Making up the difference by raising prices was not possible for socio-economic reasons, so the only hope is attracting private capital. Chubais claimed that he was reorganizing the utility to attract investors.

The gist of Chubais's reform is to divide the current monopoly into two parts, one that functions in the market and one that is controlled by the state. In the market sector would be enterprises that generate electricity and those that sell it. In the state sector, would be the transmission lines that distribute the electricity. The state distribution company would ensure that all companies have equal access to the distribution lines and regulate electricity and heat prices for socially-important and defense facilities. The state would guarantee that these facilities continue to have heat and light whether they paid their bills or not. The energy suppliers would make up for these losses by the prices paid by enterprises that buy electricity on the open market. Chubais believes that this system will allow the generating companies to secure a sufficient profit so that they will be able to modernize themselves.

The governors were unified in their conclusion that the reform would only benefit the electricity monopoly. Most enterprises would not be able to buy cheap energy on the wholesale market and would have to close or transfer their property to the energy company. They also were suspicious that the centralized distribution service would not really guarantee equal access to the distribution lines or provide stable supplies of heat and electricity to socially-important facilities or the military. Many governors declared that the reform of the electricity monopoly would essentially amount to its being stolen (*prikhvatizatsiya*). Despite these differences, the governors understand the problems faced by EES but want to resolve them without hurting the economic and social situation in their regions.

The governors said that since the government is the largest shareholder in EES, it should present an alternative plan for restructuring the utility. [Atomic Energy Minister Yevgenii Adamov proposed setting up two companies as well, both with state ownership, [polit.ru](http://polit.ru) reported on 13 November. However, it was left unclear how this plan would work.]

Irkutsk has a special relationship in the process since Irkutskenergo is not part of EES, and the region has its own supplies of coal and the potential to develop natural gas. In addressing the on-going dispute between the federal government and the oblast for control of a 40 percent stake in Irkutskenergo, Chubais said that he was happy to have a compromise that let each side have 20 percent.

## **ENERGY ISSUES**

**KASYANOV TAKES RESPONSIBILITY FOR PRIMORSKII KRAI ENERGY.** On 13 November, Prime Minister Mikhail Kasyanov declared that the energy crisis in Primorskii Krai would now be under his personal control.

The crisis has been aggravated by the arrival of cold weather in Primore. Two-day mass protests took place in four different raions throughout the krai. Artem and Kavalerovo declared emergency situations. A series of measures, including the resettlement of residents, is being considered. Schools and kindergartens are closing, although ostensibly this is because the krai budget lacks the funds to keep them open. The exhaustion of already-depleted fuel supplies indicates that the crisis will continue to build.

Official data show that coal and fuel supplies are half those of last year at this time, when massive black-outs took place. In some parts of the krai, specialists view the situation as critical. Chief Federal Inspector to Primorskii Krai Pavel Lysov revealed the following formerly confidential figures:

"Krasnoarmeiskii raion has only 19 percent of projected coal and 20 percent of projected fuel supplies. Terneiskii raion has only 11 percent of the necessary levels of fuel oil and solid fuel," he said.

Residents of Artem have blocked the roads. Their homes have no heat, although it is freezing outside. Energy workers have long since warned that will not turn on the heat until they find a compromise with Mayor Aleksandr Terentev. The city government collects utilities payments, but for several years now have refused to turn them over to local electricity provider Dalenergo. This small city now owes 200 million rubles in utility arrears. During their spontaneous protest, demonstrators demanded that the mayor not participate in the mayoral elections scheduled for 24 December.

In the interests of stabilizing the situation, the Emergency Situations Commission, headed by First Deputy Governor Konstantin Tolstoshein, ordered the energy workers to supply heat to the city of Artem. However, the problem of the city's utilities arrears to Dalenergo remains unresolved.

The lack of money has larger consequences than simply short fuel supplies. The funds to carry out much-needed equipment repairs is missing, and energy workers and miners are not receiving their paychecks on time. Workers at the Luchegorskii Fuel-Energy Complex are seven months behind in receiving their paychecks, and some departments have closed down. The krai administration has sent the company 37 million rubles, and some payments are underway. Workers have called a halt to their strike, at least for the moment -- but this temporary injection of funds will not ultimately solve the problem.

Residents of Kavalerovo blocked the Vladivostok-Rudnaya Pristan state highway to protest the situation. The temperature in this northern region of Primorskii Krai dips to -12 degrees Celsius at night. Locals complain that it is warmer out on the streets than inside. Some 18,000 people are freezing. "We receive our pension and pay our fuel bills with it. You are only now going to turn on the heat. It's just completely impossible to sit in such a cold house," cry old people. If the raion does not receive heat within the next few days, specialists warn that the water-supply and sewage systems will freeze.

Teachers in Ussuriisk also have blocked the streets in protest. They have been waiting for their paychecks for three months now. Mayor Vladimir Vedernikov has told them that there is no money -- either to pay those on the city payroll, or to purchase fuel. The city may freeze.

Krai officials are having an increasingly difficult time finding a scapegoat. They are used to explaining away energy supply problems as the machinations of Unified Energy System chief Anatolii Chubais and his regional colleagues. However, Chubais changed the leadership of all Primorskii Krai's leading energy companies this summer, replacing them with specialists recommended by the krai administration. Thus it is now difficult for krai officials to justify their failure to prepare for the winter. At a recent press conference, Presidential Representative to the Far East Federal District Konstantin Pulkovskii warned that leaders who failed to supply heat and energy to their regions would be removed from office. - Oleg Zhunusov in Vladivostok

## LOCAL GOVERNMENT

**NEW ELECTIONS LAW IN KALMYKIYA.** On 11 November, a new law on the election of deputies to local legislative offices came into effect in Kalmykiya (*Izvestiya Kalmykii*, 11 November). The law that preceded it, which dated back to 1996, was declared invalid by the republican parliament on 9 June 2000, shortly after Putin's initiative on bringing regional legislation in line with federal norms came into effect.

The "old" election law was in place during the 1996 republican administration elections, and it would have cost about 1.2 billion rubles to implement it fully. As Kalmykiya's budget faced a substantial deficit at the time, the election organizers "cut corners" financially. These savings led to a corresponding rise in the number of procedural violations. Local officials were elected primarily by citizens' assemblies, and the principle of direct election via secret ballot was ignored.

It is not surprising that a battery of lawsuits were filed following the elections, and the elected representatives were pronounced illegitimate one after another. The situation became so serious that it affected the election of State Duma deputies in December 1999. The lack of legally elected local governments made it impossible to create electoral districts as required by federal law. The Central Electoral Commission of the Russian Federation was required to adopt special measures to sidestep these inconsistencies. The republican president and the territorial electoral commissions were granted the right to set up precinct electoral committees.

Thus it was essential that the 1996 electoral law be overturned. At the same time, without a new normative-judicial document it was impossible to set up local governments in place of those declared illegitimate in court. The new law will allow for the resolution of this problem and serve as a catalyst for the further development of local government in Kalmykiya.

The new law makes it possible to elect local legislators in accordance with the federal Constitution and the federal laws "On the main guarantees of electoral rights and the right of Russian Federation citizens to participate in a referendum" and "On the main principles of the organization of local government in the Russian Federation". The new law says that the election of deputies by the electorate of the corresponding municipal district takes place on the basis of equal rights for all and a direct vote using a secret ballot. The right to be elected to a local government office belongs to all citizens of the Russian Federation who will be 21 on the day of the elections and who live full-time or have property on the territory of the corresponding municipal district of Kalmykiya, regardless of how long they have lived there. - Vladimir Volgin in Elista

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Additionally, Robert Frye produced a video that serves as a companion to the texts.

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## **BREAKING NEWS**

**BATTLE BETWEEN PRESIDENTIAL REPRESENTATIVES, SAMOILOV INTENSIFIES.** There is an increasingly apparent conflict between the Territorial Administration of the presidential administration led by Sergei Samoilov and the seven presidential representatives working in the regions. Samoilov wants to keep power within Moscow, while the representatives want to increase their own strength. Rumors have abounded in the past few weeks that the president is preparing to sign a decree giving the representatives additional power. However, polit.ru reported (16 November) the existence of an alternative draft decree that would put the presidential administration leadership in charge of appointing the staff members for the seven representatives. Such a decree would significantly reduce the current power of the representatives in favor of the central presidential administration. The conflict fits into the overall battle between Presidential Chief of Staff Aleksandr Voloshin and Security Council Chairman Sergei Ivanov for control over the representatives.

**FIRST STATE COUNCIL MEETING SET FOR 22 NOVEMBER.** In the run-up to the first full meeting of the new State Council, which includes the president and Russia's 89 governors, head of the presidential administration's Territorial Department Sergei Samoilov indicated that the Kremlin wants to give the new body political significance but no real power (*Kommersant Daily*, 16 November). The only perks the governors will receive are Moscow apartments and identity cards signed by the president, Samoilov said. The first session will discuss Khabarovsk Governor Viktor Ishaev's plan for Russia's strategic development through 2010. Samoilov said that he though it would be possible to work out any differences between

Ishaev's plan and the one prepared by German Gref, thereby avoiding any conflict between the government and Kremlin.

## **GOVERNORS' ELECTIONS**

**MALEEV REELECTED IN UST-ORDA BURYATIYA.** On 19 November, voters in the Ust-Orda Buryatiya Autonomous Okrug reelected Governor Valerii Maleev with more than 53 percent of the vote. Turnout was about 54 percent.

Maleev campaigned on the promise that he would continue to increase federal subsidies to the okrug. He claimed that during the four years he has been in office, the federal subsidy rose from 181 million rubles in 1996 to 550 million in 2000 (*Novoe chestnoe slovo*, 10-17 November). Federal subsidies make up 80 percent of the region's budget.

At the time of his election, in 1996, the 32-year-old Maleev was Russia's youngest governor. Maleev claimed to have paid off the region's debts to its civil servants and part of the money owed in child support supplements. Current payments are now being made on time. He also stressed the importance of social issues, naming education as his top priority. Additionally, he seeks to build a network of medical clinics in the region and improve the qualifications of doctors working there.

Maleev's top economic priority is developing the Golovin Coal Deposit, where work will begin next year according to a deal signed with the Irkutsk Oblast administration and Irkutskenergo (*Vostochno-Sibirskaya Pravda*, 15 November). In this goal, Maleev has the support of his cousin, Vostsibugol General Director Ivan Shchadov. Shchadov backed both his 1996 and 2000 campaigns (*Kommersant-Vlast*, 14 November).

Maleev's most dangerous opponent was 33-year-old Mikhail Matkhanov, but the okrug electoral commission removed him from the race on 4 November for trying to buy votes, incurring financial violations, and campaigning before it was legally permitted. Matkhanov is the general director of the Sobol alcoholic beverage factory and his father is the head of the well-known East Siberian alcoholic beverage producer Baikalfarm.

Ust-Orda Buryatiya is the only region in Russia with no cities. The economy is based entirely on agriculture and 40 percent of the population is Buryat. Ironically, all of the candidates in the race supported the idea of merging the okrug with Irkutsk Oblast, on whose territory it is located. Irkutsk is relatively wealthy and could presumably help the okrug more than Moscow. Merging the two units would abolish the okrug's governor's office. With this in mind, Maleev backed the idea of merger with Irkutsk, but focused more on joining the budgets of the two regions, while Matkhanov sought a full political and economic merger (*Segodnya*, 17 November). - Based in part on information from Teleinform in Irkutsk

**KREMLIN, YEGOROV WIN IN KALININGRAD.** On 19 November Baltic Fleet Commander Admiral Vladimir Yegorov won the runoff in the Kaliningrad gubernatorial election defeating Governor Leonid Gorbenko, 56.34 to 33.83 percent. Foreigners welcomed the victory of the new governor. For example, the Polish consulate invited Yegorov and his team, but not Gorbenko, to a celebration of that country's independence, *Kommersant Daily* reported 21 November. Communist candidate Vladimir Nikitin, who was eliminated in the first

round, called on his voters to vote against all or boycott the elections, a move that effectively hurt Gorbenko. However, turnout was an unexpectedly high 47 percent and most Communists voted for Yegorov.

The Kremlin said that it supported Yegorov to impose order in the only Russian region that is not attached to the rest of the country. Yegorov said that his first task would be to make sure that the law is obeyed and that there is a quick transfer of power, eliminating the possibility that the old administration could destroy any incriminating documents. The new governor will also conduct a comprehensive audit of how the oblast budget was executed.

### **SUMIN'S TOP AIDE TO OPPOSE HIM IN CHELYABINSK CAMPAIGN.**

Chelyabinsk Oblast Governor Petr Sumin's right hand man, First Deputy Governor Vladimir Utkin, has announced his decision to challenge his boss in the 24 December gubernatorial election. Utkin's declaration marks a sharp change in the balance of power in the weeks before the vote. Utkin was more than just a fellow member of the For the Rebirth of the Urals party, which he and Sumin founded in the mid-1990s and which brought Sumin to power in the 1996 gubernatorial elections. He was also the governor's "work horse," carrying the burden of the region's economic problems squarely on his shoulders.

A few months ago, however, the current governor suddenly developed a "left hand" -- Andrei Kosilov, who was appointed second First Deputy Governor. Prior to his appointment, Kosilov was Vice Governor for Social Policy in the oblast administration. His star rose even higher when the agricultural sphere was transferred under his control. Kosilov, who comes from a family of agronomists, currently enjoys Sumin's full trust and is effectively the coordinator of his gubernatorial campaign. Kosilov's appointment could not have been viewed by Utkin as anything less than a challenge and expression of the governor's lack of trust in him.

In fact, from the moment the new oblast administration came to power in 1997, Kosilov and Utkin espoused different models of economic and budget policy for the region. Observers viewed them as antagonists, which for all intents and purposes they were.

Utkin, who served with Sumin as a State Duma deputy and left the national legislature with him following his gubernatorial victory in 1996, was always an avid supporter of the interests of big business. As chairman of the oblast government in 1997-1998, he continued to "build up" industrialists and promote the role of the state (via the oblast administration) in managing the largest industrial enterprises in Chelyabinsk Oblast. His working principle was simple: industry needs to work effectively, which requires all necessary means, including the redistribution of property. The oblast administration played a key role in the "Velvet Revolution" at Chelyabinsk Tractor Factory, Ural Automobile Factory, and Zlatoustovsk Metallurgical Factory, all of which saw their shareholders thrown out of management and replaced by outside managers under the oblast administration's control.

Willy-nilly, Utkin's team achieved its goals: the shareholders were displaced, and the enterprises saw significant growth as a result. However, the legality of the various operations that made up the Velvet Revolution remains in question. Interestingly, the oblast administration also suffered disappointments of its own: hard as it tried, it was unable to bring the Chelyabinsk Aviation Enterprise under its wing.

Unlike Utkin, Kosilov's political career has focused more on social affairs, specifically budget arrears. Under his authority, oblast industry was subjected to continuous pressure to fork over its revenue to all the required municipal, regional, and federal budgets and extrabudgetary funds. Kosilov proved successful here, reaching his goal of fully liquidating pension arrears in the oblast. He is now addressing arrears in children's subsidies, and old debts are being paid off. However, in attacking budgetary issues, Kosilov is all but ignoring industrial interests, an approach big business views as indicative of the general gubernatorial policy.

Thus Utkin has become known in the oblast as a trustworthy friend of big business, a fact brought home by his participation in September at the annual meeting of the Chelyabinsk Oblast Association of Industrial Enterprises and Banks. It also appears that Utkin enjoys the support of Magnitogorsk Metallurgical Combine General Director Viktor Rashnikov, who has yet to agree to serve as a Sumin campaigner during the upcoming elections. As a result, Utkin has gained excellent political "start-up capital" for his participation in the campaign race.

Another significant factor affecting perceptions of Utkin is his role as defender of regional interests at the Greater Ural interregional association. At the association, Utkin's people actively worked to coordinate business ties between Chelyabinsk and Bashkortostan. His team was engaged in practical work on interregional cooperation, information exchange over territorial orders, and the development of an industrial policy for the entire Ural region. While Utkin was busy with this hands-on work, Sumin's role in the organization has remained nominal.

Despite Utkin's growing political prestige in the oblast, not all observers believe that he made a wise move. Sumin, who for all intents and purposes adopted a discriminatory policy toward Utkin (first by dissolving the Chelyabinsk Oblast administration in 1998, which ended Utkin's status as head of government; then by appointing Kosilov as second first deputy governor -- an unprecedented move in Russia -- which automatically lowered the status of the first deputy governor), has not tired of publicly insisting that he and Utkin did not disagree on any of the fundamental issues facing the oblast. Utkin has not challenged this statement. However, Sumin has put the brakes on implementing a series of important economic initiatives thought up by Utkin. Economic growth in the oblast has slowed significantly during recent months, a tendency that is only accelerating. Sumin responded to Utkin's decision to run for office calmly, but has not attempted to hide his surprise and disappointment.

Today, local political scientists view Utkin as a serious contender for Sumin's post, along with State Duma Deputy Valerii Gartung. However, to win Utkin will need to pick up Sumin's votes; he and Gartung are long-time rivals who will fight over votes in mining regions, particularly Kopeisk, where both were born. The two also have battled over UralAZ, in which Gartung has an interest and where Utkin has his own man, Bankruptcy Manager Valerii Panov.

In the meantime, not one of the gubernatorial candidates has offered the voters a clear economic development program for the oblast, although they have promised to do so. Sumin remains the most realistic candidate for the job, but his position following Utkin's departure has been seriously shaken. The two dark horses have a chance to turn matters around. For example, they could form an alliance against Sumin, and either Utkin or Gartung could step down and throw his support behind the other. They could also dig up serious, factually based compromising material on Sumin. Finally, they could present an original and convincing campaign program.

Sumin, however, has his own ace in the hole: observers say that Putin may well visit Chelyabinsk Oblast in December, which would be an act of support for the incumbent governor. - Igor Stepanov in Chelyabinsk

**SKLYAROV MAKES MISTAKES IN NIZHNII ELECTIONS.** Although Nizhnii Novgorod will not hold its elections until next summer, the campaign is already well under way. Governor Ivan Sklyarov has made a number of missteps. He simultaneously signed two documents describing the state of affairs in the region, one for local journalists and one for members of the State Duma from Nizhnii Novgorod. The document for local consumption talked about the region's economic growth (which has been as high as 60-80 percent in some sectors in recent years), the reduction of debts owed to doctors and teachers, and the timely payment of pensions. However, the document aimed at the State Duma members sought to encourage them to work harder for the region. It pointed out that the oblast would not earn more than 11 billion rubles in 2001, while its expenses would be 20 billion rubles. Unfortunately, the federal budget for 2001 already has passed its second reading in the Duma and no one is going to give the region enough money to make up the 9 billion ruble difference.

The oblast administration hopes to make up the shortfall by attracting new investment to the region. One idea under discussion is the establishment of a Volga Investment Zone including the construction of a new city across the Volga from Nizhnii Novgorod that would take advantage of the region's cheap labor and political stability. However, Russia's bureaucracy and extreme social problems continue to scare off investors.

Under the current system, local, regional, and federal governments provide incentives for investors. The authorities at the different levels of government work independently of each other since the laws regulating investor benefits are not coordinated in any way. Creating an "investment zone" with federal status would facilitate a unified system of benefits for investors. In Nizhnii, such a system would streamline management to solve the specific needs of an investor and free him from concern about social issues.

One major conundrum is that many social problems are the result of low salaries, the very thing that attracts investors to the region. In order to preserve the low wages, it is necessary to raise taxes and provide subsidies. But if an investor gets tax breaks, the region lacks the funds to make such payments and the whole system collapses. The result ends up being investment for the sake of investment. In the majority of cases, budgets forego much more income in benefits than they generate in investment revenue.

Unfortunately, the discussion of building a new city is simply another in a long line of ideas that has nothing to do with reality. The oblast leadership wants to build a model city, which could never exist. - Yurii Rodygin in Nizhnii Novgorod

## **CENTER-PERIPHERY RELATIONS**

**LATYSHEV TAKING REAL POWER FROM GOVERNORS IN URALS.** It has been six months since Putin created the seven federal districts in Russia and named presidential representatives to them. When the reform began, it seemed that there were three possible scenarios of development in the relations between the new representatives and the governors.

The first possibility was that the governors and the representatives would reach some sort of agreement since the governors had more real levers of influence in the regions than the representatives, whose powers were rather abstract. A second possibility was that the representatives, with the support of the federal government, would force the governors to obey the president in all areas, take control of their regions, and "impose order." A third possibility was that the entire reform would come to nothing and slowly disappear.

What has happened in the Urals? At first glance, it seems that not much has changed. There has been a lot of noise surrounding the new offices of Presidential Representative to the Urals Petr Latyshev. Everyone knows that Sverdlovsk Governor Eduard Rossel set a trap for Latyshev, offering him a building used by children in order to give him a public relations black-eye. Following the attack by the oblast administration, Latyshev began to state his opinions more sharply and the governor and representative have dumped considerable vitriol on each other in the press.

But this scandal is only a superficial reflection of what is happening. In fact, there have been several significant changes. First, all of the power ministries have set up district-level offices and the oblast branches of these agencies are being taken from the control of the governors. Second, the federal government has taken control of the local branch of Russian television. Third, the presidential representative will monitor the flow of money from federal coffers. Fourth, Latyshev is working closely with the local "oligarchs" and they are clearly interested in maintaining contacts with him. Fifth, the oblast is working quickly to bring local laws into line with federal legislation. Finally, after actively attacking Latyshev, Rossel is now on vacation and organizing a retreat. Overall, the new federal representatives have expanded their activities into fields that the governors once considered their own. Apparently, the president has also prepared a decree to expand the powers of the representatives, particularly in the area of the economy. If that is true, then the whole package of reforms is entering a new phase. - Natalya Mints in Yekaterinburg

**KAZANTSEV VISITS VOLGOGRAD TO BOOST ECONOMY.** Presidential Representative to the Southern Federal District Viktor Kazantsev visited Volgograd Oblast on 13-14 November. Putin apparently has ordered Kazantsev to boost the economy of the Southern District, where some of Russia's poorest regions are concentrated. Such a revival must draw on the base of the economically-developed regions of Rostov and Volgograd. Kazantsev said that the main theme of his visit to Volgograd was the "development of integrational processes in the economy of the Southern Federal District." He said that "work is now underway on the comprehensive program of the North Caucasus interregional economic association, which should include all 13 regions in the southern district, including a future program for the development of Volgograd Oblast... Until recently, most attention was focused on military issues because of the drawn-out Chechen conflict. Now it is time to give priority to peace-time problems."

Kazantsev said that these socio-economic development programs would not be prepared in the regions, as in the past, but by the staffs of the representatives to the federal districts. Federal money will not go to the 89 regions, but to the seven federal districts. This will



rationalize and centralize the distribution of funds. Thus, the representatives will take over one of the governors' most important power resources.

Kazantsev listed the energy complex as one of the main obstacles for ending the crisis in his area. He said that only state monitoring of the sector would solve the problems. He also described the evil of non-payments in the Russian economy as "worse than war."

Kazantsev sees his main task as creating conditions for economic and financial stabilization in the district, which, in turn, would fill the federal budget and strengthen ties between the regions of the Russian Federation.

Kazantsev and Volgograd Governor Nikolai Maksyuta lauded the experience of the first six months of the presidential representatives' work. According to Kazantsev, the reform has helped hold Russia together. He claimed that setting up the seven districts allowed each region to take care of its individual "economy, traditions, and morals." Having managed these internal problems, the regions are in a position to set up close ties with their neighbors. He said, "the representatives do not replace local leaders, but work with them, in the limits of their responsibilities, to fulfill the president's economic doctrine."

Maksyuta backed Kazantsev, saying "it has become easier as a governor to address many important issues with my 13 colleagues, the governors of the regions that are members of the Southern District. Earlier we sought to unite on an economic basis only in associations like the Great Volga, Black Earth, or Urals interregional associations. Now we set up ties along the lines of region-federal district-center. This model, as we are becoming convinced, is more effective." - Ivan Kurilla in Volgograd

**KIRIENKO DISCUSSES ENERGY PROBLEMS IN ULYANOVSK.** Presidential Representative to the Volga Federal District Sergei Kirienko visited Ulyanovsk on 14 November to discuss the region's energy problems. Kirienko said that the energy situation in Ulyanovsk was the worst of the 15 regions in the Volga Federal District despite the fact that the region does not have an extreme climate or a large amount of federal debts to the region. Accordingly, the crisis derives from local problems.

At a meeting in the oblast administration, Kirienko sought out the causes of the crisis, particularly focusing on the growth in non-payments for heat and electricity. Kirienko said that the debts have piled up for the last for the last five years and have now reached 2 billion rubles. Kirienko identified the following problems:

-- municipal energy middlemen take about 130 million rubles: the residents of the oblast pay for their communal services, but the money never reaches the energy providers because the middlemen use it for their own purposes.

-- the regional energy commission sets prices for heat and electricity well below the cost necessary to produce them. Today residents pay only 12-13 percent of the cost required to generate the heat and electricity they use. The oblast and local budgets do not have enough money to make up the difference and Moscow can only make up the difference based on a federal standard, which assumes customers will pay 70 percent of the cost.

-- a considerable amount of energy is lost during transportation. According to the regional energy commission, about 50 percent of heat and 30 percent of electricity disappears as it is being transported. Kirienko described the state of the region's energy infrastructure as "barbaric" and attributed 1 billion rubles of the 2 billion ruble debt to physical losses.

-- many people receive discounts on the price of their heat and electricity, but no budgets include money to compensate for these losses.

-- federal funds do not go where they are supposed to go. Half of the federal transfers are supposed to go to the city of Ulyanovsk, but of the 256 million rubles that arrived in the oblast in 2000, the oblast capital received only 7 million.

As a result of the meeting, representatives of Unified Energy System (EES), Ulyanovskenergo, the oblast administration, and the city administration signed an agreement dividing up responsibility for ending the crisis. These measures will not resolve the 2 billion ruble debt, but will prevent new debts from accruing. The agreement states that prices will be raised so that consumers will pay for the cost of the energy consumed. The authorities who provide benefits will have to pay for them rather than trying to pass them off to other levels of government. Legally, the city should pay off the debt, but since the oblast did not transfer all of the federal money to the city that it should have, it will also have to contribute to the debt reduction, Kirienko said. Next year, the oblast will have to give the city the required half of the federal money. Additionally, the city will immediately transfer the right to collect payments to the energy producers. The heat and electricity producers will have to pay off Gazprom and other energy providers. The middlemen will get their fair share.

Kirienko did not rule out federal intervention if the agreement was not implemented. He said that EES would declare Ulyanovskenergo bankrupt if it did not pay its debts. He also threatened that the federal government could also take over the management of Ulyanovsk's finances and interbudgetary relations.

In signing the document Governor Yuri Goryachev may have significantly damaged his chances to be reelected in the gubernatorial elections on 24 December. Until now his policy has been to hold energy prices artificially low. Effectively, current consumers receive energy at low prices at the expense of future generations who will be saddled with the debts. Ensuring heat for the winter will be the greatest problem for whoever becomes governor. - Sergei Gogin in Ulyanovsk

**PULIKOVSKII BLAMES PRIMORSKII KRAI AUTHORITIES FOR LOCAL PROBLEMS.** Presidential Representative to the Far East Konstantin Pulikovskii postponed a trip to Japan to visit Primorski Krai last week. In the region, residents concerned about the lack of heat were blocking roads and teachers in Ussuriisk were striking because they had not been paid.

The governor's team blames the hold up in the teachers' salaries on Ussuriisk Mayor Vladimir Vedernikov, claiming that he is constantly demanding money from the krai and does

not implement a competent financial policy. The teachers say that everything was fine until the Krai gubernatorial elections in December 1999, in which the mayor opposed the governor.

During his trip, Pulikovskii said that the mayor and the governor do not work sufficiently well with the teachers. "I did not bring money. That is not my job. I monitor how money is spent. Two days before I arrived, I sent a commission to the krai. They determined that the money sent from Moscow all arrived on time. However, the money was not used for the purpose for which it was intended and the teachers did not get it. The authorities are responsible for this, namely the governor and the mayor." When asked if the teachers would get the money, Pulikovskii replied that Primorski Krai Governor Yevgenii Nazdratenko said that he would solve the problem by 19 November. The teachers do not intend to return to work until they are paid. Doctors in the region pointed out that they had not been paid in four months and that they were worse off than the teachers. On 20 November, President Putin expressed outrage at the situation, according to the RFE/RL Newslines.

Pulikovskii also expressed dissatisfaction with the work of the federal agencies in the region. "I met with representatives of the law enforcement bodies. They tried to explain what they did during the actual protests, bringing up such unnecessary details as where they place their cars. However, their job was to prevent this crisis situation from occurring. I told them this and demanded that they figure out where the money went and why people do not have heat," Pulikovskii said. The procurator took quick action and has already filed criminal cases in Kavaleroovo and Artem. - Oleg Zhunusov in Vladivostok

### **IRKUTSK GOVERNOR DESCRIBES SIBERIAN AGREEMENT MEETING.**

Irkutsk Oblast Governor Boris Govorin recently spoke with a group of oblast journalists about his impressions of a recent visit in Novosibirsk with Vladimir Putin. Govorin and Putin met during a session of the Siberian Agreement Interregional Association (MASS), which among other matters discussed whether or not the association had a future under the new political conditions.

Presidential Representative to the Siberian Federal District Leonid Drachevskii believes that the MASS has not yet outlived its function. But under the new federal district system, he says, it is crucial that collaboration between MASS and the okrug council be properly regulated. While regional leaders belong to both structures, the association is more concerned with economics and the council deals with politics.

Siberia's development was the chief topic at the meeting. Governors, federal workers, and members of the Russian Academy of Science and its Siberian branch were all invited. All participants were encouraged to offer their input, which resulted in the formation of a precise action plan for Siberia.

First and foremost, participants noted that Siberia, unlike Western Russia, is home to massive untapped natural resources. As such, it represents the economic future of Russia. But in order to tap that future, the region needs a population boost. This will require the adoption of a new state migration policy, which takes into account the experiences of pre-revolutionary Russia and the Soviet Union. In Tsarist Russia, migrants' travel to Siberia was partially subsidized. Today, ethnic Russians residing in former Soviet republics are often subject to persecution. They might benefit from migration to Siberia, according to participants in the conference.

In addition to attracting people, Siberia must attract investment. A project for developing investment in the region is already being prepared by local scientists.

Another pressing question involves transportation. The region lacks a widespread network of highways and roads, and former air routes no longer function. Effective transportation is key to the development of business activity. For example, a flight from the Asian Pacific to the United States via Krasnoyarsk would cut several hours off the current routes and would be cheaper to operate. Such flights could be part of a larger development strategy.

In addition to the conference, the president held a separate meeting with regional governors. Top among the questions on the agenda was that of bringing regional legislation in line with the federal constitution. The deadline for doing so is 1 January 2001.

During his meeting with the press, Govorin discussed Putin's upcoming visit to Irkutsk, where he will meet with the Japanese Prime Minister. "I asked the Japanese Prime Minister to meet us in Irkutsk, and he replied that he had already agreed with the President of Russia to do so. The meeting has been set for January 2001 in Irkutsk, but it will take place at a time convenient for all parties. Perhaps it will be held at the end of this year, perhaps at the beginning of next," he said. - Teleinform in Irkutsk

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"Social Cohesion" by Judyth L. Twigg and Kate Schecter

"Russia's Security, Economic and Banking Crises" by Bruce G. Blair, Clifford G. Gaddy, and J. Andrew Spindler, with Denis A. Maslov

"Russian State Building: The Regional Dimension" by Robert Ortung and Peter Reddaway

Additionally, Robert Frye produced a video that serves as a companion to the texts.

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## **BREAKING NEWS**

**PAPER SEES POLTAVCHENKO REPLACING VOLOSHIN.** *Nezavisimaya gazeta's* Lyudmila Romanova and Marina Kalashnikova reported on 28 November increasing signs that Presidential Representative in the Central Federal District Georgii Poltavchenko is in line to replace presidential administration Chief of Staff Aleksandr Voloshin. They cited sources in Poltavchenko's staff and "other sources." Voloshin and Security Council Secretary Sergei Ivanov are apparently locked in battle and Ivanov is clearly Poltavchenko's patron. In the battle, Ivanov represents the power ministries who are arrayed against the old Kremlin staff. Other observers believe that Poltavchenko does not have the right credentials or experience for the job and dismissed the report. Poltavchenko called the speculation "gibberish."

Nevertheless, *Nezavisimaya gazeta* said that, given Putin's work style, personnel changes in the president's staff will not happen soon. They argued that Putin likes to study a problem from all sides, formulate a way of resolving it, and then assemble a team to implement the solution. They claim that the first step of the federal reform is now over and that a second stage will necessarily follow. This new stage will go beyond bringing regional legislation into line with federal norms and redistributing control over economic power. However, the Kremlin has yet to give any indication of what this second stage will be, so it is too soon to speak about who will implement it.

**CONSTITUTIONAL COURT TAKES MORE POWERS FROM REPUBLICS.** The Constitutional Court on 28 November deprived the presidents of Russia's 21 republics of the right to appoint the head of the republican branch of the Federal Tax Police Service. The decision came in a case filed by Pskov Governor Yevgenii Mikhailov, who complained that the republics had this right while oblasts and kraia did not (see *EWI Russian Regional Report*, 8 November). Mikhailov sought to gain the right to appoint these officials for all regions, but the court instead took this right away from the republics, leaving no regions with the right to appoint regional tax police chiefs. Now the

federal government will make these appointments, without giving the regions a formal voice in the process. (*Vremya novostei*, 29 November)

**DUMA GIVES PRELIMINARY APPROVAL TO ADMINISTRATIVE COURTS.**

The State Duma passed in the first of three readings a bill that would set up administrative courts in 21 federal districts on 22 November (*Kommersant-Daily*, 23 November). An overwhelming majority of 332 deputies supported the measure. The bill is likely to be revised considerably before it is adopted. For this purpose, the Duma set up a working group including representatives of the Supreme Court, Supreme Arbitration Court, and deputies. Putin plans to use the courts as a way of winning convictions against governors for violating the law (see *EWI Russian Regional Report*, 15 November). Additionally, on 27 November Putin set up a working group chaired by Presidential Administration Deputy Chief of Staff Dmitrii Kozak to improve the court system. The group must submit recommendations by 15 April 2001, *polit.ru* reported on 27 November.

**LITTLE PUBLIC INTEREST IN NEW STATE COUNCIL.** The first meeting of the State Council, the new body that includes the president and all 89 governors, mostly drew yawns from the Russian press. Besides discussing Russia's national hymn, the session included the presentation of a plan for Russia's strategic development that was proposed by Khabarovsk Governor Viktor Ishaev. Despite some build up of a looming confrontation, the plan has little chance of replacing the one prepared earlier by German Gref.

Although the State Council seems unlikely to have much real impact on Russian policy, Chuvashiya President Nikolai Fedorov described it as a "forum where it is possible to try to correct the president's position (*Segodnya*, 25 November)." Fedorov said that he had a short conversation with Putin after the session and the president expressed understanding for Fedorov's sharp criticisms of his reforms. Putin also invited Fedorov to join a committee headed by Tatarstan President Mintimer Shaimiev on defining the division of powers between the center and regions. Fedorov said that the seven presidential representatives to the regions did not fit into this discussion since they are only "temporary."

**PUTIN APPOINTS MINISTER ON CHECHNYA.** President Vladimir Putin appointed former Orenburg Governor Vladimir Yelagin as the new Russian minister responsible for Chechnya on 28 November. Yelagin will coordinate federal executive agencies in providing social and economic development assistance in the war-torn region. Spokesman Sergei Yastrzhembskii said the reason behind Yelagin's appointment was the federal government's realization that it could not solve Chechnya's problems simply through the use of force. (*Nezavisimaya gazeta*, 29 November)

**OLD FEDERATION COUNCIL BIDS "FAREWELL."** At its 100th meeting on 24 November, Federation Council Chairman Yegor StroeV made a farewell speech of sorts. In line with Putin's reform of the body, the Federation Council has begun to accept representatives of the regional executive and legislative branches instead of the governors and regional legislative chairmen themselves. StroeV credited the Council over the last

seven years with strengthening the state and ensuring stability. He noted proudly that the body had never been divided into partisan factions. He claimed that it had helped set up a market economy and even strengthened the hierarchy of authority. Stroeve criticized Putin's reforms, saying it was necessary to start the reforms at the bottom in the regions rather than with "the roof."

There are now three new members of the Federation Council, representing the legislature of North Osetiya, and the newly elected governors of Kursk (see article elsewhere in this issue) and Kaluga. As predicted, Kaluga Governor Vyacheslav Parinov appointed his predecessor and former boss, former Governor Valerii Sudarenko, as his representative to the upper chamber. On 27 November, after the session, newly elected Magadan Governor Valentin Tsvetkov named Col. Gen. Vladimir Kulakov as his representative (*Kommersant Daily*, 28 November).

Of the other members, only Saratov Governor Dmitrii Ayatskov has announced his decision to step down from the body. Most plan to remain in their seats until the new law forces them out on 1 January 2002. (*Nezavisimaya gazeta*, 25 November)

The Federation Council refused to approve changes to the tax code such as the 5 percent increase in the profit tax, which would provide funding to the regions to make up for cuts in money they used to receive through the housing fund. Without the upper chamber's approval, the measures cannot go into effect on 1 January as the government had hoped, *Segodnya* reported on 25 November.

**CHERKESOV MEETS NORTHWEST BUSINESSMEN.** Presidential Representative in the Northwest Federal District Viktor Cherkesov met with leading businessmen in the area for four hours on 24 November, *Kommersant Daily* (25 November) reported. The group included six prominent entrepreneurs from St. Petersburg and one or two from the other regions in the district. Avtotor's (Kaliningrad) Vladimir Ryndin said that they had a useful exchange of opinions and expressed a desire for regular meetings.

## **CENTER-PERIPHERY RELATIONS**

**SUPREME COURT RECOGNIZES LEGITIMACY OF SARATOV SECURITY COUNCIL.** The Russian Supreme Court has decided not to hear the protest of the Saratov Oblast procurator challenging the governor's right to create an oblast-level security council. Procurator Anatolii Bondar appealed to the Supreme Court after the oblast court ruled against him. Saratov Governor Dmitrii Ayatskov created the oblast Security Council on 21 January 1998 and it took on the task of coordinating the activities of the region's law enforcement agencies even though those agencies are federal institutions. Security Council Secretary Aleksandr Miroshin issued instructions to the law enforcement agencies and the oblast branch of the Ministry of Internal Affairs effectively became a branch of the Saratov Security Council. It served the private interests of highly placed bureaucrats within the Saratov government.

This court fight began to develop in February 2000 when Anatolii Yatskov, the head of the oblast department of the tax police, refused to carry out an illegal order of the Security Council secretary. After this incident, the local authorities organized a pressure campaign against him. Yatskov responded by charging that Security Council Secretary Miroshin was associated with organized crime groups.

Governor Ayatskov initially backed his appointee Yatskov because he feared that if he did not he would lose control over the law enforcement agencies. However, under pressure from State Duma Speaker Lyubov Sliska, who was once Ayatskov's subordinate in Saratov, he was forced to push Miroshin into the shadows and approve the decision to remove him as the head of the region's Yedinstvo party.

At the same time, the oblast procurator filed a protest with Saratov Oblast court, seeking to declare the Security Council illegitimate. The court rejected the appeal and now the Supreme Court has backed it up.

Now Miroshin is the oblast administration's point man for the municipal elections scheduled for 24 December. In March, he masterminded Ayatskov's reelection. However, these gubernatorial elections still create unpleasant memories. According to the official statistics, 20.28 percent of the electorate voted against all candidates. This figure is four to five times higher than similar figures in other regions. - Yuliya Yeliseeva in Saratov

**JUSTICE MINISTER SETS UP OFFICE IN BASHKORTOSTAN.** Justice Minister Yurii Chaika visited Ufa on 14 November with a draft agreement on relations between the republic and the federal government that had been prepared in Moscow. In a conversation with Bashkortostan President Murtaza Rakhimov, Chaika announced that the federal government had decided to set up Chief Departments of the Justice Ministry in the regions, including Bashkortostan. Additionally, such an office will be created in each of the seven federal districts. According to Chaika, these measures will "strengthen the hierarchy in the field of justice" by creating a "unified general system" of justice departments so that Putin's reforms can be carried out consistently.

The Justice Ministry is strictly implementing the principle of "trust but verify." Since 1995, the ministry has asserted that 25 to 50 percent of regional laws do not conform to federal norms. Some regions, including Bashkortostan, simply stopped sending their laws for analysis in Moscow. Now, by setting up its own office in the region, the ministry is strengthening the federal government's system of monitoring whether laws adopted at the regional level are congruent with federal legislation. Accordingly, one of the main jobs of the new offices will be provide expert advice as laws are being drafted and adopted.

One of the main topics of discussion between Chaika and Rakhimov was the question of dividing responsibility between the center and regions in the area of justice. The new distribution of power heavily favors the center. The Justice Ministry's new regional office would be in charge of the criminal justice system, the activity of the court bailiffs, the licensing of lawyers and notaries, and the registration of political parties and social organizations. Control of the bailiffs for example is particularly important because they are the ones who actually implement court decisions. Bashkortostan would only retain control of wedding agencies. Additionally, Chaika suggested that the Bashkortostan Justice Ministry would retain its independence.

Chaika asserted that there should be a single procedure for appointing the heads of the regional branches of the Justice Ministry in oblasts, krais, and republics. He asserted that the federal authorities should have the exclusive right to make that decision.

Rakhimov said that the republic would study attentively all of the Justice Ministry's proposals and in the future would find agreement with the federal ministry.

After his meeting with Rakhimov, Chaika announced that legal analysts would soon examine the 1994 power-sharing treaty that the republic signed with the federal government. Of course, a few days earlier, the republican legislature had included the full text of the treaty in the new version of its constitution. - Igor Rabinovich in Ufa

**MOSCOW PROVIDES MONEY FOR FAR EAST, NAZDRATENKO'S JOB IN BALANCE...** For a variety of reasons, Primorskii Krai Governor Yevgenii Nazdratenko is now in a situation similar to the one of 1997 when only the support of the Federation Council saved him from losing his job. After Presidential Representative in the Far East Konstantin Pulikovskii's meetings in Ussuriisk earlier this month in which he blamed Nazdratenko and the krai authorities for the lack of heat and electricity in the region, Nazdratenko made a caustic speech blaming the problems on the federal government (see *EWI Russian Regional Report*, 21 November). The governor claimed that Moscow owes the region 4 billion rubles, including 400 million rubles just for supporting the various federal military and law enforcement agencies in the region. He argued that this money would be sufficient to solve all of the krai's problems.

Following these comments, Nazdratenko flew to Moscow where he met with President Vladimir Putin and addressed the State Duma on 22 November. Nazdratenko told Putin that the federal government needed to intervene to solve the region's problems. The president's response was not made public.

On one hand, Nazdratenko's Moscow trip seemed to be a success for the governor because he was able to win another round of federal credits totaling 170 million rubles. However, despite the strong support of Svetlana Goryacheva, a Communist Krai State Duma member, the Duma passed a resolution expressing dissatisfaction with the krai administration's work and asked the president to investigate. The Duma also ordered the Audit Chamber to verify how federal funds have been spent in the krai.

Such investigative commissions have visited the krai many times in the past and every time Nazdratenko has managed to wriggle out of the most difficult situations. However, now his position seems particularly acute. After a meeting with Putin, Pulikovskii announced that "the Primorskii authorities were not ready for winter. This was obvious and I told the president about it." Pulikovskii said that "further decisions would be based on this." Many believe that this statement is a clear indication that the federal government will try to remove Nazdratenko, however no elected governor has been removed from office and it is not clear if the federal government has the will to take this step. - Yevgenii Popravko in Vladivostok

**...WHILE NAZADRATENKO'S BACKGROUND, SUPPORTERS DRIVE ENERGY CONFLICT.** Many of the problems in Primorskii Krai energy system derive from the background of Governor Yegenii Nazdratenko. The leaders of local defense and mining enterprises, grouped in the PAKT association, were the ones who initially supported Nazdratenko as governor. These sectors of the economy consume the most energy. Generally in the krai energy makes up about 10-12 percent of the cost of a product. However, in a plant like the Spasskii Cement Factory, it is more than 40 percent.

During his entire tenure in office, Nazdratenko has fought with the utility companies. Leaders at all levels of the city and krai at various times called on the population not to pay for their energy consumption. With the help of the regional energy

commission, prices were kept artificially low. In effect, the energy sector long subsidized other sectors, leading to its own decay.

Mass protests, many of which are planned in the coming weeks, actually were beneficial to the krai authorities because they provided a pretext to obtain additional money from the federal government. Under Yeltsin, Nazdratenko believed that he would not suffer any consequences for these actions, particularly since there was no way then for the president to remove an elected governor. Under Nazdratenko's leadership, politicians, factory directors, and the population became accustomed to shirking their energy bills. Because these problems have built up over time, it will be difficult to solve them rapidly. However, Nazdratenko will need a quick fix since the current leadership of Russia is not well disposed to him. The governor has become a prisoner of the system that he created. - Oleg Zhunusov in Vladivostok

## **FEDERATION COUNCIL**

**NEW KURSK GOVERNOR APPOINTS REPRESENTATIVE TO FEDERATION COUNCIL.** Newly elected Kursk Governor Aleksandr Mikhailov has appointed Gennadii Shirokonosov as his representative in the Federation Council and the regional legislature unanimously confirmed the appointment. Shirokonosov, 56, will likely be extremely loyal to the governor. He spent most of his life in city of Shchigra, where the governor lived more than 30 years, and had a typical Soviet era career. Shirokonosov rose from the position of a worker to the director of the Geomash factory, with some service in the Communist Party ranks. His greatest accomplishment in 15 years as factory director was the creation of a profitable German-Russian joint-venture to produce drilling equipment for the oil and gas industry. As a factory director, he was generally very pragmatic and never became involved in politics beyond working on the campaign team of the governor. He has known the governor personally for 10 years. - Sergei Sarychev in Kursk

## **GOVERNORS' ELECTIONS**

**KURGAN GOVERNOR LEADS AFTER FIRST ROUND.** Kurgan Governor Oleg Bogomolov won 44 percent of the vote in his region's gubernatorial elections on 26 November and faces a runoff in two weeks. His main opponent, Kurgandrozhzhi General Director Nikolai Bagretsov won just over 22 percent. Chairman of the Kurgan Oblast Duma Lev Yefimov won 16 percent of the vote. Turnout was 46 percent, and 8.3 percent voted against all (*Vremya novostei*, 28 November).

Bogomolov follows a relatively Communist platform, though he is careful to express loyalty to the president. He is opposed to selling land, in particular to foreigners, and prefers a strong state role in regulating economic activity. Kurgan is an economically depressed region. The drought of 1998 destroyed 60 percent of the region's crops. Most local industry is starved for investment. Furthermore, parts of the oblast have been ecologically damaged by radioactive contamination caused by nuclear accidents in neighboring Chelyabinsk.

**SURPRISE CANDIDATE LEADS POLLS IN KOMI-PERMYAK**

**AUTONOMOUS OKRUG.** The beginning of construction on a railroad line, which will ultimately link the Urals, Komi Republic, and Arkhangelsk Oblast with the White Sea through the Komi-Permyak Autonomous Okrug (the Belkomur project), coincides with the start of the governor's campaign in the region. Although Komi-Permyak has substantial supplies of gold, diamonds, and oil, its remote location and poor transportation links cut it off from serious Russian and foreign investors.

In a surprise for the local political elite, the front-runner in the race is Dmitrii Anfalov, the deputy chairman of the Sverdlovsk Oblast Duma, who won the right to register by paying a fee of 62,617 rubles, rather than collecting signatures. Anfalov is famous for his connection to the Sverdlovsk Oblast-based Mai movement, whose leader Aleksandr Burkov won a surprising second place finish in the Sverdlovsk Oblast gubernatorial elections. Now the movement is trying to win in Komi-Permyak. It hopes to accomplish three goals simultaneously: winning the governorship, two seats in the Federation Council, and "ownership" of a rich territory.

Anfolov's tactics are simple. His blitzkrieg approach seeks to take advantage of the region's economic depression and poor social conditions and the split within the relatively weak local elite. He is well financed and has attracted an army of campaign workers (about 1,000 individuals). Anfalov's people are active in all 77 of the okrug's councils and the capital of Kudymkar. Anfalov believes that his rating is no lower than 52 percent.

However, the other candidates are quickly recovering from the shock that Anfalov's entry into the race initially caused. Governor Nikolai Poluyanov has made a number of personnel changes. His team now includes former Liberal Democratic Party of Russia State Duma member Sergei Skurikhin, former Deputy Chairman of Perm Oblast Accounting Chamber and former First Deputy of the Okrug Gennadii Savelev, and Kudymkar Meat Processing Plant Director Valerii Vankov. In the 1996 elections, Poluyanov won 69.6 percent of the vote, when 57,000 people participated in the elections. Young men who were just inducted into the military and had to vote early demonstratively supported Anfalov. In order to win the election, the local elite has to band together. However, at this point, they do not seem able to do so. - Viktor Nikolaev in Perm

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## **BREAKING NEWS**

**MINISTRY OF INTERNAL AFFAIRS CONSIDERS MAJOR REFORMS.** The Ministry of Internal Affairs is considering a reform that would transfer much of the control over the Russian police from the governors and the minister to the president, *Izvestiya* reported citing the head of the ministry's Main Personnel Office Vyacheslav Brycheev. The reform consists of creating a new structure - a Criminal Police Committee at the national, federal district and regional levels. The reform was supposed to have been introduced in the early fall, but the paper claims that there are two versions of the reform and no decision has been taken on which one to adopt.

Advocates of the reform claim that creating a federal committee would make it easier to fight corruption at the local level. In 1999, the ministry conducted an experiment in which it subordinated the group fighting organized crime to the federal government in the Urals and North Caucasus regions. A spokesperson for the Main Department for the Battle Against Organized Crime (GUBOP) said that talk of reform was now only a rumor and that they were waiting for news "from day to day." *Izvestiya* suggested that First Deputy Minister of Internal Affairs Vladimir Kozlov would head up the new service. Kozlov has long worked in the ministry's anti-corruption unit. One unidentified source suggested that the addition of another layer of leadership would not change anything.

## **DUMA GIVES GUBERNATORIAL THIRD TERM PRELIMINARY APPROVAL.**

On 29 November, the State Duma passed in its first reading an amendment to the law regulating regional political institutions that would allow many current governors the chance to seek a third consecutive term in office. The measure, which was supported by the Kremlin, required the attentive presence in the chamber of Presidential Administration Deputy Chief of Staff Vladislav Surkov and three rounds of voting before it received enough votes to pass, *Kommersant Daily* reported on 30 November. The amendments would consider a governor's first term beginning with the introduction of the law on regional institutions - 16 October 1999. The law would affect some of the most powerful and well-entrenched governors, among them: Aslan Dzhariyev (Adygeya), Murtaza Rakhimov (Bashkortostan), Leonid Potapov (Buryatiya), Ruslan Aushev (Ingushetiya), Valerii Kokov (Kabardino-Balkariya), Kirsan Ilyumzhimov (Kalmykiya), Yuriy Spiridonov (Komi), Mintimer Shaimiev (Tatarstan), Sherig-ool Oorzhak (Tyva), Nikolai Fedorov (Chuvashiya), Mikhail Nikolaev (Sakha), Yuriy Lodkin (Bryansk), Yegor Stroev (Orel), Yevgenii Savchenko (Belgorod), Mikhail Prusak (Novgorod), Leonid Polezhaev (Omsk), Eduard Rossel (Sverdlovsk), Viktor Kress (Tomsk), Magomed Magomedov (Dagestan), Nikolai Merkushkin (Mordoviya), and Viktor Ishaev (Khabarovsk).

The measure is clearly an attempt by the Kremlin to reward sitting governors for their loyalty. Yabloko denounced the move as contradicting the ruling of the Constitutional Court, which had declared that Yeltsin's actual first term in office (1991-96) should legally count as his first term (*Nezavisimaya gazeta*, 2 December). Yabloko also charged that the move showed the weakness of the presidential administration in the face of announcements by the leaders of Tatarstan and Bashkortostan that they would seek a third term "no matter what the law says." Tatarstan President Shaimiev is seeking a third term in March 2001, but Bashkortostan

President Rakhimov has said he will not run again (see article on Rakhimov's comments elsewhere in this issue).

**SEVEN PRESIDENTIAL REPRESENTATIVES HAVE LITTLE INTEREST IN JUDICIAL REFORM.** According to State Duma Deputy Vladimir Lysenko, the deputy chairman of the Committee on Federal and Regional Policies, President Vladimir Putin said that if he is able to conduct a reform of the judicial system and institute better oversight by the procurator, there will be no need for the seven federal districts and the presidential representatives to them (*Ekspert*, 4 December). Given this statement, Lysenko argued that the seven representatives and their staff have little interest in judicial reform.

Lysenko himself considers the idea of the districts temporary. He said that once there is a united legal and economic space in the country and a mechanism for interregional cooperation is in place, there will be no need for the districts. He pointed out that no other federation in the world has such intermediaries between the federal and regional governments.

**YEDINSTVO INTRODUCES BILL TO ALLOW PRESIDENT TO APPOINT GOVERNORS.** On 5 December, State Duma member Vitalii Lednik (Yedinstvo) introduced a bill to the State Duma that would allow the president to appoint governors, *polit.ru* reported. Although the effort was not serious, several deputies see it as a propaganda action. Soyuz pravyykh sil Deputy Faction leader Viktor Pokhmelkin described the bill as a "trial balloon" to test what the public reaction would be. In the recent round of gubernatorial elections, the Kremlin has not won many of the races.

On 1 December, *Nezavisimaya gazeta* reported that the general procurator warned that it would fire governors and disband regional legislators if they violated federal laws.

**NEW REGIONAL DUMA GROUPING.** Duma members from the Volga Federal District announced plans to form a Volga-Ural deputies' group in the State Duma, *Rossiiskaya gazeta* reported on 2 December. The coordinator of the group will be Samara Deputy Aleksandr Belousov. The purpose is to improve coordination between the regions in the federal district and to create a legislative basis for this cooperation.

## **GOVERNORS' ELECTIONS**

**PERM VOTERS REPLACE IGUMNOV WITH TRUTNEV.** Perm Mayor Yuri Trutnev defeated Governor Gennadii Igumnov 51 to 35 percent in the region's 3 December gubernatorial elections, winning a five-year term. Turnout was 49 percent and 3.41 percent voted against all candidates. In general, Igumnov won in the rural areas of the oblast, while Trutnev won in the cities.

Igumnov probably lost the elections on 6 October when he unexpectedly announced that he was not seeking another term and called on Perm voters to support Trutnev, who was then running for re-election as mayor. Igumnov feared the unpleasant consequences of a corruption scandal that involved his daughter. Trutnev quickly launched a campaign (see *EWI Russian Regional Report*, 11 October). However, after the presidential administration made

clear that it still supported him, Igumnov jumped back into the race (see *EWI Russian Regional Report*, 18 October). However, at this point, Trutnev refused to end his campaign.

In an interview conducted before the election, Petr Shchedrovitskii, the head of the Center for Strategic Research for the Volga Federal District (headed by Sergei Kirienko), said that Kirienko's team worked to keep the contest from turning into a vicious confrontation. Their polling showed Trutnev leading 40 to 28 percent and predicted a runoff of between the two erstwhile allies. Shchedrovitskii thought that Trutnev was in a strong position for several reasons. First, Igumnov himself had recommended him to the voters. Second, Igumnov ran a poor campaign in which no one was clearly in charge. Third, Igumnov made several critical statements denouncing Trutnev, contradicting the governor's image as a solid and reserved politician. To his credit, Igumnov did retract a suit that he had filed against Trutnev in the oblast court.

Shchedrovitskii said that Kirienko sees three centers of growth in the Volga district: Samara in the south, Nizhnii Novgorod in the center, and Perm in the north. Kirienko's team is pleased with the results of the Perm elections because its members believe that stable growth will now continue. While the presidential administration had officially supported Igumnov, it had nothing against Trutnev. Kirienko's team believes that Perm will be the center for natural economic integration with surrounding regions. - Grigorii Volchek in Perm

#### **KRASNODAR ELECTS KONDRATENKO'S HAND-PICKED SUCCESSOR.**

Governor Nikolai Kondratenko's hand-picked successor Aleksandr Tkachev won 81.79 percent of the vote in the 3 December gubernatorial elections in Krasnodar Krai. Turnout was 46.77 percent, less than in the 1999 State Duma elections and March 2000 presidential elections, and 6.81 percent voted against all.

Tkachev, 40, began his political career in 1986 as the first secretary of the Vyselk ov Raion Komsomol. In 1993, he set up the Agrokompleks firm, serving as its director until 1995, and chairman of the board since then. He was elected to the krai legislature in 1994 and the State Duma in 1995. He was reelected to the Duma in 1999 and became the chairman of the Committee on Nationalities. When Kondratenko decided to retire, he named several potential successors and only Tkachev agreed to run. He won as Kondratenko's successor and with the support of the leftist Popular Patriotic Union of Russia, led by Communist Party leader Gennadii Zyuganov, who visited the krai on the eve of the elections.

Kondratenko naturally will cooperate with Tkachev in all aspects of the transition. He has not yet accepted Tkachev's offer to serve as Krasnodar's representative in the Federation Council and is considering teaching at the local agricultural university.

In the Krasnodar mayoral elections, the pro-Kondratenko candidate Nikolai Priz leads going into the 24 December runoff with 43.42 percent of the vote. A raion court in the city removed incumbent Mayor Valerii Samoilenko from the race after Sergei Yeshchenko, a member of Kondratenko's Otechestvo party, filed a case complaining that he had violated federal and krai laws in more than fifty instances. The presidium of the krai court rejected Samoilenko's appeal on 1 December (*Kuban segodnya*, 2 December). Samoilenko had led the opposition to Kondratenko in the krai. - Ariadna Popova

**ASTRAKHAN'S GUZHVIN WINS IN LANDSLIDE.** Astrakhan Governor Anatolii Guzhvin won a decisive victory with 80 percent of the vote in his region's 3 December election. The Kremlin supported Guzhvin and the Communists did not even bother nominating an opponent, calling on voters to mark "against all" on their ballots (*Kommersant Vlast*, 21 November).

Gazprom is the major player in the oblast economy because the region boasts Europe's largest condensed natural gas deposit. There are also large oil deposits on the Caspian shelf. The energy companies supported Guzhvin. The region is in an extremely lucrative location, connecting European Russia with Central Asia, India, Pakistan, and Iran.

**RUSSIA'S ONLY FEMALE GOVERNOR LOSES IN KORYAK.** Koryakgeodobycha Director Vladimir Loginov defeated Governor Valentina Bronevich 54 to 31 percent in the Koryak Autonomous Okrug's gubernatorial election on 3 December. Bronevich had been the only female governor in Russia until her loss. Loginov is the "platinum king" of the okrug, which supplies 30 percent of Russia's platinum supplies. The local press gives him mixed reviews, variously describing him as an "authoritative oligarch" or "a manager who cares about his land" (*Kommersant Vlast*, 28 November). Besides platinum, his company mines gold, silver, and other valuable metals. The company is extremely important for the region at a time when public officials struggle to provide such necessities as home heating. In these conditions, businesspeople like Loginov wield great power because of the resources they command. Loginov had the support of Koryak's State Duma deputy Rafael Fimalov.

**ARKHANGELSK'S YEFREMOV FACES RUNOFF AFTER SQUEAKER.**

Arkhangelsk Oblast Governor Anatolii Yefremov fell just short of the 50 percent required to avoid a second round in the 3 December elections. He won 49 percent to former Oblast Prime Minister Nikolai Malakov's 32.3 percent. Yefremov had fired Malakov in September for failing to properly prepare the region for winter (*Izvestiya*, 5 December).

Many in Arkhangelsk believed that there was no alternative to Yefremov and assumed that he would win in the first round. Moscow's attempts to support a prominent person from Arkhangelsk working in the capital as an alternative always proved unsuccessful. As a result, only Malakov was interested in competing in the race.

Malakhov built his campaign around the idea of defending Arkhangelsk's rich oil, forestry, and diamond resources from the "oligarchs," particularly LUKoil. He charged that "today they sell all of Arkhangelsk's resources to LUKoil and representatives of this company are sitting in the oblast government." Malakhov claimed that LUKoil used the resources in its own interests rather than those of the residents of the region. He warned that LUKoil would eventually run the region and the governor would essentially become a figurehead "wedding general." Interestingly, Malakhov himself receives financial support from another oligarch, Boris Berezovskii, who is interested in Arkhangelsk's natural resource wealth and had financed several campaigns in the summer elections to the oblast legislature.

With no candidates running with the clear support of the Kremlin, Yefremov launched his campaign in a relatively propitious situation. While the presidential administration did not support Yefremov directly, it essentially remained neutral, a valuable gift for the governor. In



exchange for promised support in extracting natural resources, LUKoil and Gazprom strongly backed Yefremov, as did Anatolii Chubais. On the eve of the election, Gazprom Chief RemVyakhirev visited the region and promised to build two drilling platforms. Prime Minister Mikhail Kasyanov also arrived to study the forestry sector. LUKoil President Vagit Alekperov said that his company would invest 5 billion rubles in the region in 2001. In order to keep all of his allies, Yefremov had the tricky task of satisfying the presidential administration, energy companies, and electricity utility even though they sometimes had conflicting interests. Yefremov also had the support of local coal companies, the association of industrialists, and other governors such as Tatarstan's Mintimer Shaimiev and Murmansk's Yuriy Yevdokimov.

Yefremov was a strong supporter of Moscow Mayor Yuriy Luzhkov's Otechestvo party in the 1999 State Duma elections and Luzhkov returned the favor this year. The political council of the party backed Yefremov in the campaign.

However, Yefremov's popularity is constrained by the fact that the people's feeling of well-being does not match the economic potential of the region. In fact, life is very difficult in Archangelsk. Yefremov has been in office for more than four years and made little progress in addressing this problem. - Anna Arkhangelskaya in Arkhangelsk

**STAVROPOL'S CHERNOGOROV LEADS AFTER FIRST ROUND.** Governor Aleksandr Chernogorov won 28.58 percent of the vote on 3 December. He will face the former chairman of the Krai government Sergei Ilyasov, who won 19 percent of the vote, in the runoff on 17 December. There were 13 candidates overall (an unusually large number), with four being competitive. Stavropol Mayor Mikhail Kuzmin (17.55 percent) was just short of Ilyasov. Krai State Duma Chairman A. Shiyanov (13.36 percent) did not enter the race until it was almost over, losing valuable time to bolster his support. Local observers believe that the large number of candidates was confusing for voters and turnout was an unexpectedly low 46.73 percent, according to preliminary data. More than 6 percent voted against all.

The main battle was for who would face Chernogorov in the runoff. Both of the candidates in the runoff were the target of lawsuits filed during the race, but the courts did not remove them, as had happened in Aleksandr Rutskoi in Kursk. Candidate Vasilii Krasulya charged that Chernogorov had misrepresented his property holdings in his declaration. The court ultimately backed Chernogorov, but the scandal did not boost his public image.

The outcome of the runoff will likely be determined by how Kuzmin and Shiyanov's supporters vote. They will seek the lesser of two evils from among the remaining contenders.

Chernogorov's performance reflects his sagging fortunes in the krai, which borders on Chechnya and has been affected by the on-going war there. In the 1996 gubernatorial elections, he won 47.8 percent of the vote in the first round. Now 70 percent of the electorate wants to see someone else as the krai leader. - Olga Morozova in Pyatigorsk

**KAMCHATKA'S DEPUTY GOVERNOR TO FACE COMMUNIST IN SECOND ROUND.** Like Krasnodar's Nikolai Kondratenko, Kamchatka Governor Vladimir Biryukov decided not to seek another term, throwing his support behind Deputy Governor Boris Sinchenko. In the first round, Sinchenko won 28 percent to local Communist Party leader

Maksim Mashkovtsev, who won 20.5 percent. The Kremlin did not make clear its preferences in the race.

The main issue in the campaign is supplying heat to residents' apartments and Sinchenko used as much of the administration's money and influence as possible to do this. Additionally, he used the media to explain to voters what he was doing. He also tried to blame many of the problems on the city administration (*Rybak Kamchatki*, 9 November). However, as the representative of the administration, many of the voters held him responsible for their frequent loss of light and heat (*Vesti [Kamchatka]*, 2 November). By November, he had made little progress in resolving these problems and even had trouble collecting enough signatures to register.

The Communist Mashkovtsev ran on a practical, rather than ideological, program. He said that he accepted the fact that the majority of Russians did not support Communism. However, most doubted that Mashkovtsev would be able to implement his program because he had little managerial experience.

**IVANOVO GOVERNOR'S SUCCESSOR NEEDS ANOTHER ROUND.** After Ivanovo Governor Vladislav Tikhomirov declined to run for another term, his appointed successor Aleksei Golokov, the current head of the oblast government, is badly trailing local Communist leader Vladimir Tikhonov 32 to 49 percent in the first round of voting. The oblast electoral committee refused to remove Golokov from the race despite accusations that he had improperly used the advantages of his office to win (*Nezavisimaya gazeta*, 2 November). Golokov filed complaints against Tikhonov, but the commission also refused to remove him. The visits of Boris Nemtsov, Boris Gryzlov, and Vladimir Zhirinovskiy were not sufficient to boost Golokov's ratings. Even the local business elite, largely based on the region's textile industry, did not provide its full support. Although formally backing Golokov, the industrialists were largely inactive during the campaign. As the head of the oblast government, Golokov was in charge of keeping houses supplied with heat and electricity. Numerous recent blackouts have made him unpopular.

**RYAZAN GOVERNOR TAKES SOLID LEAD IN FIRST ROUND.** Ryazan Governor Vyacheslav Lyubimov won 45 percent of the vote in the first round of the 3 December elections, with his closest opponent, businessman Valerii Rymin scoring only 12 percent. Lyubimov defeated the Yeltsin-appointed governor in 1996 and the Kremlin would like to remove him from office, but admitted that such a possibility "was hardly possible (*Kommersant Vlast*, 28 November)."

**DEAD HEAT IN THE KOMI-PERMYAK OKRUG.** Komi Permyak Governor Nikolai Poluyanov trailed Deputy Chairman of the Perm Oblast Audit Chamber Gennadii Savelev 25-26 percent, in the region's 3 December elections. LUKoil, which has an effective monopoly on the local market, and most of the local elite stand behind Poluyanov. He also had the support of Perm Governor Gennadii Igumnov, who was defeated on 3 December. Savelev had the backing of the region's State Duma deputy, Andrei Klimov, who was once an ally of Poluyanov,

but split with him after being elected to the State Duma in December 1999 (see *EWI Russian Regional Report*, 3 May).

Dmitry Anfalov, the deputy speaker of Sverdlovsk regional Duma and one of the leaders of the Mai movement was disqualified from the race less than one day before the election (on Anfalov, see *EWI Russian Regional Report*, 29 November). After meeting for 10 hours, the Komi-Permyak Okrug court ruled that he had committed several legal violations during the campaign. Anfalov entered the race at the last minute and was considered a serious threat to Poluyanovl. Anfalov plans to contest the court ruling and election results (<http://www.regions.ru/news/379250.html>).

**MARIJ EL PRESIDENT JUST BEHIND CHALLENGER.** Marij El President Vyacheslav Kislitsyn finished just behind Rosgosstrakh Deputy General Director and Liberal Democratic Party of Russia member Leonid Markelov, 26.7 to 27.6 percent, in the republic's 3 December presidential election. The Kremlin actively opposed the reelection of Kislitsyn, charging him with misusing federal funds, ruling in an authoritarian manner, and appointing many people with a criminal past to high office (*Kommersant Vlast*, 28 November). However the Marij El Supreme Court refused to remove him from the race, a la Rutskoi, just before the election because of alleged errors in his declaration on property and income. Kislitsyn tried to turn the Kremlin's opposition to his favor, seeking to arouse local sympathy in response to Moscow's protests. Kislitsyn will have trouble using administrative means to win in the second round because a team from Presidential Representative to the Volga Federal District Sergei Kirienko's office is closely following the campaign (*Izvestiya*, 5 December).

The defense industry makes up 80 percent of the republic's industry. Because it has been in decline the last few years, the republic has suffered economically.

## **CENTER-PERIPHERY RELATIONS**

**BASHKORTOSTAN PRESIDENT DEMANDS RIGHT TO THIRD TERM IN OFFICE FOR REGIONAL EXECUTIVES.** In the beginning of December, Bashkortostan President Murtaza Rakhimov announced that he might lodge a case with the Russian Federation Constitutional Court if the State Duma did not amend the relevant federal law on regional political institutions to allow krai and oblast governors and republican presidents to be elected for a third consecutive term (see article on the Duma's actions elsewhere in this issue).

Rakhimov added that federal efforts to legislate on this issue deprived the regions of their rights. He described such federal interference as part of the struggle against regional leaders who sought to defend their rights and independence. The republican president also posed the question, "If a leader performs excellently, why not allow him to continue leading?" He dismissed as groundless the arguments of a number of democratically minded parliamentarians, including Yabloko faction deputy Yelena Mizulina, that the proposed amendment "denied the people their right to change leaders." Rakhimov said he does not believe that the people's voting rights are threatened by leaders' rights to three terms in office: the electorate maintains its right to vote, choosing between the incumbent and rival candidates for office.

Rakhimov also pointed to differences in voting patterns between Russia and the West. In his opinion, Russian voters prefer the incumbent, provided that he has served well in office. For this reason, the republican president considers illegitimate the attempts in certain parliamentary circles to prevent regional leaders from trying to stay in office. Rakhimov pointed to Tatarstan President Mintimer Shaimiev as a perfect example. Shaimiev, in Rakhimov's opinion, "works beautifully, has excellent knowledge of the people and excellent indicators, and is still healthy and energetic." Rakhimov is a staunch defender of the practice in many regions of reelecting incumbent leaders, a practice he views as stemming from the local population's difficult living conditions and need for stability.

In the opinion of Bashkortostan State Duma Deputy Mikhail Bugera, the author of the contested amendment, the opposition planned to use the law in its current form to "seriously destabilize the situation in a number of regions, which currently enjoy a relatively stable system of government and an attractive investment climate." In order to halt to these plans, Bashkortostan deputies initiated the amendment to the law. Bugera said he believes that both the presidential administration and President Putin himself support the amendment. He recalled that at one meeting, Presidential Representative to the State Duma Aleksandr Kotenkov even said, half-jokingly, that the president was ready to serve as co-author of the bill. Bugera said that the presidential laws passed by the State Duma this summer already exert adequate pressure on regional leaders, and that the Kremlin is not interested in implementing further limitations, such as the two-term cap. What's more, he added, in multi-ethnic regions such as Bashkortostan, good interethnic relations are of the utmost importance. - Igor Rabinovich in Ufa

**POLTAVCHENKO MEETS WITH MAYORS IN CENTRAL DISTRICT.** On 28-29 November, Presidential Representative to the Central Federal District Georgii Poltavchenko met with mayors of the regional capitals and other large cities in his district, according to a Kursk Television (1 December) interview with Kursk Mayor Sergei Maltsev. After the general meeting, Poltavchenko met with each of the mayors individually. The press was not included in the event.

Poltavchenko's main purpose was gaining information from the mayors. He was particularly interested in the economic problems of the cities and the regions in general, interbudget relations between the oblast and city, the management of federal, regional, and municipal property, and the development of the social sphere in the big cities. Poltavchenko told the mayors that they needed to deal with two key problems: supplying heat and electricity to the cities, and making sure that city-owned enterprises were working.

Poltavchenko decided to discuss these questions with the mayors rather than the governors for several reasons. First, urban residents make up 35-60 percent of the population of regions (about 50 percent in Kursk). Second, urban-based enterprises are more profitable and therefore produce more tax revenue. Third, relations between the municipal authorities and the population are more direct than those of the governor with the population and the mayors deal with issues closer to people's lives. Finally, such meetings also demonstrated to the governors that the federal authorities could turn to other people in the regions besides the heads of the regional executive branches. Interestingly, Moscow Mayor Yurii Luzhkov also took part

in the session. He is only executive in the Central Federal District who simultaneously has the status of governor and mayor.

The participants in the meeting decided to create a district council that includes the mayors of the oblast cities. The council will have consultative functions, acting like a "State Council in miniature." If the council in the central district is successful, similar bodies will be set up in other federal districts. Additionally, oblast associations of cities (for example, in Kursk, Belgorod, and Voronezh) adopted a decision to join the Association of Black Earth Zone Cities.

Kursk Mayor Maltsev spoke highly of Poltavchenko, saying that he was not interested in intrigues as are most Moscow bureaucrats.

Poltavchenko's meeting with the mayors was unexpected. He more frequently meets with governors and the heads of federal agencies. Local government is usually not included in this grouping. If Poltavchenko wants to work with the mayors to achieve his goals within the regions in his federal district, it will be easy for him to do so. - Sergei Sarychev in Kursk

**KALMYKIYA LEADERS CRITICIZE PUTIN REFORMS.** On 24 November, Kalmykiya celebrated 80 years of its statehood. President Kirsan Ilyumzhinov and Speaker V. Bembetov spoke on this occasion. Overall they endorsed President Putin's federal reforms, but taken together their speeches noted some potential negative consequences. Ilyumzhinov supported the creation of the seven federal districts, saying that it strengthened the presidential "vertical" and brought real federal power closer to the regions. He also supported the idea of harmonizing all laws in the country.

While the president demonstrated his loyalty to the federal authorities, the speaker reflected some of the concerns of the republican elite, although in relatively muted tones. Bembetov agreed that "the redistribution of several functions of the center to the presidential representatives in the districts was based on the need to resolve certain issues." However, he wondered whether this move would have negative consequences for the recently developing practice of direct contacts between governors and the federal government to resolve pressing problems.

While expressing the hope that transferring functions from the center to the districts would strengthen Russian federalism, he did not rule out that the reform would simply increase the number of bureaucrats. He said that republican laws often violated Russian ones because Kalmykiya had to deal with a specific pressing problem or federal legislation simply did not deal with all the issues that the republic had to contend with. Another problem was that in many cases federal laws had many deficiencies.

Finally, Bembetov said that "the desire of several politicians to reshape the Russian Constitution in favor of the absolute unification of all regions of the Russian Federation, changing the administrative and territorial division of the country by expanding the size of the regions is alarming." He argued that "all this could lead to confrontation, and in the future to unpredictable consequences for the unity of the Russian Federation (*Izvestiya Kalmykii*, 28 November)." - Vladimir Volgin in Elista

## **PATTERNS OF REGIONAL DEVELOPMENT**

## **PRIMORSKII KRAI AUTHORITIES STEP UP ATTACKS AGAINST MEDIA.**

Under increasing pressure from the federal government, Primorskii Krai authorities once again adopted aggressive tactics toward members of the local opposition. On the morning of 5 December, members of the Vladivostok City Committee on Property Management (KUMI), backed by a private security agency, seized the headquarters of *Narodnoe veche* newspaper. One of the newspaper staff needed emergency care following their visit. The police and other law enforcement agencies did not intervene. Opposition Krai Duma deputies consider the event "a misuse of power by the krai and Vladivostok city administrations toward the newspaper over its article detailing the building of private suburban houses for bureaucrats."

The city officials seized the building early in the morning, before the working day had begun. The only person in the building at the time was an elderly woman on night duty. After trying to get her to open the door, the strong, young trespassers simply pushed her aside and locked the door. The newspaper's journalists, upon arriving to work, could not get into the building. However, the journalists, the majority of whom are women, climbed onto the roof, from where they entered the editor's office through a window. During the ensuing brawl with the security forces, *Narodnoe veche* Editor-in-Chief Mariya Solovenko's glasses were broken. Her colleague Inna Ibradimova received such a "sound thrashing" that she required medical assistance.

The men who seized the building represented themselves as members of the Vladivostok KUMI, but refused to show any form of identification. They explained their actions by saying that, according to their information, the building, "having been empty, had been turned over to the Export Security Agency." The newspaper's managers showed their rental agreement and related documents to the trespassers and demanded that the matter be resolved by a judge, in accordance with the law. The trespassers ignored them.

Turning to law enforcement officials proved fruitless. Policemen went to the scene, where they threw up their hands, saying "Our job is to maintain order." The krai procurator's office said, "This is not a matter for the procurator." The journalists were left one on one with the trespassers.

The next day, an assassination attempt was made against another media representative: Dalpress General Director Maya Shchekina, Primorskii Krai's top official in the printing trade. Observers do not rule out the possibility that the attack was political in nature. At 8:10 am, Shchekina exited her elevator on her way to work. Two attackers opened fire on her from Saiga smoothbore firearms. Shchekina's bodyguard was shot in the stomach, and Shchekina received serious injuries to her face and the arm with which she protected her head.

This was not the first assassination attempt against Shchekina. In January of this year, a grenade was wired to the door of her apartment. Neighbors discovered the bomb before it could go off.

Observers expect tension to increase in Primorskii Krai on 7-8 December, the dates of the next session of the Krai Duma. The agenda for the session includes an item on residential heating measures for the region this winter, an extremely controversial topic in the krai. A group of opposition deputies plan to demand that Governor Yevgenii Nazdratenko resign and that the president govern the region directly. - Oleg Zhunusov in Vladivostok

## **FEDERAL AUTHORITIES CRITICIZE NEWLY REELECTED PSKOV LEADER.**

Unexpected federal criticism darkened the ceremony inaugurating Pskov Governor Yevgenii Mikhailov's second term at the end of November. First Deputy Presidential Representative to the North-West Federal District Aleksandr Kuznetsov dryly congratulated Mikhail and then launched into a stern overview of his first term, charging that the regional leadership's activities in the past several years had placed the region in last place in the NorthWest Federal District. Kuznetsov said that Mikhailov was personally responsible for changing the status quo. Thus, the Kremlin made clear that it was not particularly happy with Mikhailov, who won the single-round elections with only 28 percent of the vote, the opposition paper *Panorama* reported.

Mikhailov is not doing well in his efforts at the federal level. In October he had asked the Constitutional Court to give governors the power to fire the regional head of the tax police. Local observers believe that he wanted to remove the Pskov inspector, Gennadii Podznoev. Among the reasons that he sought his ouster: the tax police did not stop investigating the businessman Vladimir Blank even after he was appointed deputy governor, a position from which he headed Mikhailov's campaign team. Additionally, Podznoev named Agrospiritprom the largest tax debtor in the region in mid-November. He claimed that the plant owed 2.2 million rubles and it was not clear what had happened to this money. It is well known that making the alcohol plant work is the only accomplishment of Mikhailov's administration and provides a significant source of revenue for the oblast leadership. By investigating it, the tax police threaten the very foundation of the governor's power.

According to federal law, the republics already had the power to remove inconvenient tax police chiefs and Mikhailov wanted it for the oblasts and krajs. However, on 28 November, the Court rejected the case, saying it was a matter for the federal legislature to decide. Presumably, Putin and the State Duma will rewrite the law to take this power away from the republics as well.

Following his reelection, Mikhailov had to give up his seat in the Federation Council. Pskov does not have an effective lobby in the State Duma. The representatives from the region there are Mikhailov's opponents, independent Mikhail Kuznetsov and Communist Vladimir Nikitin. Mikhailov's only ally is Yedinstvo deputy Igor Dines. - Andrey Shcherkin in Pskov

## **ETHNICITY ISSUES**

**DAGESTAN'S MAKHACHEV DISBANDS AVAR NATIONAL MOVEMENT.** At a 28 November press conference, State Duma Deputy Gadzhi Makhachev announced that he was closing the Avar national movement, which he headed, and called on the leaders of other national movements in Dagestan to do the same. Once the leader of the most powerful nationalist organization in the republic, Makhachev said his decision was necessary to preserve stability in the multi-ethnic republic. Dagestani groups began setting up national movements ten years ago, claiming then that they were necessary to preserve stability in the republic.

However, the declared and actual reasons for setting up ethnic movements in the difficult times at the beginnings of the 1990s never coincided. The slogans of "saving languages and cultures" generally masked the intentions of the leaders, usually former sportsmen, to go into

business and push the former Soviet elite from the market.

Further evidence of the political and economic, rather than cultural, goals of the groups is clear from the fact that the Dargins, the second largest ethnic group in Dagestan, never had a national organization. They are considered the "party of power" in the republic.

The national organizations were most active in the early nineties, when there was a vigorous redistribution of influence in the region. Makhachev, then the director of Rosneft-Gosneft and a former wrestler, became the head of the Avar movement. Another wrestler and current State Duma member, Ruslan Ashuraliev, became leader of the Lezgin movement Sadval. Karate enthusiast Magomed Khachilaev, killed less than a month ago by his former body-guard, headed the Lak movement Kazi-Kumukh.

Khachilaev's Lak movement is a good example of what the movements were like. Khachilaev took over in 1992. The cultural goals of the movement quickly became political given the problems of the Lak people. In 1944 the Chechen population of the former Aukkhovskii Raion of the then Checheno-Ingush region was forcibly sent to Kazakhstan, and 30,000 Laks were resettled in the area, which became the Novolakskii Raion of Dagestan. One third of the new residents died in the first year of life in the region. In the early 1990s, problems, which had been unresolved for nearly 50 years, appeared again in the form of meetings and conflicts between Laks and Chechens. In the absence of any state action, the brothers Nadir and Magomed Khachilaev stepped in. The representatives of the Lak movement sought their help, believing that without a "strong hand," they would not be able to solve their problems.

The new national leaders understood that for them to achieve what they wanted, they would have to become political leaders. They could only do this by registering a popular movement and demanding sovereignty. Other national leaders took similar steps and numerous national organizations were set up in the early 1990s.

The fight between the ethnic movements and the inherited Soviet-era establishment came to an end in 1994 with the introduction of a new constitution that gave proportional representation to the 14 major ethnic groups of the republic. The legislature was thus divided along ethnic lines and each of the different groups got a piece of the pie in terms of specific ministries and sectors of the economy. All of the ethnic leaders of Dagestan secured a place in the republic's political elite and won a spot in the republican legislature.

Since the beginning of the 1990s, the national movements have completely outlived their usefulness. They served only to secure public office for their leaders and work in their interest.

Many local observers view Makhachev's call to disband the national organizations in the interests of the republic's stability as the first step in his campaign to win the chairmanship of the Dagestan State Council, the top job in the republic, in June 2002. So far it is not clear how the leaders of the other movements will react. With Khachilaev's death, his movement is in a state of disarray. Since the national movements have little to gain by continuing to fight over the republic's resources, Makhachev's calls for unity may be heard. However, how long such a unity could last is unclear. In a multi-national republic like Dagestan, it is always easy to play the ethnic card, meaning that any unity would be paper thin. - Zaira Abdullaeva in Makhachkala

## **POLITICAL ECONOMY**



**BANKING FORUM HELD IN NIZHNI NOVGOROD.** On 28 November, an All-Russia Banking Forum devoted to developing the regional economy was held at the Nizhnii Novgorod trade center. The economy in Russia is currently enjoying an upswing, but domestic companies are nonetheless operating at only 70 percent of 1970-1975 production rates. Large, long-term investment is needed to renovate these companies properly, but so far it has proved elusive.

The banking sector falls far short of being able to meet industry's needs. Only 10 banks in the Volga Federal District have the necessary assets to develop independently, without outside investment or subsidization. The largest regional banks have assets totaling around \$100 million, with some \$40 million of that being their own capital. In contrast, the GAZ automotive company alone requires a minimum of \$500 million to launch a production line for a new model of cars.

The banking system is developing extremely slowly and it has yet to return to pre-August 1998 levels. There are a number of serious reasons for this slow pace, one of which involves federal legislation. At the forum, Presidential Representative to the Volga Federal District Sergei Kirienko said, "Space for banking activity has been created. Local legislation is being brought in line with federal legislation." But federal banking legislation, which was developed during a time when the banking sector was enjoying rapid growth, is not particularly liberal. At the time, its main goal was to protect clients from being taken advantage of by crooked bankers.

Kirienko's call for participants to consider amending federal legislation was echoed throughout the forum. Nizhnii Novgorod Oblast Governor Ivan Sklyarov suggested that a bank code be developed. State Duma Deputy Chairman of the Committee on Credit Organizations and Financial Markets Pavel Medvedev agreed that banking legislation must be honed, saying, "The president put forward one set of changes to banking legislation. The government put forward another. Some points contradicted each other. The State Duma members don't know what to do."

NBD Bank Managing Director Aleksandr Sharonov said that the biggest problem banks face involves increasing their charter capital. Russian investors are no longer interested in investing in banks' charter capital, as their potential profit would be subject to higher tax rates than profit on production, and the real sector in general is more profitable than the banking sector. Merging banks is not a solution to the dilemma, as under Russian legislation this process is time-consuming and difficult to implement.

In other countries that having experienced banking crises, state funds were used to recapitalize the banking system. The Russian practice under ARKO, the office set up to restructure credit organizations following the 1998 crisis, calls for saving a handful of companies in order to redistribute control over the most attractive assets.

Attracting foreign investment also has its limitations. Excessive foreign investment would mean that the state, for all practical purposes, would work with foreign banks rather than its own banking system. Foreign banks would then be in control of managing investment in the Russian economy. For the time being, according to Kirienko, the government's policy is to offer cheap loans to enterprises in promising sectors of the economy.

The banking forum demonstrated that, for the time being at least, opinions diverge dramatically on how best to support the banking system. The government's main focus is on helping the productive sector, not ensuring the survival of commercial banks. Central Bank First Deputy Chairwoman Tatyana Paramonova said that the heart of the problem lies in the lack of reliable clients who can guarantee that they will pay off their loans. Commercial bank leaders, in their turn, said that the main problems they see are dated legislation and low rates of capital investment. They have no complaints about their clients. - Yurii Rodygin in Nizhnii Novgorod

## **EASTWEST INSTITUTE PROGRAM WORK**

**MOSCOW CONFERENCE ON TRANSFRONTIER COOPERATION.** The EastWest Institute, the Council of Europe, and the European Commission Delegation in Russia hosted an international conference on "Transfrontier Cooperation and Sustainable Development in the Baltic Sea Region and Northwest Russia" on 21-22 November in EWI's Moscow office. Participants included former President of Finland Martti Ahtisaari, who is co-chairman of the EWI Board of Directors, Former President of Lithuania Algirdas Brazauskas, Russian Federation Deputy Prime Minister Viktor Khristienko, Council of Europe Deputy Secretary General Hans Christian Krüger, Head of the European Commission Delegation in Russia Ambassador Richard Wright, and a number of government officials and other leaders from throughout the Baltic region.

The participants discussed ways to promote transfrontier cooperation in the Russian Federation and shared their own experiences in implementing similar cooperative measures in Central and Western Europe.

The conference took place at a time when significant changes are occurring, both in the Russian Federation under the new leadership of President Putin and in the European Union, which has entered a new phase of European integration that will bring the EU's external borders closer to Russia. The combination of these two processes creates new challenges and opportunities for the people of the Russian Federation and those in neighboring countries.

Though transfrontier cooperation concerns all border areas of the Russian Federation, the participants focused on Russia's Northwest, which has the potential to become a "laboratory" for such cooperation. Transfrontier cooperation with the present and future members of the European Union should become an important element of Russia-EU relations, promoting a full and equal integration of the Russian Federation into the European political, economic and cultural space. Participants expressed their support of the EU "Northern Dimension" initiative as a good framework for promoting transfrontier cooperation with Russia's Northwest.

In this context, conference participants stressed that special attention should be paid to Kaliningrad. Kaliningrad could become a "pilot region" capable of demonstrating, in practical and tangible ways, the benefits of EU enlargement for the Russian Federation, its border regions, and its citizens. The participants expressed their wish that the EU Council of Ministers support this approach in their upcoming response to the European Commission's Communication on Kaliningrad.

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## BREAKING NEWS

**DUMA OVERRIDES FEDERATION COUNCIL VETO ON ADMINISTRATIVE CODE.** On 8 December, the State Duma overrode the Federation Council veto of the Administrative Code with 323 votes, well above the 300 needed for an override. In October, Chuvashiya President Nikolai Fedorov had warned that the code violated citizen's constitution

rights (see *EWI Russian Regional Report*, 1 November). For example, the law requires all citizens to carry internal passports when they are in public places. If Putin signs the bill it will go into effect on 1 March (*Vremya novostei*, 9 December)

**KAZANTSEV SEEKS TO INCREASE REVENUE FROM SOUTHERN DISTRICT ENTERPRISES.** Presidential Representative to the Southern District Viktor Kazantsev has set the task of increasing the tax revenue the state collects from enterprises in the southern district from \$3 billion to \$6 billion a year. Kazantsev plans to start with companies where the state owns at least 10 percent of the shares. He will delegate representatives to those firms who will make sure that they increase the amount of taxes they pay and make sure that the firms pay dividends to the state. Kazantsev's deputy for economic questions Viktor Krokhnal met with the heads of regional property funds on 7 December in Rostov to discuss how the state can manage its assets better. The group made a list of 50 companies in the Southern Federal District to which commissars will be delegated. Krokhnal said that the commissars will be professional managers who know the companies they are supervising and will defend the state's interests. The list includes 15 ports, 23 heat and electricity stations, and 12 oil and gas drilling complexes (*Vremya novostei*, 8 December).

**MOSCOW OBLAST, AEROFLOT SIGN COOPERATION AGREEMENT.** Moscow Oblast Governor Boris Gromov and Aeroflot signed a three-year cooperation agreement in which the airline agreed to invest \$50 million in the region to build a new Sheremetevo-3 terminal. The oblast is providing tax breaks for regional and local taxes. The terminal should be ready by 2003 or 2004 at the latest. Currently Sheremetevo-1 serves domestic passengers and Sheremetevo-2 serves international passengers. Passengers from the regions who are flying abroad through the capital must transfer between the terminals, which is an inconvenient 15-minute car ride. The new terminal is supposed to help reduce the transfer time. The overall project is expected to cost \$200-250 million and Aeroflot may contribute more. The parties are seeking outside investors. Gromov expects Aeroflot to pay some of its taxes in Moscow Oblast rather than the city of Moscow where the company is registered (*Vremya novostei*, 7 December).

**FIRST GOVERNOR VOLUNTARILY LEAVES FEDERATION COUNCIL.** Jewish Autonomous Oblast Governor Nikolai Volkov became the first governor to voluntarily resign from the Federation Council and appoint a representative in his place, the National News Service (nns.ru) reported on 13 December. Volkov appointed Igor Glukhovskii, the head of a Moscow-based firm, as his representative in the upper chamber. Saratov Governor Dmitrii Ayatskov had previously announced that he would resign from the Federation Council, but has yet to submit the required paperwork. The Federation Council is working on a new set of procedures that would allow governors elected to a second term to remain in the chamber until 1 January 2002. According to current rules, they must appoint a representative within two months of their election.



## RUSSIA'S JUDICIAL SYSTEM

**A LONG WAY TO GO IN ESTABLISHING EFFECTIVE COURTS.** With President Putin's emphasis on introducing a uniform set of laws across Russia, the country's leadership is paying new attention to the problems of the court systems and the judges who work for them. The current system is inadequate, but it remains to be seen if the president is interested in real reform. At the All-Russian Congress of Judges held 27-29 November, Putin and Supreme Court Chairman Vyacheslav Lebedev stressed how much had been accomplished during the last ten years. The tone of their speeches contradicted the reports from judges in the regions, who pointed out the poor conditions in which they work (*Vedomosti*, 28 November). While there has been progress over the last decade, a considerable amount remains to be done. Putin indicated that he preferred gradual change over radical reform (*Kommersant Vlast*, 5 December).

The Russian court system currently includes a Constitutional Court, courts of general jurisdiction, and arbitration courts, which focus on economic disputes. The State Duma now is considering legislation establishing an administrative court system, which would make it easier to convict regional and local authorities of abusing the privileges of their offices (see *EWI Russian Regional Report*, 29 November). Additionally there are charter (regional constitutional) courts in the regions, and military courts. Nine regions are experimenting with implementing a jury system. A system of bailiffs, created in 1997, works to enforce judicial decisions. During the last decade, the amount of litigation in Russia has increased dramatically as citizens and corporations see the legal system as potentially providing relief. Lebedev estimates that there are three times as many cases now as in 1994 (*Izvestiya*, 20 November). Veniamin Yakovlev, chairman of the Supreme Arbitration Court, said that arbitration courts now deal with twice as many cases as in 1995 (*Nezavisimaya gazeta*, 25 November). A system of justices of the peace is functioning in 33 regions to reduce the burden on the regular civil and criminal court systems.

There are many problems with Russia's judicial system. The most important is the lack of funding, according to Filipp Sterkin, the general director of the Supreme Court's Judicial Department (*Vremya novostei*, 28 November). Despite recent budget increases, there is still not enough money to address the courts' current needs. In 1998, the budget included 3.4 billion rubles for judges. In 2000, it rose to 7 billion rubles and will be 11 billion in 2001, according to current plans. However, Sterkin says that the system need at least 35 billion rubles to function at an acceptable level, a figure that is about 25 billion more than the government currently is willing to give them (*Vremya novostei*, 28 November).

The lack of resources opens the judicial system up to corruption and abuse, as judges make decisions to advance their own personal economic interests rather than apply the law. In particular, without federal financing judges must rely on regional or local authorities for things like office space, apartments, municipal services, and other necessities. They become beholden to the local authorities, who in turn gain the right to violate the law with impunity. It is no surprise that Moscow Mayor Yurii Luzhkov, whose city administration owns many of the courts' buildings, has never lost a case against the media in court. Yulii Nisnevich, Director of the Center for Legislative and Parliamentary Work, suggests that the money to cover the expenses

of the legal system should flow through the federal Treasury system, rather than through regional administrations (*Vedomosti*, 4 December). Despite the aid of local authorities, the conditions that many judges work in is shocking. In the regions, many court houses require major renovations and only 40 percent of Russia's judges have computers, meaning that 6-8 judges usually share one or two computers. The national electric utility has begun to shut off electricity to some court buildings because the occupants have not paid their electric bills in months. The federal government now is trying to cover all expenses for the judicial system in an effort to wean the judges away from the governors, but the problem is so widespread that it will be a long time before the federal government has enough resources to be the exclusive funder of the court system.

Even if the federal government is able to pay for the courts, the danger remains that it would simply use the courts as a weapon against the governors, rather than letting them assert judicial independence.

Another problem is the lack of legislation implementing in practice the general principles laid out in the constitution. In many cases, the judge serves as both the prosecutor and final arbiter, turning court cases into something closer to inquisitions. Many of these practices are inherited from the Soviet era and are particularly hard to eradicate.

Moreover, many existing laws are contradictory, particularly those dealing with property rights. As a result, legal battles can drag on indefinitely as one or another side puts forward new twists in its legal argument.

The lack of qualified personnel to staff the legal system further compromises the execution of justice in Russia. Good judges are drawn to higher salaries offered by private sector positions, leaving vacancies or less qualified judges in their place. The remaining judges must deal with ever-increasing workloads. There are currently 16,742 judges of general jurisdiction, at a time when 35,734 are needed. Russia has one judge for every 9,500 residents, while Germany has a judge for every 4,000 and England has one for every 3,000 (*Kommersant Vlast*, 5 December).

Judges' inability to deal with their workload slows the legal process considerably. At the Congress of Judges in November, Putin announced plans over the next ten years to double the number of judges at higher salaries. To attract better people, the job needs to be made more prestigious. Currently, the people who seek to become judges are often those who otherwise would not be able to secure an apartment or health insurance. A Moscow judge earns up to \$350 a month, while a good lawyer will earn no less than \$1,000. In the regions, judges earn between 1,500 to 5,000 rubles a month (less than \$200) and there are numerous vacancies. As a result, standards for hiring judges are low and many simply do not have an adequate knowledge of the law. Additionally, many of the older judges, having spent their careers in the Soviet system, have not been able to keep up with the changing times. German Gref's idea to replace lifetime tenure with mandatory 15-year terms has frightened many of these judges.

The strict division of courts into constitutional, general, and arbitral means that often individuals or corporations are bounced from court to court, with each court saying that the issue at hand belongs to a different jurisdiction. The addition of administrative courts is likely to make the situation even worse.

Even when courts reach a just decision, there is a strong chance that it will not be implemented. Before 1997, when the institution of bailiffs was established, only 20 percent of court decisions actually were implemented, according to Sergei Popov, the deputy chairman of the State Duma Committee on Constitutional Legislation and State Building. Since then he claimed that more than 60 percent of legal decisions are implemented (*Vedomosti*, 4 December). However, there are clearly not enough bailiffs to go around. Although the system requires 33,000 bailiffs, Russia currently employs only 7,500 (*Kommersant Vlast*, 5 December). In the past, the winner of a court case could have paid a private firm 10-50 percent of the settlement to actually collect it. Now the bailiffs perform this work, charging 7 percent from the party who refuses to implement a court decision.

Beyond the headaches it causes for Russian citizens, the Russian legal system is a big problem for foreign investors. "We constantly witness the scandalous injustice of the judges, particularly in the regions," Konstantin Konstantinov, a lawyer for Chadbourne & Parke told *Vedomosti*. He recommended that his clients avoid the Russian legal system if at all possible. - Robert Orttung

**SUPREME COURT CHIEF VISITS YEKATERINBURG.** In early December Supreme Court Chairman Vyacheslav Lebedev visited Yekaterinburg at the invitation of Presidential Representative to the Urals Region Petr Latyshev to participate in a conference of Urals procurators and oblast courts on the topic of bringing regional laws into line with federal norms. Lebedev said that the introduction of administrative courts in Russia would be important part of reforming the court system because their jurisdiction would not coincide with the administrative divisions of the country. Lebedev argued that the courts would be less reliant on regional executives and therefore more professional. During the first phase, there will be 230 federal judges and 700 support staff.

Lebedev said that all branches of the government should participate in addressing the region's legal problems. He said that Sverdlovsk Oblast had yet to adopt a law on justices of the peace and had not brought the oblast charter into line with federal legislation. He said that such an approach to the law aroused concern. Lebedev noted that establishing justices of the peace was necessary because they give citizens the ability to have their cases heard quickly. They also speed up the appeals process.

Lebedev raised the possibility that Sverdlovsk Oblast officials were purposely hindering the process of amending the oblast charter. One month ago, Sverdlovsk Governor Eduard Rossel said "in looking at the legislation, we have to look to see if we are losing power...our goal is not to give up our responsibilities." Lebedev believes that if the process is dragged out, it will be necessary to file a court case against the administration.

In many ways, Russia's legal rights have remained on paper. For example, the 1993 Constitution gives Russians the right to a trial jury, but it has only been implemented in a few regions. Lebedev agreed that judges often become dependent on the local authorities because of a lack of financing. Each year up to 100 judges are removed from the bench for various transgressions against the law. - Sergei Pushkarev in Yekaterinburg

## **GOVERNORS' ELECTIONS**

**KHABAROVSK: ISHAEV WINS DECISIVE VICTORY.** In Khabarovsk Krai's 10 December gubernatorial elections, Governor Viktor Ishaev won a commanding 88 percent victory. Ishaev's only opponent was personnel agency Director Svetlana Zhukova, whom Ishaev personally asked to run against him so that there would be more than one candidate in the race. Zhukova said that she hoped to win the next elections and used the free air time she received in order to advertise her business. She won 6 percent of the votes and 4 percent voted against all. Turnout was 46.45 percent. To ensure sufficient turnout, Ishaev organized a lottery with a minimum of 300 prizes like video cameras for voters (*Vremya novosti*, 6 December, gazeta.ru, 9 December).

**VLADIMIR: INCUMBENT WINS.** Communist Vladimir Governor Nikolai Vinogradov won more than 65 percent in his region's 10 December gubernatorial elections. He won about 70 percent of the vote in the 1996 elections as well. His opponent, Yurii Vlasov, who served as Vladimir governor from 1991-1996, won about 16 percent of the vote. Turnout was only 34 percent, suggesting that most people saw the results as a foregone conclusion (*Izvestiya*, 14 December).

According to *Nezavisimaya gazeta* (14 December), Vladimir is one of the better off regions in Russia and is among the top ten regions in terms of industrial output. Vinogradov had the strong support of local enterprises, including the Murom Plywood Combine, Kovrov Excavator Factory, and Vladimir Tractor, which even makes glass for submarines. Only five to six years ago, many in the region were unemployed. Now, even the local defense enterprises are doing reasonably well. Kovrov defense plants are making mini-tractors, thermostats for vegetable preservers, and sewing machines to produce footwear. Vladimir long ago stopped building large pre-fab apartment buildings and now constructs German-style single-family houses. Even tourism in the city of Suzdal is flourishing.

**BRYANSK: LODKIN WINS WITH 31 PERCENT.** Communist Bryansk Governor Yurii Lodkin, whom the Kremlin was eager to remove, won another term as governor on 10 December with 31.11 percent of the vote. The regional election law declares the winner the candidate with the most votes, so a second round is not necessary (*Nezavisimaya gazeta*, 14 December). Snezhka Poultry Plant Director Nikolai Denin came in second with 19.97 percent. Turnout was about 30 percent.

Lodkin faced a rather unusual field of candidates. There was another Yurii Lodkin, a Moscow Oblast pensioner, two Demochkins, and two Denins, after a third dropped out (gazeta.ru, 9 December). Yurii Demochkin, a Yekaterinburg businessman apparently seeking revenge because one of his former business partners was once arrested in Bryansk, added another Lodkin in the hopes that ignorant voters would accidentally vote for the false Lodkin, sapping the support of the real one. However, the governor's team also apparently joined in the fun, adding additional opposition candidates.

**KURGAN: GOVERNOR WINS SECOND ROUND.** Kurgan Governor Oleg Bogomolov won just over 50 percent of the vote to secure a victory in the runoff of his region's elections on

11 December. The Kurgan Oblast Duma, which was elected on 26 November with new members making up two-thirds of the body, supported Bogomolov. In the first round, voting in the main cities was characterized by a large number of protest voters and low turnout.

**KOSTROMA: GOVERNOR LEADS.** Communist Kostroma Governor Viktor Shershunov won 43.74 percent of the vote in the 10 December gubernatorial elections. He is well ahead of Kostroma Mayor Boris Korobov, who has 23.08 percent. The two will compete in a runoff later this month. Shershunov won about 70 percent of the vote in the oblast's rural areas and only trailed Korobov by 1 percent in Kostroma city itself. Korobov filed a suit seeking to have Shershunov removed from the race for electoral law violations, but the court rejected his appeal. (*Nezavisimaya gazeta*, 14 December)

**ETHNIC VOTE KEY IN MARI EL ELECTIONS.** Rosgosstrakh Deputy General Director and Liberal Democratic Party of Russia member Leonid Markov leads incumbent Vyacheslav Kislitsyn going into the 17 December runoff, 29.2 to 25.1 percent, for the Marii El presidency. Results of the first round in the 1996 elections were virtually identical to this year's, although in 1996 Kislitsyn emerged with a slight lead. As in 1996, the city of Ioshkar-Olya voted for Markelov, although his margin is more substantial this time around.

The most surprising factor in the elections is the role of Ivan Teterin, head of the Emergencies Ministry's North Caucasus Regional Center, whose political weight has only increased since he came in third (18.8 percent) in the 3 December first round. Those who voted for Teterin will need to choose between the run-off candidates, and how they cast their votes will most likely decide the election. Both Kislitsyn and Markov have met with Teterin, but the latter has yet to indicate a preference for either candidate. It must be noted that Teterin did extremely well in the elections, considering that just a month ago no one in the republic had ever heard of him. Teterin targeted his campaign toward the ethnic Marii population, a tactic that worked well. Raions inhabited largely by ethnic Marii voted overwhelmingly for Teterin. Yet the fact remains that the republic's ethnic Russian population is larger than its native population. The breakdown is: Russians 47.5 percent, Marii 43.3 percent, Tatars 5.9 percent, and Chuvash 1.2 percent, according to the 1989 census.

Even so, Teterin's emergence on the political scene has stirred things up remarkably. It was Teterin's campaign funders who were called into police headquarters and interrogated on the origin of their money. They were held for several hours and forced to sign incomprehensible documents. The supporters turned to Teterin, who spoke with the procurator and even held a press conference calling for an end to illegal police activity. No further incidents have occurred since then.

All in all, there was nothing unexpected about the results of the first round. Marii El Republic Minister of Internal Affairs Anatolii Ivanov, who was supported by Presidential Representative to the Volga District Sergei Kirienko, came in fourth with 9.4 percent of the vote. Mayor Veniamin Kozlov and Medvedevskii Raion Head Dail Shagiakhmetov received just under 5 percent each. And General Vladimir Ruzlyayev, the newcomer to the area who carried out the longest and most expensive campaign, came in last with only 3 percent.

Numerous federal and republican officials conducted investigations during the electoral campaign: the Russian Ministry of Internal Affairs' Department fighting organized crime and Department dealing with economic crime, the Presidential Administration's Oversight Department, the Audit Chamber, and the Presidential Representative to the Volga Federal District's Office. Kirienko, who visited the city of Volzhsk during the electoral campaign, said that he wielded no influence over the process. As for the checks his office engaged in, Kirienko deemed them standard operating procedure. Nonetheless, the presidential representative made no attempt to hide his opinion of Marii El's political leadership, saying that there was no crisis in the republic and that all its problems were the fault of the republican executive branch.

Kislitsyn and Markov will face a fierce battle for the presidency. Neither plans to back down. They have an old score to settle -- although ultimately it is the voters who will settle it for them. - Svetlana Zasloukina in Ioshkar-Olya

## **PATTERNS OF REGIONAL DEVELOPMENT**

**DESPITE MOSCOW PLAUDITS, NEW TYVA CONSTITUTION FAVORS REPUBLICAN PRESIDENT.** A new constitution has been published in Tyva. After a public debate, it will be put to republic-wide referendum. The authorities envisage this event as another in a series of victories for Tyvan democracy and a big step for consistency between regional and federal legislation. In fact, say experts, the new constitution, which largely reflects the Russian state system (down to its bicameral legislature), will concentrate power even more firmly in the hands of republican President Sherig-oola Oorzhak.

Presidential Representative to the Siberian Federal District Leonid Drachevskii likes to point to Tyva as a shining example of the art of bringing local legislation in line with federal. The Tyvan authorities have indeed decided that it is easier to scrap the old constitution altogether than amend its many inconsistencies with federal law. The republic was in the throes of a constitutional crisis all autumn. Just a few days ago, the final version of the new constitution was published in the official republican press. Its principle difference from previous drafts is that it passed -- although narrowly -- the scrutiny of the federal Justice Ministry. But in approving the document, the Moscow legal experts, who are unaware of the realities of life in the republic, have effectively given Oorzhak carte blanche to adjust the republican constitution to his personal vision of state power.

Oorzhak maintained careful control over the process of rewriting the constitutions from the very beginning. On 7 September, the pro-Oorzhak Velikii khural (the congress of the Tyvan people whose election had been declared invalid by the republican Supreme Court) appealed to Oorzhak to set up a constitutional commission. The next day, Oorzhak issued a decree announcing the founding of a commission of 25 people to develop a new version of the constitution. Oorzhak appointed himself chairman of the commission.

The commission was overwhelmingly stacked with bureaucrats and deputies loyal to the president. The version of the new constitution the commission proposed met Oorzhak's needs perfectly. For example, according to the new constitution, the office of the president will be dissolved, and the chairman of the republican government will head the executive branch. This way, the current president will hold onto his powers -- but as the chairman of government --

until the next elections, which are slated for 2002. There is absolutely no doubt that the current republican president/new head of government will wish to remain as the republic's chief executive, effectively seeking a third term. Since he will be seeking a new office, federal term limits will not apply.

The new constitution also calls for a bicameral parliament: 32 deputies in the legislative chamber and 162 in the chamber of representatives. Thus any law on the table will have to pass two readings by almost 200 deputies, then receive the president's signature. The president retains veto power, and the parliament needs a qualified majority to overturn it. The constitution also calls for a special constitutional court. The commission apparently did not believe that the procurator's office and the republican Justice Ministry could adequately address any discrepancies between republican and federal legislation. Perhaps, however, this office will succeed in noticing the many such discrepancies that do exist: for example, the fact that journalists from opposition publications have for several years now been unable to receive accreditation from the republican government.

It is not difficult to imagine the sheer cost of maintaining an enormous legislature in a small mining republic in which a helicopter is one of the main means of transportation. It is the Russian federal taxpayers who will support the plan -- Tyva's budget is already 93-percent subsidized by federal funds. The cost of the republic's government already exceeds its income from its own sources by 5 million rubles, and the administration has recently asked Moscow for more money. Now many additional items will be added to the budget.

There are essentially no profitable industries in the republic, a situation that is not likely to change in the foreseeable future. In other words, there are few prospects that the republic's tax base will grow. However, given that federal subsidies to the republic are scheduled to double next year to almost 2.5 billion rubles, it appears that there will be plenty of opportunities to spend budgetary funds.

The very existence of the constitutional commission is a serious violation of the law. It is no coincidence that the chief justice of the Tyva Republic Supreme Court and the republican procurator left the commission. Article 145 of the Tyva constitution (known as "the transition statutes") entrusts the illegitimate, pro-president Velikii khural with making changes to the constitution. The lawfully elected parliament (the Verkhovnii khural) is denied this same right in a special article. In this manner, parliamentary deputies who are not adequately loyal have been blocked from participating in the development of the republican constitution. They are only allowed to present it to the public for a general referendum, which of course they will do in order to save face. As for the "public debate," it will only serve as a means to make the final Oorzhak-approved changes to the document -- for example, to incorporate the illegally elected members of the Velikii khural into the new parliament. This will be the final step in establishing full presidential control over the republic. - Maksim Shandarov in Kyzyl

## **CENTER-PERIPHERY RELATIONS**

**NAZDRATENKO FILES SUIT AGAINST PULIKOVSKII.** Primorskii Krai Governor Yevgenii Nazdratenko last week filed five suits against Presidential Representative to the Far Eastern Federal District Konstantin Pulikovskii, claiming that Pulikovskii had damaged his

honor, dignity, and professional reputation. Nazdratenko said that the damage was done at Pulikovskii's press conference following his meeting with President Putin in which the presidential representative charged that Nazdratenko was the one mainly responsible for the energy crisis in Primorskii Krai (see *EWI Russian Regional Report*, 29 November). Pulikovskii responded that "In Primorskii Krai they still do not understand that a new era has begun. ... If there are problems with winter only in Primorskii Krai, that means that the krai leadership is responsible."

A court in Khabarovsk, where Pulikovskii's offices are located, will hear the cases. During his seven-year tenure, Nazdratenko has won dozens of similar cases. However, practically all of them were heard by Vladivostok judges and his targets were usually members of the local opposition media, not federal bureaucrats. Additionally, as *Komsomolskaya Pravda* pointed out, Nazdratenko has never sued a representative of the foreign press, whose publications often have been more critical than the reports of his local opponents.

Another distinguishing feature of this case is the size of compensation that Nazdratenko is seeking. Usually the governor asks for large sums from the journalists and donates this money to charities helping children. This time the governor only is seeking a retraction. - Yevgenii Popravko in Vladivostok

**DRACHEVSKII DISCUSSES PRIVATIZATION IN IRKUTSK.** On 8 December Presidential Representative to the Siberian Federal District Leonid Drachevskii met with a group of economists in Irkutsk. One member of the audience asked him whether he supported a process of "reprivatization or nationalization." Drachevskii noted that a new division of property would lead to a revolution. He said that it was necessary to write new laws to allow enterprises to function normally. These laws would be based on a general strategy for the country's development. He said that neither reprivatization nor nationalization would be acceptable as state policy.

Irkutsk Governor Boris Govorin was more categorical. He said "World practice has an answer to this question. In the transition from an administrative economy to a market, many countries turned property over to be managed by owners. If after a specific time, the enterprise did not work effectively, the owner was changed. These civilized norms should be adopted here. In our legislation, they exist in the law on bankruptcy. Unfortunately, this law has deficiencies. They allow the owner to act as a colonizer. It is necessary to develop legislation on bankruptcy and privatization taking into account real economic conditions." - Teleinform in Irkutsk

## **POLITICAL ECONOMY**

**ULYANOVSK MARKET TRADERS PROTEST NEW IMPUTED TAX ON RETAIL TRADE REVENUE.** On Monday, 4 December, entrepreneurs who sell goods in Ulyanovsk markets protested in front of the local House of Soviets. They demanded that a new oblast law levying an imputed tax on retail trade revenue not be implemented.

This law, which is slated to take effect on 1 January 2001, assumes that market traders will have annual revenue of 100,000 rubles. Assuming such a large income means that



entrepreneurs will be required to pay an imputed tax of some 2,000 rubles a month for each space they rent at the market. For most market traders, this is more than their monthly net profit. It is also over three times as much as the Finance Ministry's recommendation for the group of regions including Ulyanovsk Oblast. In contrast, in Tatarstan the assumed annual revenue is 23,400 rubles, in Chuvashiya -- 35,000 rubles, in Smolensk Oblast -- 30,000 rubles, and in Leningrad Oblast -- 42,000 rubles.

Head of the initiative group of Zaslviyazhskii market entrepreneurs Andrei Sharuev put together a list of demands for the legislative assembly. First and foremost, he requested that the implementation of the law be postponed. Sharuev also suggested that the estimated income be lowered to 24,000 rubles per annum. Individual entrepreneurs would then pay 350-400 rubles a month in imputed tax, which they are prepared to do.

The protest demonstrated that the various city and oblast commissions designed to support business do not enjoy authority among the traders, who unanimously supported Sharuev's suggestion to form an independent trade union to protect the rights of small and medium businesspeople.

The situation with the oblast law is complicated by the fact that there are no normal legal mechanisms to halt its implementation. Any decision to do so would need to be adopted and publicized at least a month in advance. Therefore, as Legislative Assembly Chairman Sergei Ryabukhin explained to the protesters, he approached Presidential Representative to the Volga Federal District Sergei Kirienko and Federal District Procurator Aleksandr Zvygintsev with the request that they make an exception to this rule in this case. Ryabukhin is currently running for governor with the Kremlin's support (1 November 2000). The exception would allow the deputies to either make changes to the law in favor of the traders before the new year or else -- and this is more likely -- put a moratorium on its adoption until 2002, which would allow ample time to prepare a more acceptable version.

In the meantime, the traders plan to tell the tax police that they will all go on strike until the situation is clarified. This will help them avoid incurring fines for not paying their January taxes in advance. The taxes are due by 15 December. - Sergei Gogin in Ulyanovsk

**YUKOS SIGNS AGREEMENT WITH BELGOROD.** YUKOS RM President Nikolai Bychkov signed an agreement on further cooperation with Belgorod Governor Yevgenii Savchenko on 6 December. YUKOS controls 80 percent of the petroleum products market in the oblast and said that there would not be any price increases in the near future. The main area of cooperation will be refurbishing existing gas stations and building new ones in the oblast.

In 2001, the company plans to build 40 gas station/convenience stores in the oblast, including 15 that will be equipped to fuel cars with natural gas. Each station costs about \$300,000 to build. Since much of the equipment for the new stations will come from Belgorod factories, YUKOS's total investment in the region will be about \$50 million. The agreement includes plans to build additional pipelines in the oblast as well as other social, ecological, and commercial projects.

The oblast is interested in the deal because it will create additional jobs. The oblast, which is currently experiencing a boom in housing construction, will provide up to 100

apartments a year to YUKOS workers moving to the region from the Russian far north. - Sergei Sarychev in Kursk

## **GOVERNOR'S PROFILE: YURI TRUTNEV, PERM OBLAST**

### **BUSINESSMAN TAKES POWER IN PEACEFUL REGION**

Perm Oblast is usually a peaceful region where there is little social conflict and decisions are made on the basis of consensus. Perm generally avoids the kinds of scandals common to its neighbor Sverdlovsk Oblast and therefore is rarely in the news.

Former Governor Gennadii Igumnov shattered that peace on 6 October 2000, when he announced that he would not compete for a second term as governor in the wake of a scandal surrounding his daughter, who had gone underground to avoid a police investigation of a case involving the embezzlement of \$1 million from Permenergo, the local electricity utility. State Duma Deputy Pavel Anokhin, a candidate for the governor's office and the owner of a small oil company called "Dan" that has ties to Sibneft's Roman Abramovich, touched off these events by calling for an investigation that ultimately led to the sacking of the oblast's procurator and police chief. Saying he no longer wanted to be involved in such "dirty politics," Igumnov called on the oblast voters to elect Yuri Trutnev, then mayor of Perm, as the next governor. However, Putin's administration quickly summoned Igumnov to Moscow and informed him that the president wanted him to seek another term. Igumnov then reentered the race. However, although he and Trutnev had long been allies, Trutnev did not want to halt the gubernatorial campaign that he had launched at Igumnov's request and Trutnev went on to win the race, receiving 51.10 percent of the vote in the 3 December 2000 elections. In refusing to withdraw, he told Igumnov that "I did not know that I was participating in a farce."

"Trutnev's team," his 10-15 closest business associates, came together during the mid-1980s, when he was working in the Komsomol. They joined the group of young people who then were the first to start working in the country's fledgling private enterprises (then called "cooperatives") and banks. In the early 1990's Trutnev set up the EKS International Trading Company in a room rented from a Russian banya and quickly became one of the most important of Perm's new wave businessmen. By 1997, the firm had 14,000 employees and 14 subsidiaries. It owns half of the shops and supermarkets in Perm, a city with about one million inhabitants. Although Trutnev's management of the company was not unquestioned, he gained valuable business experience during that time. In the early 1990s, Trutnev founded or joined the boards of many Perm commercial banks. After being elected to the oblast legislature in 1994, he quickly became an influential politician as the head of its main economics committee.

In 1996, Trutnev was elected mayor of Perm, partly because he was able to place his campaign materials in his stores. Usually the governor and capital city mayor of a region fight over how to distribute tax revenue generated in the oblast. However, Trutnev and Igumnov developed a system of "peaceful coexistence." Usually, the capital city in a region produces most of the tax revenue. Because he needs to win votes in the rural part of the oblast, the governor generally tries to spend some of this urban money on rural concerns. The mayor usually objects, arguing that the city's money should be spent on city residents. In Perm Oblast,

these arguments were resolved through personal agreement and usually in favor of the city. For most of the period between 1996 and 2000, the ratings of both Igumnov and Trutnev were high, with Igumnov winning most of his support outside the capital city and Trutnev the clear leader of Perm city. Trutnev was an effective mayor who could easily have won another term.

On his election as governor, local observers see great potential for the energetic, young leader. If he performs well, his backers believe that he could be appointed Russian prime minister by 2005.

### **Platform: Can-Do Businessman**

Trutnev scored an upset victory in the 1996 mayoral elections, defeating the incumbent, with the slogan "Strength. Confidence. Order." He stresses that he is a manager who does not follow any particular ideology. Like Igumnov, Trutnev favors "reforms" and "Putin."

Trutnev also has good ties with Moscow Mayor Yurii Luzhkov, the leader of the Otechestvo party and Yabloko leader Grigorii Yavlinskii. In 1999, Trutnev backed Luzhkov for president and clearly models his leadership on Luzhkov's style. Like Luzhkov, he gets the job done, even if it means violating a law here and there. Some observers suggest that he has some ties to the criminal world, but these accusations are too nebulous to be substantiated. In 1997, Trutnev signed a cooperation agreement with Yavlinskii. Despite these party connections, though, he is an independent with a pragmatic bent. As mayor he covered his bases by appointing representatives from Otechestvo and Yabloko as deputies.

### **Policies: Pro-Business Pragmatism**

Since there were few ideological differences between Trutnev and Igumnov, there are likely to be few policy changes from the pragmatic and pro-business rule Igumnov practiced. Trutnev is not likely to fire many people from the oblast administration staff or try to scare the local oligarchs, as long as they continue to pay taxes into the oblast's coffers. He will seek solid improvements in the oblast economy and social situation.

As mayor, he followed Luzhkov's lead in repairing many central roads and fixing the exteriors of buildings. He controlled most of the city press.

### **Home District: Consensus Decision Making**

Under Igumnov, there were consensus relations between the governor, oblast legislature, and key industrialists working in the region, LUKoil and Uralkalii. The enterprises supported Igumnov's election as governor in 1996. Trutnev knew his place as mayor. Everyone assumed that going into the elections, Igumnov would win another term as governor and Trutnev as mayor (polit.ru, 1 December).

In the December 1997 oblast legislative elections, candidates loyal to Igumnov in the "United Democratic Forces of the Prikame" bloc won 22 of the 40 seats (*EWI RRR*, 18 December 1997). During the elections for the speaker of the new assembly, former Governor Igumnov asserted his willingness to work with either Yevgenii Sapiro (the incumbent

speaker) or with Yurii 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, and is the current speaker.

LUKoil is an important force in Perm because it monopolizes the process of extracting and processing 10 million tons of oil a year in the region. (In 2000, Russia produced approximately 320 million tons of oil, according to *Izvestiya* on 9 December.) Local analysts believe that the head of LUKoil-Perm, Andrei Kuzyaev, will be a future governor of the region. Another source of wealth is the extensive potassium deposits. Tax revenue generated from the oil and potassium deposits make up half of oblast's budget. Income rose so much in 2000 that the regional legislature was able to provide 20 percent raises to civil servants twice (in July and October).

The local oligarch Dmitrii Rybolovlev controls the Ural FD bank, which in turn controls the potassium deposits at Berezniki (Uralkalii) and Solikamsk (Silvinit). Now he is fighting to hang on to the sites in a battle where one of his key opponents is Garri Luchanskii, who controls Latvia's Ventspils port, from which much of the potassium is exported. Rybolovlev and his allies are seeking to build a new port in St. Petersburg to avoid having to deal with Luchanskii (*Kommersant vlast*, 21 November).

EKS, which Trutnev ran until he became mayor in 1996, controls much of the wholesale and retail trade in the city. A critical article in *Rossiiskaya gazeta* (1 December 2000), described it as the "kind of monopoly that would not be possible in a normal economy." The paper claimed that Trutnev and allies at EKS tried to take control of the city's central market, one of the few outlets they did not already manage, but the move was blocked by then Governor Igumnov.

The regional authorities strongly support business and industrial development and the Igumnov's administration cultivated strong links with the new business and managerial elites. For its part, the business elite actively engages in regional politics, with representatives in both the regional assembly and the city дума as well as in the governor's and mayor's offices.

Despite the general unity among the business elite, there are cleavages among those who make their money from raw materials, manufacturing, trade, and banking. In 1997, the raw material interests were dominant and gained considerable influence over the region's elected officials by supplying generous campaign financing. The manufacturing elite is largely made up of the "red directors" who seek to reverse the course of reform and protect domestic industry. Their influence is minimal. Many of the traders have entered politics without giving up their primary occupation (*Zvezda*, 10 April 1997). Before the 17 August 1998 economic collapse, local bankers were losing influence to their Moscow colleagues. With the Moscow banks weakened, the Perm banks began to work together for their mutual salvation. To deal with the mutual debts problem, for example, in October 1998 several local banks set up a clearing center to service their financial obligations (*Kapital*, 23 September 1998).

Perm is generally politically stable at the mass as well as the elite level, with relatively few strikes and rallies. However, after some violence in April 1998, the number of protests seemed to be increasing. In May 1998, 100 coal miners blocked a major highway. In July 1998, about 300 pensioners spontaneously protested one-to-two month delays in their pension

payments in front of the oblast administration building. The delays are relatively short compared to other regions (*EWI RRR*, 30 July 1998).

The city is one of the most polluted in the country, and average life expectancy is only 52 years. On 14 December 1997 Perm was supposed to hold a referendum on whether to allow the local Kirov defense plant to set up facilities to burn off the fuel from decommissioned strategic missiles. The courts cancelled the vote at the last minute, but strong local opposition forced project organizers to consider working in Udmurtiya instead (*EWI RRR*, 18 December 1997).

### **Ties to Moscow: Close to Kirienko**

During his time as mayor, Trutnev developed good relations with Presidential Representative to the Volga Federal District Sergei Kirienko and his key assistants. Kirienko held the first federal district fair for social and cultural projects in Perm at the end of November 2000. The idea for such a fair came from similar events that were held in Perm to showcase important social projects. In an interview before he became governor, Trutnev supported Putin's creation of the seven new federal districts, claiming that they brought the federal government closer to the people and that "it became easier to work" (*Zvezda*, 6 October 2000). As mayor, he said that he had easy access to Kirienko and could discuss any problem, day or night.

Although the presidential administration supported Igumnov in the 2000 gubernatorial race, Trutnev had tacit agreements with Presidential Administration Chief of Staff Aleksandr Voloshin and Presidential Administration Deputy Chief of Staff Vladislav Surkov during the campaign. The administration will likely have little difficulty working with Trutnev.

Perm Oblast and the Komi-Permyak Autonomous Okrug signed a power-sharing agreement with the federal government on 31 May 1996, just before the presidential elections.

### **Relations with other Governors: Cooperation in Ethnic, Economic Issues**

As mayor, Trutnev played an important role in the Union of Russian Cities and became one of the country's most important mayors during his tenure.

Perm is a member of the Urals Regional Association, which is headed by one of Russia's most prominent regional leaders, Sverdlovsk Governor Eduard Rossel. It includes the republics of Bashkortostan and Udmurtiya, Komi-Permyak Autonomous Okrug, and Kurgan, Orenburg, Sverdlovsk, and Chelyabinsk Oblasts.

Although it is generally considered to be a Ural region, Putin included Perm in the Volga Federal District (headed by Sergei Kirienko) when he established the seven new federal districts in May 2000.

Perm has a large minority group of ethnic Tatars living on its territory. It has reached an agreement with the republic of Tatarstan over the treatment of these people.

Perm would benefit from the construction of a railroad link to Arkhangelsk through the Komi Republic. Komi leaders are working hard to make it a reality (*EWI RRR*, 11 June 1998).

- Compiled by Robert Orttung with reports from Grigorii Volchek in Perm

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Dear Readers,

The next issue of the EWI Russian Regional Report will appear on 10 January 2001. We wish everyone a happy holiday season and a productive new year.

RRR Editors

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## BREAKING NEWS

**NAZAROV WITHDRAWS IN FAVOR OF ABRAMOVICH.** Chukotka will elect its next governor on 24 December, and it seems that the leading candidate, Sibneft Director Roman Abramovich, will have no trouble securing victory. Incumbent Governor Aleksandr Nazarov withdrew from the race, apparently after Abramovich offered, if elected governor, to appoint him as his representative to the Federation Council, *Vremya novostei* reported on 18 December. Nazarov, who has headed the region for the last 10 years, believed that he was not likely to win the race. It remains unclear exactly why Abramovich wants to be governor of Chukotka. The region does have oil, but it would be extremely difficult to extract it and send it to market. It will also be a long time before the region's gold fields are profitable.

## LOCAL GOVERNMENT

**SIBERIAN MAYORS BLAME MOSCOW FOR PROBLEMS OF LOCAL GOVERNMENT.** The Council of the Association of Siberian and Far Eastern Cities met recently to prepare a united position on the eve of the All-Russia Congress of Mayors, which will take place in Moscow on 21-22 December. The group represents 20 mayors from the Urals to the Far East.

The mayors all concurred that the situation for local government is depressing. They pointed out that currently the Russian state lacks a policy aimed at developing local government, even though it is one of the main components of a civil society. In Russia there are 14,500 municipalities and they all are facing the same problem: insufficient funds prevent them from working effectively. The federal government has been withdrawing funds from the regional governments, which then pass on mere crumbs to the local governments.

Recently, federal legislation on local government has taken a turn for the worse, the mayors believe. The main problem is that the centralization of power is killing local initiatives. The Congress of Municipalities has not been able to carry out its main task: defending the rights of local government at the federal level.

"Unfortunately, the president of Russia has not defined his position toward this institution of civil power [local government]," Tomsk Mayor Aleksandr Makarov said. The lack of a clearly defined division of power between the levels of government hinders their development. "The main problem is that local government is not part of the system of state institutions," he said. In Russia, the state institutions are defined as the federal and regional governments.

The mayors unanimously agreed that it was necessary to improve inter-budgetary relations and create a unified economic space, which would include the regions and local governments. The mayors prepared a list of requests for the Congress, including the demand that local government's share in Russia's consolidated budget (federal, regional,

and local) should increase to 25 percent. Local government should also be given the ability to raise taxes on its own. The mayors believe that local governments should control taxes on corporate property, the land tax, 100 percent of rent payments for land, the unified property tax (once it is adopted), and the imputed tax on small businesses.

On the recently adopted law, which gives governors the power to fire some mayors, the mayors pointed out that it would be practically impossible to implement it if one tried to follow it to the letter. Moreover, the mayors argue that if they do not have the money to carry out their responsibilities, it is wrong to blame them for not doing so. It would be more democratic to give judges, rather than mayors, the right to decide if a mayor should stay in office, the mayors argued. - Teleinform in Irkutsk

**KOMI LOCAL GOVERNMENTS SEEK INDEPENDENCE.** On 11 December, the founding congress of the Association for the Development of Local Government was held in Syktyvkar. Only 25 people from five of the republic's 20 municipal councils took part in it. Nevertheless, this event was of great importance: for a long time now, members of the republican executive and legislative branches, most of whom represent the "party in power," have put the brakes on the development of local government. As the republic currently is home to a strict authoritarian regime, it is only logical that there be little room under the current set-up for independent local government.

The federal law on the main principles of local government came into effect in 1995. The analogous republican law was passed only three years later, but critics soon filed protests against it in court since it did not contain provisions on the direct popular election of mayors. According to republican law, mayors were to be elected at sessions of the municipal councils, after the republican president had identified an appropriate candidate. This procedure contradicted federal law, which does not allow for republican interference in the election of local officials. The courts upheld the protest and ordered that the local legislation be amended accordingly. However, in February 1999 the elections were held according to the old version of the law, with Komi President Yurii Spiridonov suggesting candidates and demanding that the people's deputies support his choice, which they did. This autumn, the legislature announced that it would amend the law on local government, but it has yet to do so.

Finally, municipal council deputies have been galvanized by the need to form their own political organization. The founding congress was organizational in nature, electing a council association and president: well-known businessman and Syktyvkar City Council Deputy Sergei Shalygin. The next congress will be held in February. It should be more representative, and organizers hope that deputies from all the republic's municipal councils and the republican state council, as well as citizen activists, will participate (*Respublika*, 14 December). The European Charter on Local Self-Governance holds that local government has the right and responsibility to make independent decisions to resolve local issues and defend the interests of the local population.

But in order to do so, local governing bodies require their own financial base and independence. In Komi, local government is financially and politically dependent upon the republican authorities. These issues must be resolved, but the question of whether the new organization can become an independent player remains. Up until now, the republican authorities have always either successfully blocked the attempts of apparently independent organizations to assert their independence, or else quickly brought them to

heel. This happened in the case of the Women's Chamber, the Citizens' Parliament, the Northern Change union of regional political organizations, and the Cooperation organization, which was formed to defend the interests of small business. It is clear that municipal council deputies will need to become serious political players before their organization will play an important role in Komi, but it is entirely possible that they will find this power -- after all, the municipal councils are full of opposition-minded deputies. - Yurii Shabaev in Sytyvkar

## **CENTER-PERIPHERY RELATIONS**

**ROSSEL CONTINUES TO OPPOSE LATYSHEV, PUTIN REFORMS.** Presidential Representative to the Urals Federal District Petr Latyshev and Sverdlovsk Oblast Governor Eduard Rossel remain at loggerheads. On 14 December, Rossel warned of a social crisis because of the new system for distributing funds between the center and regions. He claimed that "we will live worse next year than this year." He pointed out that due to changes in federal policy, the oblast could only count on hard-to-collect taxes, meaning that it would be difficult to pay the region's civil servants. He also warned that there would be no money to pay for gas and coal. Latyshev countered by asserting that "I do not see any pre-conditions for a social explosion."

The governor and federal representative are battling on a number of fronts. Latyshev's examination of 1,544 regional laws in his federal district determined that 306 of them violate the Russian Constitution and federal legislation. As a result, the regional procurators have filed 192 protests. Latyshev stressed that "either a unified legal space will be formed or the process will drag on forever. Russia cannot wait." Latyshev sees one of the greatest problems in the activity of the Sverdlovsk Oblast Duma. His team analyzed 157 Sverdlovsk laws and found federal violations in 81 of them. During the last two months, the Duma only has amended 22 of these laws.

Latyshev is also unhappy with the Sverdlovsk Oblast charter. The federal district procurator, Yurii Zolotov, has threatened to disband the Sverdlovsk Oblast Duma, which supports the governor, if it does not disband the governor's Security Council. However, despite the threats, the leaders of the Duma remain defiant. The deputy responsible for the charter said that "the interests of the procurator are not the same as the interests of the oblast." In a broadcast on Ekho Moskvy radio, Rossel said "I am not interested in Latyshev's reprimands." Local journalists claim that Rossel directly ordered nine deputies to ignore the procurator's protests.

Latyshev believes that these officials could be held criminally responsible. He said, "I think that it is not right even to talk about this. There is a legislative decision...If they do not bring the law into line voluntarily, then the court will rule, if they do not implement the court decision, then we will invoke criminal procedure. Therefore, whatever some official says about bringing local legislation into line with federal norms does not mean anything."

Rossel is starting to lose some of his power under pressure from Latyshev. Rossel's decree that oblast enterprises had to win the governor's approval to fire directors has been canceled. Nevertheless, the administration continues to assert its right to manage private factories directly. The presence of sectoral ministries in the oblast government

confirms this, particularly since there has not been anything similar at the federal level for a long time.

Latyshev also has won the support of some oligarchs. Vladimir Potanin has said that he would only be willing to invest in the Ural Federal District if it was able to bring local laws into line with federal norms. "Without this, we simply cannot invest," he said.

However, Rossel also has scored some victories. On 14 December, he signed a deal with the chairman of the Pension Fund, Mikhail Zurabov, so that the head of the pension fund in Sverdlovsk Oblast would be appointed and dismissed with the agreement of the governor. In this way, Rossel has gained a powerful lever over regional politics, particularly during election periods. Often the lack of pension payments constitutes one of the main complaints against a sitting governor. Currently several different agencies are responsible for distributing pensions in the region: the oblast branch of the Pension Fund, the oblast's Social Security Ministry, and partly, the post office. Starting from 1 January there will be a unified system for distributing pensions. Rossel signed a similar agreement with the State Property Ministry (*Kommersant Daily*, 15 December). - Sergei Pushkarev in Yekaterinburg

**PRIMORSKII LEADERSHIP ENDS COOPERATION WITH PRESIDENTIAL REPRESENTATIVE.** After filing suit against Presidential Representative in the Far East Konstantin Pulikovskiy, Primorskii Krai Governor Yevgenii Nazdratenko's administration withdrew consultant Viktor Klyushnikov from the staff of Chief Federal Inspector in Primorskii Krai Pavel Lysov. In doing so, the administration made clear that it was no longer going to put up the appearance of trying to cooperate with the presidential representative to the Far East.

Klyushnikov only had an hour to gather his belongings and leave his office. He had been responsible for the most difficult issue facing the krai, providing heat to homes during the winter. He gathered information about the situation and sent out letters seeking aid. Lysov described the growing conflict with the governor "as similar to a fight among children -- 'I am not going to play with you and am taking my toys.'" He said that "We worked well with Klyushnikov and helped each other. He himself was surprised and angered by the order to leave."

Although he worked on the federal representative's staff, Klyushnikov was paid by the krai administration. The krai authorities had ordered him to work with the federal officials because the Moscow representatives did not have enough money to support their new staff. As a result, "all three employees are in fact consultants, rather than full-time employees. The fourth, Klyushnikov, had been delegated by the administration to help out."

The divide between Nazdratenko and Pulikovskii became clear as soon as the latest energy crisis started. Pulikovskii blamed Nazdratenko for the fact that many homes in Vladivostok did not have electricity or heat. Lysov naturally supported his boss Pulikovskii.

The pro-gubernatorial media in the krai has launched a campaign to discredit Pulikovskii and Lysov. They have accused Pulikovskii of trying to take control of the region's most lucrative properties. Additionally, a letter from local mayors charged that Lysov "had done nothing to defend the krai's interests at the federal level." Initially, members of the governor's opposition had been unhappy with the appointment of Lysov,

charging that Nazdratenko had lobbied in his support. These latest events are only the latest round in conflict between the governor and presidential representative. - Oleg Zhunusov in Vladivostok

## **PATTERNS OF REGIONAL DEVELOPMENT**

**VOLGOGRAD GOVERNOR LEADS WITH LUKOIL SUPPORT.** Volgograd will choose its governor on 24 December. Governor Nikolai Maksyuta continues to lead the field, with about 35 percent of the popular support according to most of the opinion polls. This year he has down played his membership in the Communist Party and stressed the various economic successes of the oblast. LUKoil President Vagit Alekperov recently visited the region to support the governor and on 16 December Maksyuta met with teachers in the company of Russian Education Minister Vladimir Filippov, a Volgograd native. Filippov pointed out that the teachers in the region were receiving their salaries more or less on time. He compared the situation in Volgograd to the one in Omsk Oblast, where teacher salaries are often delayed by four to six months. The minister pointed out that Omsk has its own oil fields, which are being developed by Sibneft, the company supporting Maksyuta's main opponent in the elections, Oleg Savchenko.

Savchenko enjoys the support of 17 percent of Volgograd residents. The media backing all of the other candidates have teamed up against the "outsider" Savchenko because they see his backers, MDM Bank and Sibneft, as the greatest irritants in the oblast. Savchenko started the campaign by making nationalist appeals, but has had to change his tone when it became clear that such slogans were offensive to a significant part of the Volgograd electorate, which is traditionally tolerant.

Trailing just behind Savchenko is Volgograd Mayor Yurii Chekhov. His main trump card in the last week of the election is the reduced share for Volgograd city in the oblast's growing budget. Even though the Volgograd Oblast budget grew considerably in 2000, thanks largely to revenue generated in the city, the city's share of the oblast budget has been cut to a minimum. In 1999, the city's share of the oblast's consolidated budget (oblast and city) was 33.3 percent, in 2000 it was 28.6 percent and in 2001, it was 22.3 percent. Even though in absolute terms, the city will receive about the same number of rubles as last year, Chekhov made appeals for an "honest" division of the budget the theme of his campaign. The effect of this slogan is reduced somewhat by the fact that exactly one year ago, in the run up to the State Duma campaign, the city administration organized teachers, doctors, and municipal workers to picket in front of the oblast administration. Chekhov has significant support in the city, but almost none in the rural areas of the oblast.

If there are no surprises, Maksyuta will win a second term. However, many expect something to happen, citing the way former Kursk Governor Aleksandr Rutskoï was removed from his gubernatorial race at the last minute. Some also suspect that Savchenko and Chekhov may form a last minute alliance to elect Savchenko. Such a ploy would help Chekhov, a member of Yurii Luzhkov's Otechestvo, weaken the Communist Party in the oblast, thereby making additional space for his party. However, the mayor may take his chances alone, particularly since it is difficult to transfer voters from one candidate to another.

Polls show that about 5 percent of the electorate plan to vote "against all." Some voters have lost interest in the campaign because it is so obviously a battle between two financial-industrial groups rather than a contest between the candidates' political and social programs or their personalities. - Ivan Kurilla in Volgograd

**PUTIN SUPPORTS SUMIN ON EVE OF CHELYABINSK ELECTIONS.** President Putin visited Chelyabinsk Oblast on 9-12 December, just a few weeks before the gubernatorial elections set for 24 December. At first, since Putin was visiting Magnitogorsk rather than Chelyabinsk city, it seemed that he was not supporting Chelyabinsk Governor Petr Sumin. By the end of the visit, however, Sumin showed that he was pleased with the visit. Sumin said that he had discussed regional and national issues with the president, who was satisfied with the region's current 17 percent annual growth rate. Sumin also pointed out that Putin's rating is growing in Chelyabinsk. While 49 percent of the electorate voted for him in March 2000, now his popularity stands at 72 percent.

The main focus of the visit was the Magnitogorsk metal plant. Sumin denounced what he described as a major campaign by unidentified groups to discredit the plant on the eve of Putin's visit as part of an effort to secure ownership of the plant. The lucrative plant exports 70 percent of its products. Today the workers and firms associated with the managers own a controlling stake. The federal government also owns a significant stake. Sumin asked Putin to transfer a 23 percent share to the control of the oblast administration so that no outside group could take over the plant. The plant is extremely important to the oblast since it generates 30 percent of the tax revenues that make up the oblast budget and 30-35 percent of the oblast's industrial output. Putin promised to help, but did not specify exactly how the aid would be delivered.

Overall, during his visit, Putin did not make any statements about the course of the campaign or his opinions about any of the candidates. Sumin's main competitors, State Duma Deputy Valerii Gartung and First Deputy Governor Vladimir Utkin, did not win a real meeting with Putin and therefore could not use him in their campaign. This in itself was enough of a PR victory for Sumin. - Igor Stepanov in Chelyabinsk

**KOMI SPEAKER DISTANCES HIMSELF FROM EXECUTIVE.** On 8 December, Vladimir Torlopov participated in a national meeting of audit agencies at which Audit Chamber Chairman Sergei Stepashin asked him to join an organizing committee to create an association of audit agencies for the Russian Federation. This proposal has enormous political significance in the Komi Republic. Until now Komi has not had an independent auditing agency. Attempts to create one in 1995 and 1998 both failed because the republican parliament supported the executive branch. The executive had no interest in an audit agency that would oversee the way it spent public money.

However, the situation is now changing since the local press has reported that the speaker is seriously considering the creation of such an audit agency. After his meeting with Stepanov, Torlopov announced that "The first step has been taken (*Molodezh severa*, 14 December)." If the legislature takes up this question again, it will mean increased confrontation between the republic's executive and legislative branches.

There has been a noticeable cooling in relations between Torlopov and Komi leader Yurii Spiridonov in the last year. For example, they have opposing views on



Putin's reforms. The main cause for the change is the approach of the republic's executive elections next year. Spiridonov has already announced that he will seek a third term. Torlopov will likely oppose him. An audit of how budgetary funds have been spent could provide Torlopov a trump card in this battle. It does not matter if the other legislators support Torlopov in creating an audit agency. Just advocating the creation of one will serve his political purposes. - Yurii Shabaev in Syktyvkar

**KALININGRAD'S GORBENKO SEEKS TO REGAIN CONTROL OF PORT.** On 9 December, the day after Vladimir Yegorov was inaugurated governor of Kaliningrad Oblast, the Russian State Fishing Committee appointed former Governor Leonid Gorbenko as the head of the Kaliningrad Oblast fishing port, the job he held prior to being elected governor in 1996. According to current Russian law, Gorbenko has the right to return to his former job at the same level. Ironically, it was Chairman of the Russian Fishing Committee Yurii Sinelnik who signed the order. He opposed Gorbenko in the gubernatorial race and has been linked to the governor in a number of questionable dealings. The current port director, Vladimir Boichenko, who was supposed to keep the job until 2002, intends to protest the decision. As a result Gorbenko's actual appointment is on hold until a Kaliningrad court can rule. - Yekaterina Vasileva in Kaliningrad

**ULYANOVSK LEGISLATIVE BRANCH FACES DEAD END.** The second round of Ulyanovsk Oblast Legislative Assembly and Ulyanovsk City Duma elections, held 10 December, was declared invalid due to low voter participation. The elections averaged only an 18-percent turnout, and as a result only one of the six Legislative Assembly vacancies and two of the 15 City Duma vacancies were filled. Some observers fear that Ulyanovsk will share the fate of Vladivostok, which was unable to elect a city council for many years.

That the elections failed to produce results came as no surprise. The political intrigue surrounding the upcoming 24 December elections for oblast governor and Ulyanovsk city mayor captured the public's attention, pushing the Legislative Assembly and City Duma elections far into the background.

In the opinion of Political Scientist Nikolai Vasin, the general public is less aware of the importance and value of legislative branch elections than it is of executive branch elections. A few carefully prepared and staged measures could have attracted people to the polling booths on 10 December, but at this point such strategies are unlikely to have much effect.

Vasin also believes that two factors -- the fact that the legislative and executive branch elections were scheduled just two weeks apart and the sheer number of people running for office -- made it more difficult for voters to make informed choices during the two rounds of legislative branch elections. The only people who can be elected successfully in such a situation are those who are able to wage a strong publicity campaign from the very beginning of the electoral season. The vast majority of people running for office in the Legislative Assembly and City Duma, however, were not well-known in the region prior to the elections.

It also seems clear that some Legislative Assembly and City Duma deputies did everything they could to discredit the legislative branch in the eyes of the people.

First, City Duma Deputy Aleksei Skala, offended by his colleagues, left the Duma. The Duma then decided -- illegally -- not to hold pre-term elections to replace him. Then, this spring, another five Duma deputies, under pressure from the oblast administration, left office. (Two of them, Yurii Simanskii and Mikhail Uryasov, unsuccessfully re-ran for office later.) After losing these six members, the Duma no longer had a quorum and was required by law to disband. At the time, no one -- neither the Procurator's office, nor Presidential Representative Valerii Sychev, nor the Legislative Assembly -- lifted a finger to find a better way to resolve this situation. Their failure to do so is strange, given that the son of Ulyanovsk Oblast Governor Oleg Goryachev, who is a Legislative Assembly deputy, exerted a fair amount of pressure on the local administration. This sent a clear message to the Legislative Assembly to stay in line or beware the consequences.

In the end of November, several Legislative Assembly deputies who were dependent upon the oblast administration stopped attending its sessions, depriving the assembly of its quorum at a time when one of the items on the agenda involved making amendments to an oblast law on the imputed retail trade tax. As a result, the amendments, which would have supported private small businesses, were not passed, and the law will go into effect in its original form on 1 January. The market traders affected by the new law already have protested and announced a halt to their business activity (see *EWI Russian Regional Report*, 13 December).

Legislative Assembly Chairman Sergei Ryabukhin says that the assembly has been put out of work by a few highly placed bureaucrats, who have exerted political and psychological pressure on a number of deputies. He also blamed the oblast administration for cutting back on its financing for the Legislative Assembly at the beginning of the year and not paying deputies' benefits since April. All of this has undermined the authority of the legislative branch in Ulyanovsk, which has not taken the necessary steps to defend itself.

The Oblast Electoral Commission also bears some responsibility. By failing to hold pre-term elections to the Legislative Assembly at the same time as the presidential elections, it all but sealed its fate. Ryabukhin does not consider it coincidental that pre-term elections were not held on 26 March, the day of the presidential elections, which would have guaranteed a high voter turnout. He believes that the failure to do so may be traced to the fact that the oblast administration did not turn over the necessary funds to the electoral commission. As a result, the pre-term Legislative Assembly elections, which were finally held in June, failed due to low voter turnout.

Central Electoral Commission Chairman Aleksandr Veshnyakov, who visited Ulyanovsk 13-14 December, diagnosed the failure of the 10 December elections as a result of lack of coordination and cooperation between the city and oblast executive branches, which have been in conflict for four years now.

The next attempt to elect City Duma and Legislative Assembly deputies has been announced for 18 February. But if the authorities do not make a special effort to convince the population to vote, the people's next chance to elect a full-fledged legislative branch will take place only in December 2003, during the next round of State Duma elections. In addition, by ignoring local elections, the people are effectively robbing themselves: the region will have to hold elections until the City Duma and Legislative Assembly deputies are elected in full.

Lack of a legislative branch already has harmed the city executive: a number of budgetary documents cannot be adopted by the mayor without the City Duma's approval. In the words of Deputy Mayor Aleksandr Balandin, the procurator's office has begun to protest many of the mayor's recent actions for precisely this reason. The legislative machine may soon grind to a halt entirely. - Sergei Gogin in Ulyanovsk

## **MEDIA ISSUES**

**TVER INSPECTOR DEFENDS ANTI-GOVERNOR PAPER.** Last week Federal Inspector in Tver Oblast Vladislav Kosenko unexpectedly began to play a large role in the region's media. Under Putin, the Russian state is trying to play a more active role in regulating the media. However, at the national and regional levels, this phenomenon is multi-faceted and depends on the concrete relationship of the authorities and media. Sometimes the actions are so complex that it is difficult to figure out what the state interest is. Such conditions obtain in the case surrounding the newspaper *Tverskaya zhizn*.

For many years Valerii Kirillov has edited *Tverskaya zhizn*, advocating a national patriotic policy and criticizing all kinds of reformers. The paper constantly refers to the existence of an international conspiracy and its Russian supporters. Until recently one of the main sponsors of the paper was the oblast administration, even Governor Vladimir Platov was one of the founders of the Union of Right-Wing Forces and then Yedinstvo. Kirillov, who sometimes sides with the governor's most outspoken enemies, has long angered the governor. Recently he wrote a play about local life in which it is easy to identify the top members of the administration. A month ago the administration withdrew its support for the paper, condemning it to collapse from a lack of financial support because it was poorly run and had few subscribers. However, the paper's staff voted to turn itself into a publication that was wholly owned by the oblast administration.

Given that turn of events, it seemed that the governor would be in a position to fire Kirillov. However, the matter turned out not to be so simple because Federal Inspector Kosenko backed Kirillov, claiming that he expressed a patriotic point of view. Governor Platov does not want to spoil his relations with the center, although now it is not clear why the administration took the paper under its wing if it is not in a position to fire the editor. Kirillov can hardly see the administration as his ally. It is also not clear if Kosenko acted out of his personal preferences or if his actions were ordered from above. - Boris Goubman in Tver

## **GUBERNATORIAL ELECTIONS**

**VESHNYAKOV WANTS GREATER FEDERAL CONTROL OVER REGIONAL ELECTION COMMISSIONS.** The Central Electoral Commission is planning to make changes in Russian election legislation that would force all top-level elected officials (those in category "A"), including governors, to take a leave of absence when they are campaigning for reelection. Central Electoral Commission Chairman Aleksandr Veshnyakov made this announcement on 14 December at a meeting with Ulyanovsk politicians.

Veshnyakov believes that if governors seeking another term went on leave, it would reduce their ability to use the administrative powers of their office to gain

advantage over their opponents. During his visit, Veshnyakov suggested that Ulyanovsk Governor Yurii Goryachev take such a leave in the run-up to this region's elections, but Goryachev declined to do so.

Veshnyakov also proposed changing the way that regional electoral commissions are formed. Now the governor names half of the members of the commission and the regional legislature names the other half. Federal officials currently play no role. The result is that the regional electoral commissions are dependent on the incumbent regional authorities. Veshnyakov believes that the oblast election commission should be formed with the agreement of the Central Electoral Commission.

Veshnyakov also wants to change the law's provisions about the media. He would make it impossible for newspapers founded during the election campaign to participate in the elections and also remove papers that are printed abroad. - Sergei Gogin in Ulyanovsk

**NEW LEADER IN KOMI-PERMYAK.** Deputy Chairman of the Perm Oblast Audit Chamber Gennadii Savelev defeated incumbent Governor Nikolai Poluyanov, 46-40 percent, in their runoff in the Komi-Permyak Autonomous Okrug on 17 December. Turnout was 44 percent. Savelev's victory shows that even in Russia's poorest regions the political culture and consciousness of the population has changed to the degree that it will no longer forgive ineffective management by its leaders.

The campaign was extremely intense, which was a big surprise for the authorities and political observers. In general, the administration had been able to control all political processes in the region and blocked any attempt to form an opposition.

The okrug derives 80 percent of its revenues from federal subsidies. The two main sectors of the economy, agriculture and forestry, are in deep crisis. Of the 50 active collective and state farms, only five are profitable. The situation is not much better in forestry. There most of the plants have lost their former customers. In most sectors, people are rarely paid in "real money" and unemployment is extremely high. Living standards have been low for decades and the population has been shrinking since the 1960s. The remaining population is increasingly elderly.

In these conditions, the campaign basically became a referendum on the effectiveness of the oblast leadership. The first warning sign came in December 1999 when Andrei Klimov, a member of the Perm Oblast legislature who was critical of Komi Permyak Governor Poluyanov, was elected to the State Duma with an overwhelming majority. Initially, Klimov intended to run for governor himself, but then he decided to back Savelev instead. Before going to work in the Perm Audit Chamber, Savelev had served as a Poluyanov's chief deputy. Most likely, his election will bring few changes to the region because few consider him a powerful leader. Nevertheless, his election shows that people are interested in change. - Yurii Shabaev in Syktyvkar

**MARKELOV DEFEATS KISLITSYN IN MARI EL.** Rosgosstrakh General Director Leonid Markelov defeated Marii El President Vyacheslav Kislitsyn 58 - 33 percent in that region's elections on 17 December. Despite the views expressed in the Moscow-based media, Markelov is not the leader of the opposition in the republic. Rather, his decisive victory simply shows that the residents of the republic had become fed up with the criminal practices of Vyacheslav Kislitsyn.

Markelov is well known in the republic. The 37-year-old governor was elected to the State Duma in 1995 on Vladimir Zhirinovskiy's Liberal Democratic Party of Russia (LDPR) party list. In 1998, Markelov left the LDPR and set up his own republican political organization, Markelov's Bloc, which initially had Zhirinovskiy's support. However, when Markelov sought a Duma seat from a single-member district in 1999, Zhirinovskiy refused to support him. Markelov lost that election to Communist Ivan Kazankov and left the republic's political stage, taking a job in Moscow as the Deputy General Director of Rosgosstrakh.

Markelov was one of the last candidates to join the republican presidential race. Zhirinovskiy supported the incumbent Kislitsyn. In the second round, Yedinstvo supported Markelov with the primary goal of removing Kislitsyn, who was in opposition to Kremlin policies, from office. In the first round, the Kremlin had backed a different candidate. - Vyacheslav Zykov in Ioshkar-Olya

**STAVROPOL: COMMUNIST INCUMBENT WINS.** Communist Stavropol Governor Aleksandr Chernogorov won 56 percent of the vote in his hard-fought runoff against former Krai Prime Minister Stanislav Ilyasov (36 percent). Turnout was 43 percent.

Gennadii Zyuganov claimed that in 34 of the gubernatorial elections that have been decided this year, Communists or their allies won in 21 (*Nezavisimaya gazeta*, 19 December). However, his list includes elections like those in Arkhangelsk, where the Communists did not oppose the incumbent governor.

**ARKHANGELSK: INCUMBENT WINS.** Arkhangelsk Governor Anatolii Yefremov won 57 percent of the vote in his region's runoff on 17 December, defeating Nikolai Malakov (32 percent). Turnout was only 36 percent. (See *EWI Russian Regional Report*, 6 December)

**RYAZAN GOVERNOR WINS.** Communist Ryazan Governor Vyacheslav Lyubimov was reelected on 17 December, winning 65 percent of the vote in the runoff. His opponent, former Ryazan Mayor Valerii Ryumin, won only 26 percent. Turnout was 40 percent. (See *EWI Russian Regional Report*, 6 December)

**IVANOVO: COMMUNIST CHALLENGER WINS.** Communist State Duma Deputy Vladimir Tikhonov defeated Ivanovo Prime Minister Anatolii Golovkov in the region's 17 December gubernatorial elections, 62-33 percent. Ivanovo Governor Vladislav Tikhomirov decided not to seek another term and had backed Golovkov. (see *EWI Russian Regional Report*, 6 December).

**KAMCHATKA: ANOTHER COMMUNIST CHALLENGER WINS.** Local Communist leader Mikhail Mashkovtsev defeated First Deputy Governor Boris Sinchenko, 46-42 percent in Kamchatka's 17 December gubernatorial runoff elections. On the same day Communist Yurii Golenishchev was elected mayor of Petropavlovsk-Kamchatka. (see *EWI Russian Regional Report*, 6 December).

**REGIONAL RESOURCES**

**WEB SITE FOR PETR LATYSHEV'S URALS FEDERAL DISTRICT**

(www.uralfo.ru) - This site includes photographs, comprehensive information on the district's media outlets, a list of State Duma deputies from the district, and a short description (socioeconomic, historical, cultural, political) of the district's regions. The is also a list of the federal district staff. Some local journalists are not satisfied with Latyshev's press service, which they say is not only slow to issue press releases but also is lacking in strong conceptual material. The "contact us" page designed to provide users with access to Latyshev is not yet fully operational. - Sergei Pushkarev in Yekaterinburg

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