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**THE NEW FEDERATION COUNCIL**

*President Vladimir Putin's reform of the Federation Council took full effect on 1 January 2002. From the beginning of 1996 through the end of 2001, Russia's governors and legislative chairmen had served as the representatives of their regions to the national legislature's upper house. Now the regional executive and legislative branches must*

*appoint a representative to the "senate." In the articles below, the RRR continues tracking how the regional leaders are choosing their representatives.*

*In appointing their representatives to the upper chamber, Russia's governors are naturally seeking to improve their position in Moscow, but they are also working to strengthen their base within their own regions. To obtain more resources from the federal government and generate outside investment capital for their regions, the governors often appoint well-placed Moscow officials or businessmen as their senators. One of the best examples of this trend was Tyva President Sherig-ool Oorzhak's decision to name Mezhprombank head Sergei Pugachev as his representative. Pugachev is considered to be one of the most powerful business and political insiders in Moscow. Likewise, Kalmykiya has chosen two bankers as its representatives (see story in this issue).*

*Even left-leaning governors recognize the need to maintain good ties with the Kremlin. Newly elected Altai Republic President Mikhail Lapshin, the leader of the Agrarian Party of Russia, was straightforward in this regard, announcing that he would wait for the Kremlin to tell him who could best represent the republic in the Federation Council (RFE/RL Newsline, 8 January).*

*Beyond these considerations, reelection calculations influence the governors' appointments to the Federation Council. By selecting a wealthy entrepreneur, the governor potentially gains access to campaign financing as he faces the next election. And, as the governor of Kareliya demonstrated, a well-chosen representative can help to eliminate a potentially dangerous election rival (see story in this issue).*

*As the story below on enlarging regions demonstrates, the new Federation Council is more willing to accept guidance from the presidential administration than its predecessor. However the new members of the upper chamber will be more active in considering legislation than the governors and regional speakers they replaced. The body will hold sessions three times a month instead of just once as it did in the past and it will have more time to discuss the details of legislation. The speaker will apparently have seven deputies, one representing each of the seven federal districts, and the number of committees will rise. Putin's seven presidential representatives are playing a role in defining the procedures of the new body, according to Kommersant Daily (13 December 2001).*

**KALMYKIYA APPOINTS TWO OUTSIDE BUSINESSMEN TO FEDERATION COUNCIL.** On 21 December Kalmykiya appointed two close business associates of President Kirsan Ilyumzhinov as the republic's representatives in the Federation Council. Neither of the men has a political base in the republic, reportedly an important factor for Ilyumzhinov.

Approximately one-third of the new Federation Council members have a business background. Kalmykiya's contribution to this pool is two bankers, whose main interests are outside Kalmykiya's borders. R. Iskhakov, 40, has chaired the board of directors of the YuSIBI commercial bank and the Aerostan airlines (*Izvestiya Kalmykii*, 22 December). I. Provkin, 34, became the head of the Russkii bankirskii dom commercial bank in 1994, one of Russia's 100 largest banks, according to *Ekonomika i zhizn - Kalmykiya* (29 December). The political views of the new senators are unknown in the republic. The local press has yet to publish an interview with the two men, or even a

photograph. At a press conference, Provin said that he is not a member of any political party, is new to politics, and does not have any fixed political beliefs.

Both men are close associates of Ilyumzhinov. Provin said that he had offers from other regions to serve as their senator, but could not turn down Ilyumzhinov's offer since he had long known and respected Kalmykiya's leader. Several high-ranking bureaucrats had also been in the running for the offices. However, Ilyumzhinov chose to recruit outsiders rather than select local candidates and the sponsors standing behind them.

This choice is not the first time that Ilyumzhinov has turned to outsiders, and past experiences have not always been successful. In 1999 Ilyumzhinov appointed Viktor Baturin, a close relative of Moscow Mayor Yurii Luzhkov, as republican prime minister. Baturin and his Moscow associates from the Inteko construction company tried to gain control of the republic's financial flows, provoking the enmity of the local elite. Within three months, the republican parliament voted no confidence in the government and it was forced to resign. Baturin and his associates made a number of crude errors due to their lack of knowledge of the ethno-political realities of Kalmykiya and their ignorance of the balance of power between various groups among the ruling elite.

Despite some grumbling among the local elite about the choice of outsiders, the protests might not move beyond words, especially if the new senators do not try to play an active role inside the republic and if they are successful in lobbying the republic's interests in Moscow. Provin said that he will seek to deliver for the region: "I know many senators well. Not only do I know how the Federation Council works, but I also have helped other senators in their work. I think that this experience will help me represent Kalmykiya in the Federation Council and will benefit the republic."

It is hard to say if the appointment of the senators was the result of a deal between Ilyumzhinov, the Kremlin, and big business. Such deals have been common in the appointment of senators. Hopefully, the banker-senators will be able to resolve some of the republic's financial problems. They may be able to bring more funds into the republican budget from the federal level. This task is increasingly complicated as Moscow is centralizing financial resources, refusing to provide credits to the regions, and reducing the attractiveness of Kalmykiya's special economic zone by cutting the tax rates that the zones help enterprises escape. The bankers may also be able to provide investment capital from their own companies.

Under the "Russian South" federal program approved in 2001, Kalmykiya will get 567.2 million rubles, but this sum is only one-third of what is required for the planned projects. If the senators could generate funding for this program, it would meet the interests of the republic, as well as those of Presidential Representative to the Southern Federal District Viktor Kazantsev, who is spearheading the adoption and implementation of the program, and the Russian government. Provin has already promised to work on investment programs, the development of a mortgage system, and addressing the concerns of small and medium-sized businesses.

Finally, the new senators could help finance Ilyuzhinov's presidential reelection campaign in the fall of 2002. They could also provide crucial support in his battle for the right to run for a third term. - Vladimir Volgin in Elista

## **KARELIYA GOVERNOR APPOINTS PREDECESSOR AS REPRESENTATIVE.**

Kareliya Governor Sergei Katanandov appointed his immediate predecessor Viktor Stepanov as his representative to the Federation Council in late December. Katanandov, then mayor of Petrozavodsk, defeated Stepanov in the republic's elections held 17 May 1998 (see *EWI Russian Regional Report*, 21 May 1998). Stepanov was a member of the leftist opposition at the time of the election. Katanandov apparently appointed Stepanov to the upper chamber of the national parliament to neutralize a threat that Stepanov might again seek the governor's seat.

With Kareliya's gubernatorial elections set for March 2002, Stepanov had two choices: either lead the republican opposition in a bid to win back his position as governor or accept Katanandov's offer to represent Kareliya's executive branch in the Federation Council. Stepanov considered both offers for several months, consulting with former Federation Council Speaker Yegor Stroev and the leadership of the Communist Party of the Russian Federation, before deciding to accept Katanandov's offer.

In an interview, Stepanov asserted that he will maintain his independence from Katanandov even though his job is to represent the governor's interests in the Federation Council. "I will represent my own point of view. He has entrusted me with this position." However, Stepanov conceded that, "of course we will have to agree on several issues." - Maksim Timofeev in Petrozavodsk

## **ENLARGING REGIONS**

**PUTIN SIGNS LAW ON ENLARGING REGIONS.** On 17 December, President Putin signed a new federal law making it possible for one or more regions to merge into a larger unit. Now making such changes will only be a matter of having enough political will to push them through.

The Federation Council vetoed a previous version of this law in the summer of 2001 and the text was subsequently revised. However, the amendments comprised only minor changes and did not address the main complaints of the upper house members. Rather, the presidential administration simply waited until enough governors had been replaced by their representatives in the upper chamber so that the now more pliable senate would accept the law. The Federation Council approved the slightly-revised version of the law on 5 December 2001, following a significant influx of new Federation Council members.

According to the provisions of the law, a new Russian region can be created on the basis of the merger of two or more regions that have contiguous borders. Only the regions seeking to merge have the right to request such a change in their status and all changes are voluntary. The regions desiring to merge must send the president a proposal that lays out the socio-economic and other consequences of the union and a detailed plan for how it will be carried out. Once the residents of the regions in question approve the merger through a referendum, the president can propose a federal law making the change. The law lays out the name, borders, and status of the new region, amends the federal budget, and defines the new region's political institutions, the structure of federal agencies working in it, and its relations with the federal government, other regions, foreign states, and international institutions. For approval, the law requires two-thirds support in the Duma and three-quarters support in the Federation Council. Subsequently,

article 65 of the constitution, which lists the regions, must be amended to reflect the change.

Despite the relatively rigorous requirements of the law, it is likely that several regions will now seek to merge. After all, Putin is trying to strengthen federal control over a federal system with 89 units, more than any other federal system in the world.

The process of merger has already effectively begun in the Komi-Permyak and the Ust-Orda Buryat autonomous okrugs and they are likely to complete the process first. They are seeking to merge with their richer neighbors, Perm Oblast and Irkutsk Oblast, respectively. The 1993 constitution created 10 autonomous regions (9 okrugs and the Jewish Autonomous Oblast), simultaneously making them independent regions and subordinate to other regions. Governors of rich regions like Perm and Irkutsk see such mergers as a way to increase the size of their regions at the expense of their neighbors. However, the governors of the regions to be swallowed can be expected to oppose the mergers since they will lose their positions.

In five of the ten autonomous regions, members of the big business elite are now serving as governors. The center will likely try to weaken the power of these business groups since the combination of their existing economic power with political office could generate the base for a powerful opposition in the future. On the other hand, big businesses view the businessmen-governors as a guarantee of their influence in the regions where they are working and will seek to preserve the status quo. Such a dispute could create tensions in business-state relations at both the regional and federal levels.

The last six months of 2001 show that federal attempts to push the governors out of the federal political arena have come at the cost of strengthening the governors' position in their regions. Governors maintain control over the various regional nomenklatura, political, economic, and criminal groups and can effectively neutralize any attempts by the Kremlin to influence the situation on the ground. Since the Russian president depends heavily on the regional elite to secure reelection, Putin may decide to put off any attempts to enlarge regions until after he wins a second term in 2004. - Pavel Isaev in Moscow

## **REGIONAL ELECTIONS**

### **KRASNOYARSK PARLIAMENTARY ELECTIONS GO BADLY FOR LEBED**

By Andrew Yorke

On 23 December 2001, Krasnoyarsk krai held elections to its legislative assembly. Just as the federal State Duma elections in 1999 determined the results of the presidential elections the following year, so the results of the parliamentary elections here have shed light on Lebed's chances of reelection as governor in August 2003.

Unlike most regional parliaments, Krasnoyarsk's Legislative Assembly has displayed considerable independence and opposition to the governor, and this looks likely to continue since pro-governor candidates fared badly in the election. The assembly's 42 seats are filled by a system similar to the one electing the federal State Duma: 20 seats are filled by single-mandate districts, 20 are filled by party lists. The last 2 seats are elected from Taimyr and Evenkiya, the two autonomous okrugs, which according to a

constitutional paradox are granted equal status with the krai, while also forming a composite part of the krai.

Unambiguously pro-Lebed candidates won only 7 of the 42 seats. These include just 2 seats for the "Nadezhda i Opora" [Hope and Support] party headed by Lebed's deputy Nadezhda Kolba. However, Lebed is likely to find allies also in the Communist Party, which won just 8 seats and which is split between a radical wing headed by newspaper editor Oleg Pashchenko and a more moderate wing, which is broadly in support of the administration. He may also be able to persuade some of the 5 independents to support him.

The governors of Taimyr and Evenkiya are both "oligarchs" representing major companies (Norilsk Nickel and Yukos, respectively), which are owned by Moscow-based financial-industrial groups. Both were elected in 2001, and their relationship with Lebed has been ambiguous. Evenk Governor Zolotarev has apparently been neutral and apolitical, while observers in Krasnoyarsk accuse Taimyr Governor Khloponin of whipping up separatist sentiments in his okrug. Those sentiments are exacerbated by the fact that the Norilsk metals plant, while located in the okrug, pays the vast majority of its taxes to the krai (indeed, Norilsk Nickel is said to provide 70 percent of the krai's revenue). Lebed's deputy governor with responsibility for these issues, Vadim Medvedev, told me in an interview that media reports about Taimyr's separatist aspirations are highly exaggerated. It is true that Khloponin and Lebed have at times made friendly overtures toward each other. Nevertheless, both okrug governors saw fit to campaign in the krai, and formed a "Northern Party" in order to win representation in the krai assembly beyond the 2 single-mandate seats assigned to them. The party gained 4 seats in the elections, and if Lebed bargains well there is an outside chance that he can win their support on some issues.

The pro-Putin Yedinstvo party ran an active campaign in the krai, joining forces with the popular Krasnoyarsk mayor, Petr Pimashkov, and enjoying favorable news coverage from the private Afontovo television station. They must be disappointed to have only won 4 seats, making them the only other federal party (besides the Communists) to gain representation. Their campaign rhetoric was highly critical of the governor. Putin's attitude to Lebed is widely regarded as negative -- people in the krai point to the fact that Putin has not paid a visit as evidence of this. Although Putin is fond of giving political posts to members of the armed forces and security structures, it does not follow that all officers can expect his support, as former Kursk Governor Aleksandr Rutskoi learnt to his cost. Lebed's instrumental role in the 1996 Khasavyurt peace treaty with Chechnya cannot have helped his standing with the president.

But on the other hand, Lebed has been quite congenial in terms of facilitating the takeover of local enterprises (most notably the Krasnoyarsk Aluminium Factory, the Achinsk Alumina Factory, and the Krasnoyarsk Hydroelectric Power Station) by Putin's favored oligarchs, particularly Oleg Deripaska. All of these enterprises had previously been owned by the local businessman and parliament deputy Anatolii Bykov, who has been languishing in Moscow's Lefortovo prison, accused of organizing an attempted murder. Bykov had financed Lebed's election as governor in 1998, but a public and acrimonious split soon followed. Bykov's apparent political and financial downfall has not prevented him from running a successful election campaign and winning 5 seats. Despite the widespread belief that Bykov is a gangster, he taps into local "patriotic" (i.e.

anti-Moscow) feelings and even enjoys some support from the radical Communists.

"Nashi" [Our People] expressed a more moderate and successful form of this "patriotism," winning 9 seats. Headed by the respected speaker of the last parliament, Aleksandr Uss, this party's allegiances will be most important in determining Lebed's ability to work with the parliament. The chances of Nashi cooperating with the administration are slim, since Uss has made known his ambition to become governor. An alliance with Bykov's bloc is possible, but will not guarantee a majority.

On 9 January, the assembly voted to retain Uss as speaker. According to Afontovo television, the change in the assembly's new alignment was clear from its first session: the far left of the hall, which was previously occupied by the Communists, now seats the pro-Lebed deputies, while the various opposition factions sit to the right. The pro-Lebed candidate, Valery Sergienko, was roundly defeated, prompting the governor's faction to accuse Nashi of striking a deal with Russian Aluminium and Norilsk Nickel. They also reportedly hinted at the president's involvement. According to Afontovo, Lebed had held talks with Norilsk Nickel representatives the previous evening, threatening to quit if the Northern Party voted for Uss.

Whatever the true ties are between business and the assembly's factions, it seems clear that Lebed is running out of friends. His most urgent task must be to win over one or two of the major financial interests in the region (Norilsk Nickel, Yukos, Russian Aluminium) before the 2003 election - otherwise his career as governor could be over.

**EXECUTIVE BRANCH WINS TYUMEN LEGISLATIVE ELECTIONS.** As expected, most of the candidates backed by the Tyumen Oblast administration and the administrations of the northern autonomous okrugs won seats in the Tyumen Oblast legislature on 16 December. Most of the winners represent either the executive branch or the leadership of the region's largest oil and gas companies. Overall, Yedinstvo now holds 13 of the legislature's 25 seats.

The laws adopted by the oblast legislature generally only have an impact on the poorer agricultural southern part of the oblast since the resource-rich autonomous okrugs in the north have their own legislatures and adopt their own laws. Because of Tyumen's complicated structure, the okrugs have the status of separate regions although they are simultaneously part of the oblast.

Against a background of conflict between the two northern okrugs and the southern part of the oblast, members of the previous legislature representing the okrugs used their numerical superiority to dictate to members representing the south. Now, following the election of Sergei Sobyanin as Tyumen governor in early 2001, there is less conflict between the north and south, so this cleavage will not be as important in the legislature and divisions over specific issues will be more complex. As a result, representatives of the south may find more opportunities to work out deals with deputies from the north. However, the extremely low turnout in the south (21 percent in the city of Tyumen) suggests that the voters have lost confidence in their representatives. - Yelena Arbatskaya in Tyumen

**FEDOROV HANGS ON FOR THIRD TERM IN CHUVASHIYA.** Nikolai Fedorov won a third term as president of Chuvashiya on 16 December, taking 40.73 percent of the vote in the single-round election. His opponent was the same as four years ago, leader of

Chuvash Communists Valentin Shurchanov, who won 37 percent of the vote, 2 percent more than he won in 1997. The other candidate in the election was Federal Security Services (FSB) General Stanislav Voronov, who won 11 percent.

Voronov had hoped to win the backing of the Kremlin and the Kremlin, but it was not forthcoming. Voronov was famous for gathering evidence against Edmond Pope, whom Russia arrested as a suspected American spy, and for closing the 1999 Ryazan terrorist case, which some observers suspect contained evidence linking the FSB to the bombing of several Moscow and Volgodonsk apartments in that year (*Kommersant Vlast*, 11 December). Although Fedorov has been among the most outspoken governors in denouncing Putin's federal policies, the Kremlin sees him as a generally constructive partner and was willing to work with him, according to *Ekspert* (24 December).

**LAPSHIN WINS IN GORNII ALTAI REPUBLIC.** Agrarian Party leader Mikhail Lapshin defeated Semen Zubakin in the second round of voting on 6 January to become the president of the Gornii Altai Republic. Zubakin was the only governor who was a member of the Union of Rightwing Forces party.

In this election, Lapshin claimed that he had the support of Putin and Prime Minister Mikhail Kasyanov. Whatever his political views, Lapshin will need strong ties with the federal government since the region relies on federal transfers for 95 percent of its budget (*Kommersant Vlast*, 11 December).

In previous elections, Lapshin has had the backing of Alfa Bank, according to *Ekspert* (24 December), though Lapshin denies this connection. Zubakin was apparently associated with the Sverdlovsk business group of Pavel Fedulev, which is aggressively seeking to expand in regions such as Bryansk, Kurgan, and Gornii Altai.

**LUZHKOV ALLIES SECURE MOSCOW CITY DUMA ELECTIONS.** A list of candidates sponsored by four political parties and allied with Moscow Mayor Yurii Luzhkov won 33 of the 35 seats in the Moscow City Duma elections on 16 December. As in the past, Luzhkov will be able to control the city legislature as he remains without rival in the city. Twenty-two of 25 deputies seeking reelection won a new term, *Nezavisimaya gazeta* reported 18 December. The alliance of Luzhkov's Otechestvo and the pro-Kremlin Yedinstvo won 14 seats, the Union of Rightwing Forces (SPS) won 6, and Yabloko won 4.

Despite this overwhelming victory, Luzhkov's star has surely dimmed. In the past he was able to win such elections without relying on outside help. Now he must coordinate his actions with such previous opponents as Yedinstvo (which bested Otechestvo in the 1999 State Duma elections) and SPS, whose policies Luzhkov constantly criticizes.

## BUSINESS AND POLITICS IN THE REGIONS

**PRIMORSKII GOVERNOR HIRES FSB GENERAL TO OVERSEE ECONOMIC SECURITY.** At the end of December Primorskii Krai Governor Sergei Darkin appointed Aleksandr Gromov, the former head of the Federal Security Service in Primorskii Krai, as the head of the oblast administration's department for economic security. The move

could exacerbate relations between the governor and Presidential Representative to the Far Eastern Federal District Konstantin Pulikovskii.

According to the governor's directive on the new department, its purpose is to develop the krai's economy by countering any external or internal threats to the krai's interests. The department should provide warnings about any threats and localize them.

Officially, Gromov left his job as head of the krai's FSB because he had reached retirement age. In private conversations, however, sources assert that Pulikovskii sought Gromov's removal because he failed to prevent the election of Darkin, whom Pulikovskii believes is "connected with criminal structures." Additionally, during the campaign, Gromov announced that his staff had information that a number of false ballots were being prepared and that an unidentified candidate was planning to stuff the ballot boxes. Voters interpreted this statement as a warning to the candidate with the best access to official resources, which in this case was First Deputy Presidential Representative Gennadii Apanasenko, who had Pulikovskii's strong backing.

At a conference held one day after he appointed Gromov, Governor Darkin said that in ensuring the krai's economic security, Gromov should neither "hinder business, nor interfere in its activities, but support effective and honestly working enterprises and create conditions for their development."

At the conference, Darkin offered to provide aid to underfunded federal agencies that have a direct impact on the krai economy. Currently, for example, the local border guards must accept "aid" from local companies to repair border facilities. Regional officials simply turn a blind eye to such practices. Darkin suggested instead establishing an off-budget fund, which could solve these problems legally.

Gromov presented a paper arguing that criminal groups have extensive influence over Primorskiy Krai's foreign economic activity, causing serious harm to the krai. He identified fishing, forestry, and the collection of scrap metals as some of the most affected industries. The Far Eastern branch of the federal customs agency said that illegal transactions in the region amounted to more than \$100 million. Part of the problem is corruption among FSB agents working in the region. Based on his past experience as the head of this agency, Gromov should be well placed to deal with this problem.

During his first six months in office, Darkin has opened the krai to large Russian financial-industrial groups. Now he seems to be looking to exploit the krai's advantageous geographical location to develop foreign trade, a task none of the krai's previous governors succeeded in doing. The first post-Soviet governor, Vladimir Kuznetsov, tried to emphasize foreign trade, however, he was accused of spending too much time abroad and Yeltsin removed him. Yevgenii Nazdratenko preferred to play the "patriotic card," and spoke more often of the "Chinese threat" than of cooperation with the country, which is the krai's main foreign partner. As a result, Chinese businesses interested in stability and legal trade operations did not come to the krai. Instead, many deals are now made by firms in the northern Chinese provinces that seek to hide their income.

The Primorskiy Krai administration will make foreign trade a top priority in 2002. In September, Vladivostok will host an APEC (Asia-Pacific Economic Cooperation) investment forum, which could attract potential investors from 21 countries. - Andrei Kalachinskii in Vladivostok

## **MAIR BUSINESS GROUP SIGNS AGREEMENT WITH KURSK GOVERNOR.**

On 6 December, the MAIR industrial group, one of Russia's largest investors in metallurgical, chemical, microbiological, and machine-building industries, signed a general cooperation agreement with Kursk Oblast. MAIR will help the region attract new investment to its enterprises, provide consulting services to the oblast government on investment activities, and develop plans and conclude investment agreements with the oblast administration to reform enterprises. MAIR had a turnover of \$300 million in 2000. It employs 25,000 workers in 30 regions, with Kursk being the 31st.

At the signing ceremony, MAIR also signed its first concrete investment agreement to help Formplast, a Kursk factory on the verge of bankruptcy, with significant debts to federal, regional, and local budgets. MAIR will receive a 25 percent stake in the plant. In return, it will upgrade the factory's capabilities so that it can make pipes for transporting water and natural gas, fitting into MAIR's other holdings, many of which also make pipes. MAIR will invest about 22 million rubles into the plant. The factory is located in Shchigrov, the hometown of Governor Aleksandr Mikhailov. - Sergei Sarychev in Kursk

## **CENTER-PERIPHERY RELATIONS**

### **PUTIN WANTS 7 REPRESENTATIVES TO STRENGTHEN LOCAL**

**GOVERNMENT.** Ever since Putin came to power he has generally praised local government in words, but largely ignored it in deeds. This approach differed from the Yeltsin era, because Yeltsin often tried to promote local government as a way to limit the governors' powers. Now, Putin has decided to focus more attention on this issue and it was the main topic of conversation in his meeting with his seven presidential representatives in the Kremlin on 28 December. The campaign to support local government is part of the work of Dmitrii Kozak's commission, which is looking into how to better divide responsibilities between federal, regional, and local governments, and is likely to elicit gubernatorial opposition.

The presidential representatives job has turned out to be much more difficult than the Kremlin originally anticipated, according to *Nezavisimaya gazeta* (28 December). Currently, the governors are much more popular in their regions than the president's envoys, the paper claims. In the rich regions, the governors treat the envoys as an unnecessary bureaucratic structure, while the leaders of poor regions are happy to pass many of their problems off to the federal level.

**LATYSHEV SEEKS CHANGES IN FEDERAL LAWS.** After working for one and a half years to bring regional laws into line with federal norms, Presidential Representative to the Urals Federal District Petr Latyshev called for changes in federal legislation on 15 December. His speech attracted interest because he repeated some of the demands of the most recalcitrant governors who have opposed the federal campaign to harmonize laws arguing that regional laws are often better than federal legislation. Latyshev effectively admitted that many regional legal violations were the result of incomplete or totally absent federal laws and called on federal lawmakers to pay more attention to legislative processes in the regions.

Latyshev claimed that only a handful of laws remain in the Ural Federal District that do not conform with federal norms. Additionally, Latyshev has made some progress in abolishing the Yeltsin-era power-sharing treaties, which often violate federal legislation. Chelyabinsk Governor Petr Sumin renounced his 1997 treaty and it has been annulled. Sverdlovsk Governor Eduard Rossel, however, continues to assert that his region's treaty should remain in force.

Latyshev's speech summarized the work of the Ural Federal District committee to analyze the division of responsibilities between federal, regional, and local governments. Putin set up this committee in the middle of last year as part of the larger project organized by Deputy Presidential Chief of Staff Dmitrii Kozak to gather information on reforming Russian federalism. He expects to have a new program in place by summer 2002.

Latyshev said that his group had analyzed over 400 federal laws dealing with the division of power between different levels of government. As a result, committee members put together 2,000 proposals for improving these laws. These criticisms cover a number of areas.

First, in many cases there are no federal laws regulating issues that the constitution assigns as exclusively federal prerogatives. When regions attempt to legislate in these areas, they are accused of exceeding their powers. One example is that the federal government has not set minimal social welfare benefit standards, the basic indicator for calculating budgetary outlays. Sverdlovsk Oblast set such a standard and calculated its budget on that basis. Because there was no federal legislation on this issue, the oblast's initiative could not stand. Latyshev complained that this good local initiative could not move forward and called for the adoption of federal laws to make progress possible in this area.

Second, Latyshev complained that there are many contradictions in federal legislation between general laws and more specific ones, a problem that arose in about 300 cases. For example, there is a federal law defining general principles for the organization of local government. However, the provisions of the more specific laws on education and health care have clauses that violate the general legislation. Additionally, the federal budget does not provide funding for laws defining the role of regional and local political institutions.

Third, the commission found numerous problems concerning inter-budgetary relations. In many cases, the federal budgets simply do not give local governments the funds necessary to provide expensive housing and municipal services. Latyshev said that it is necessary to figure out who should pay for these services since resolving this question will determine the quality and results of the upcoming housing reform.

Fourth, the commission prepared several recommendations on improving the justice of the peace system in Russia. These justices are supposed to handle less important court cases, helping to reduce the workload for judges. Currently, the federal budget only pays for the justices' salaries. The regions are supposed to provide buildings, furniture, office supplies, and other equipment required for the court's operation. However, regional budgets do not have the funds for such expenditures. Thus, there are justices, but they have no place to work, so the legal system remains overburdened.

Finally, Latyshev touched on a topic most politicians would rather avoid: social benefits to the population. He said that while some groups were deserving of aid (the

handicapped, mothers with numerous children), many others were receiving help even though they had not really demonstrated a need for it. Latyshev proposed cutting these benefits and sought to make sure that all benefits provided by law should be covered from one or another budget. Currently, there are many unfunded mandates at both the federal and regional levels.

How well these proposals are implemented will be a test of the effectiveness of the office of presidential representative. - Sergei Pushkarev in Yekaterinburg

## BANKING IN THE REGIONS

**BIG BANKS EXPECTED TO SWALLOW MEDIUM SIZED ONES.** In 2002-2003, the Russian banking system is expected to undergo major changes as the large banks swallow up their medium-sized competitors. Russia's top 30 financial institutions are creating powerful trans-regional banking networks by purchasing regional banks and opening new branch offices in the regions. These networks will allow the big banks to increase their reserves and develop competitive market-based financial institutions, which can provide services at world-class levels.

At least, that is the vision of Azat Kurmanaev, the president of Bashkreditbank, which ranks among the top 20 Russian banks. In 1993 the state owned a 100 percent share of Bashkreditbank. Today, however, the bank is working to reduce the state share to 50 percent and hopes to become fully market-financed.

Kurmanaev believes that the larger networks will make the banks more reliable because they will have more diversified sources of capital. To achieve such aims, Kurmanaev thinks that no client should have more than 10 percent of a bank's loans and that no region should account for more than 10 percent of its business. Old "Soviet style" banks that do not follow this model will not be competitive, Kurmanaev predicted (*Vedomosti*, 5 December).

Several factors are driving big banks to expand into the regions: economic growth at the regional level, a general tightening of competition among banks in general, the aggressive strategy of Sberbank launched after 1998 to grab corporate accounts, and the threat from foreign banks, which are actively financing large Russian companies.

According to Kurmanaev, Bashkreditbank is the first non-Moscow bank seeking to expand extensively into other regions from its home base. During 2001, Bashkreditbank acquired controlling stakes (75 percent plus one share) in 4 regional banks and merged them into its network. Bashkreditbank has branches in 20 regions, from Irkutsk to Kaliningrad. Beginning on 1 January 2002, Bashkreditbank will change its name to the Uralo-Siberian Bank, to better reflect its market. By the end of 2002, all of the bank's branches will do business under this brand name.

Currently, the bank does about 50 percent of its business outside of Bashkortostan, and this share will grow as it expands its regional reach. Kurmanaev is already targeting six additional regions. The bank is only interested in taking over other banks that have well developed retail branches. Banks without such branches are usually dependent on one or two corporate clients, Kurmanaev noted. Bashkreditbank currently has 500,000 individual and 27,000 corporate clients. By 2003, it hopes to have a million individual depositors, increase its capital to \$500 million, and up its assets to \$3 billion.

In 2004, Kurmanayev expects to merge his bank with a large Russian partner or sell out to a western financial institution. - Igor Rabinovich in Ufa

## **REGIONAL RESOURCES ON-LINE**

**Petersburgers in Moscow** (<http://piterzy.newmail.ru/>) -- Putin's policy of appointing residents of St. Petersburg to important federal offices has elicited some complaints from jealous Muscovites. For one of the most comprehensive lists of such appointments, see this web site prepared by Daniel Tsygankov.

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**MONEY AND POWER IN PUTIN'S RUSSIA**

**ECONOMIC, POLITICAL RESOURCES INCREASINGLY CONCENTRATED.**

President Vladimir Putin seems to be making progress in the Herculean task he set himself of rooting out corruption in Russia's largest corporations and strengthening the country's state institutions to the point where they can function effectively. But these gains have come at the cost of once again focusing power in the Kremlin and increasingly concentrating financial and industrial resources in the hands of a few powerful businessmen.

The example of Gazprom is illustrative of the contradictory nature of these trends. Putin's handpicked leader for the natural gas giant has succeeded in exposing and stopping some of the corruption that flourished in the company during the 1990s. However, the effect of

Putin's solution to these problems is to place the company more strongly under state control. It is not clear how this reform will prevent future abuses of the kind that occurred earlier.

The recent electoral battle in the diamond-rich Sakha is also instructive. Here Putin was able to win the removal from power of the republic's long-entrenched president, Mikhail Nikolaev, who kept his constituents mired in poverty even as local mines produced billions of dollars of diamonds (see story elsewhere in this issue). However, Putin was not able to name the new president. Following negotiations with the Kremlin, Nikolaev withdrew from the republic's presidential race and the head of the Alrosa diamond monopoly, Vyacheslav Shtyrov, a close Nikolaev ally, won the presidency. Shtyrov's departure from the company may allow the federal government to assert more control over its vast resources.

### Putin and the Governors

Sakha is but a special case of Putin's larger attempts to reign in the governors' power to influence federal policy and restrict their control of regional economies. With a reform that came into full effect on 1 January 2002, Putin removed the governors from the federal stage by denying them their seats in the Federation Council, the upper house of the national parliament. However, Putin was forced to compromise in defining how the membership of the body would be chosen after the governors left, since the constitution rules out the possibility of direct elections. Allowing the governors to appoint and remove Federation Council members gives the regional executives a valuable political plum, which they can bequeath on rich and powerful individuals whose money and connections will serve the governor's interests. Since one third of the new members of the Federation Council are key business leaders from prominent companies, Putin's reform seems to have inadvertently fostered a strong link between the governors and nationally prominent businessmen. The fact that the new Federation Council will generally approve the president's bills as they pass through the legislature may be of lesser value to the president than the governors' acquisition of powerful lobbyists at the federal level is to the regional elite. Thus, the current Federation Council is most likely transitional and a new system for choosing members will probably be adopted within a year or two.

But the question of who is calling the shots in the new relationship between the governors and Russia's business elite remains complex. Since the 1998 financial crisis, Russian big businesses have been buying up factories in the regions. When they do so, they break the former links between governors and regional businessmen that had given the governors such complete dominance of their regions in the past. Russia's richest businessmen are much more powerful than its governors, so the appearance of these big businesses in the regions puts severe constraints on what the governors can do in their own region, limiting the extensive powers they wielded in the past. However, big businesses' acquisition of ever more factories means that Russia's economic resources are coming under the control of a shrinking number of individuals.

Moreover, the federal government often seems to pursue a policy aimed at stamping out any strong, independent opposition. The campaign against NTV and TV-6 is the most prominent example of this trend, but there are other examples as well. The presidential administration, for example, has sponsored the creation of the Delovaya Rossiya business

organization as an alternative to the club of oligarchs organized under Arkadii Volskii's Russian Union of Industrialists and Entrepreneurs.

No one knows what Putin will do with the power that he is accumulating. Gorbachev and Yeltsin both amassed significant power but failed to wield it effectively. Gorbachev favored renewing socialism instead of radical restructuring, and his plans ended in the collapse of the Soviet Union. Yeltsin adopted a constitution that gave him extensive power, but pulled back from fully implementing shock therapy. Although he oversaw price liberalization and the privatization of state assets, he generally avoided closing ineffective plants and laying off large numbers of workers.

Is Putin trying to centralize much of the power that slipped away from Moscow in the 1990s because he believes that such a concentration of resources in Moscow is the best way to run the country? Or is he carrying out a necessary restructuring of the Russian political and economic system to set up more effective state-society relations that ultimately do not rely on such a concentration of power and would allow a greater role for society? While certainly the current trend is toward centralization, the motives and ultimate outcome are not clear.

### A New Focus on Local Government

A potential clue might be the on-going work of Dmitrii Kozak's commission, which is addressing the problem of how best to divide power between different levels of government. Kozak led the process of legal reform that brought the adoption of new legislation at the end of 2001, and perhaps his current commission could foster real change in relations between the federal, regional, and local governments. His report is due in July 2002. In an early sign of what to expect, at the end of 2001 Putin indicated that he would devote his attention to local government in 2002. In the past he has praised local government, but not taken any action to strengthen it.

Such a focus on local issues could be good news for Russia's long-term development and could improve the way that money and power are divided. Strengthening local government and developing small and medium-sized business would be effective counterweights to the current trends toward the centralization of political and economic power. Enlarging the small and medium business sector would reduce the importance of the expansion of the country's largest companies. Putin and the State Council (whose membership includes all of the governors) discussed this issue in a late December session, but small business remains anemic in Russia. Strengthening local government would provide a powerful balance to the power of the governors without the risk of centralizing political power back into the Kremlin. However, local governments today are largely at the mercy of the governors and, even if Putin were serious about this kind of change (something he has yet to demonstrate), there is a lot of work to be done.

Overall trends in Russia point toward the concentration of political and economic resources. However, politicians have at least verbally acknowledged the need to support some forms of political and economic decentralization.

The West should hold these politicians to their word and work to promote the healthy development of Russia's small businesses and local governments. Micro-lending to small

businesses has been among the most successful economic aid programs conducted in Russia. Developing local governance capacities would move this successful work into the political sphere as well. Aiding small businesses and local governments could develop the vibrant and diversified business community required to support a free media and could promote a wider discussion on ways to end the violence in Chechnya. - Robert Orttung

## **FUSION OF OLIGARCHS AND GOVERNORS: THE BEGINNING OF A NEW OPPOSITION TO THE KREMLIN?**

by Pavel Isaev, Moscow

The federal reforms that Putin launched so decisively in May 2000 slowed down somewhat in 2001. By the beginning of 2002 it was clear that the results achieved were not what had been expected, leading the federal government to pause and analyze the situation.

The most unpleasant trend for the Kremlin last year was the penetration of the regional elite by the major industrial and financial groups. Deprived of their influence over federal policy, regional leaders and the oligarchs, who control enormous financial and political resources, decided not to stage an open rebellion against the federal government, whose strength is undeniably growing. Instead, they set up a new alliance to exert administrative and political influence. Big business, with the active support of the regional elite, is becoming a part of regional government.

Russia's largest corporations are naturally most active in regions where they have financial and industrial interests. In 2001 oil and aluminum tycoon Roman Abramovich became governor of Chukotka; Norilsk Nickel General Director Aleksandr Khloponin was elected the governor of Taimyr; Yukos-RM Development Director Boris Zolotarev became the head of Evenkiya, and on 13 January Alrosa head Vyacheslav Shtyrov won election as the president of Sakha. In 2002 Vladimir Lisin, chairman of the board of directors of the Novolipetsk Metallurgical Combine, will seek to become governor of Lipetsk Oblast.

Since the Kremlin has tried to hand some of the governors' powers to other institutions, the financial and industrial groups are also devoting their resources to including their members in regional legislatures. In recent elections, an alliance of the governor and the biggest local business interests gained control of legislatures in Perm, Murmansk, Khabarovsk, and the Komi-Permyak Autonomous Okrug. Business-gubernatorial alliances failed to win control of legislatures, however, in Primorskii Krai and Samara.

The result of these processes is the completion of an alliance between the oligarchs and the regional elite. Representatives of the power ministries are actively joining this alliance even though Moscow has tried to block such moves by subordinating law enforcement agencies directly to Moscow and asserting influence through the seven federal districts. In many regions it is possible to speak of comprehensive political-business-law enforcement alliances capable of encompassing all parts of the state required to make important decisions.

The formation of the new Federation Council is another indicator of this process. Beyond the new oligarch-governors, there are now oligarch-senators, including former Yukos First Deputy Managing Director Leonid Nevezlin, Deputy Director of the Pervouralskii Pipe

Factory Aleksandr Karpov, Siberian Aluminum Vice President German Tkachenko, Unified Energy System's Valentin Zalatnikov, and Mezhprombank head Sergei Pugachev. In effect, the new body is a group of lobbyists who are in no way subordinate to the Kremlin. Their main task will be to lobby the interests of the corporations that delegated them to the upper chamber. As the new Federation Council members begin to recognize their power, the influence of the upper chamber will start to grow. The fact that the new speaker, Sergei Mironov, is a loyal Kremlin ally will only help the president assert modest control. There will be no open opposition to the federal government and none of the new senators has presidential ambitions, but it will be hard to ignore the interests of the lobbyists.

The formation of the integrated political-business-law enforcement groups has made it difficult for the Kremlin to win the election of its gubernatorial candidates. Recent elections in Primorskii Krai, Sakha, and Nizhnii Novgorod are only the latest examples of this problem. Corporations also had a particularly powerful impact on elections in Rostov and Irkutsk.

Taken against the background of upcoming structural reforms in the economy and the approaching presidential elections, these trends reduce Putin's maneuvering room. While today the Kremlin can certainly set the framework for center-periphery relations, it must resort to negotiations to address concrete problems.

## BUSINESS AND POLITICS IN THE REGIONS

**ELECTIONS MARK NEW ERA IN SAKHA POLITICS.** The recent presidential elections in the Sakha republic are a tangled tale of federal-regional wrangling over political and economic power. There is much at stake for federal and republican authorities: control over 98 percent of Russia's diamond resources, the management of the Alrosa diamond mining company, and the fate of the ailing Sakha republic, weakened by devastating floods in the spring of 2001 and pervasive corruption.

On 13 January Alrosa president Vyacheslav Shtyrov was elected president of Sakha with 59.2 percent of the vote (*strana.ru*, 14 January). His main challenger, Fedot Tumusov, president of the SAPI financial-industrial group, received 34.6 percent of the vote. Voters from major cities and industrial areas threw their support to Shtyrov, while rural districts favored Tumusov. More than 75 percent of the electorate participated in the second round of voting and more than 60 percent in the first round, a large turnout stimulated by the authorities' decision to give 100 ruble discounts on utility bills and lottery tickets for non-cash prizes (*The Moscow Times*, 24 December).

In the months leading up to the presidential elections, allegations of bribery and pressure on journalists abounded. Although Central Electoral Commission President Aleksandr Veshnyakov criticized the lotteries and other inducements to bring out the vote, he did not anticipate taking any legal steps. "At least no one in the Sakha Electoral Commission participated in the lottery," said Veshnyakov (*strana.ru*, 14 January).

Controversy surrounded the Sakha presidential election for months because of outgoing president Vladimir Nikolaev's interest in running for a third term, a move opposed by the Kremlin although permitted by the 1999 federal law governing regional political institutions (See *EWI Russian Regional Report*, 7 November 2001). Moreover, federal and republic courts

disagreed over the legality of Nikolaev's candidacy--the republican Supreme Court rejected Nikolaev's bid three times for violating the Sakha constitution, which established a two-term limit for the presidency. Thus, paradoxically, Nikolaev could claim that in seeking a third term he was harmonizing republican legislation with federal law. Although the republican court kept requesting a clarification from the federal Constitutional Court, the latter refused to provide one on the grounds that the republican elections would have to be postponed for there to be sufficient time to issue a ruling.

President Putin, who has criticized Sakha's handling of the Lensk flood relief and sought to expand federal control over the republic's diamond resources, ultimately stepped in personally to resolve the matter. In a meeting with Nikolaev, Putin offered to withdraw the Kremlin's candidate, Deputy Prosecutor General Vasilii Kolmogorov, and support Shtyrov's candidacy. Nikolaev agreed to forego a third term if Shtyrov ran, reportedly viewing him as an ally who would protect him from any future criminal proceedings. The federal Audit Chamber recently intervened to freeze money allocated to the Sakha authorities and Alrosa to rebuild homes and roads affected by the Lensk floods in response to allegations of possible misappropriation of 2 million rubles in flood relief funds (*Vremya novostey*, 3 December).

There has been considerable speculation over who will replace Shtyrov as head of Alrosa. One of the mostly likely candidates is the controversial Pavel Borodin, a former mayor of Yakutsk, who became head of the Kremlin property department in 1993. Borodin is under investigation in Switzerland following allegations that he took \$25 million in kickbacks on construction contracts. Another possible candidate is Vladimir Litvinenko, head of the St. Petersburg Mining Institute (*Moscow Times*, 21 December).

For the Kremlin, control over Alrosa's assets is the key issue. In June 2001, federal auditors investigated the history of the company's incorporation and Sakha's majority ownership (See *EWI Russian Regional Investor*, 6 June 2001). Sakha and federal authorities currently each own 32 percent of Alrosa shares, while 23 percent belongs to the workers, 8 percent to eight Sakha district governments, and 5 percent to a federal veterans' organization. After Putin asked Prime Minister Mikhail Kasyanov to take steps to protect state property in the diamond industry, the Property Ministry began investigating ways to increase the federal stake in Alrosa to 51 percent. To forestall any reappropriation of Sakha shares, Nikolaev decided to transfer the republic's 32 percent stake to Sakhinvest, a private fund (*Kommersant Daily*, 30 November; *Vedomosti*, 30 November). Sakha receives 70 percent of its revenue from diamonds.

On 10 December, Putin met with Nikolaev and Shtyrov to discuss the diamond industry's development (*polit.ru*, 10 December). The Finance Ministry (which controls the State Diamond Depository, Gokhran) recommended that, over the next five years, Alrosa gradually reduce its diamond sales through the South African company DeBeers, which is part of the Kremlin's strategy to develop the domestic diamond industry. According to the agreement reached on 17 December, DeBeers will market half of Alrosa's annual rough diamond output, valued at \$800 million (See *EWI Russian Regional Investor*, 12 December).

Alrosa, which signed the agreement with DeBeers for the first time (instead of the federal government), can sell the remaining half of its diamond output to domestic companies, export it, or postpone sales depending on price fluctuations. The firm hopes that the new

agreement will help boost production and attract investment, in addition to expanding its marketing options, formerly monopolized by DeBeers (*The Russia Journal*, 21 December). Moreover, the South African company provided price guarantees in response to Alrosa's complaints of excessive discounts. In anticipation of the new agreement, on 29 November Standard & Poor's raised the company's long-term credit rating from triple C-plus to B-minus, outlook stable. Thanks to the new agreement with DeBeers, Gokhran also has the right to sell its own reserves on the open market. - Elizabeth Wishnick

## **PATTERNS OF REGIONAL DEVELOPMENT**

### **SAMARA'S ECONOMY SHAPES POLITICAL CONFLICTS**

By Natalya Zubarevich, Moscow State University

Recent analyses of events in Samara do not pay enough attention to the economic roots of the political conflicts in the region. Without studying these underlying causes, it is impossible to understand the political situation.

#### **A Leader Among Russian Regions**

Two factors make Samara Oblast one of Russia's best-developed regions (6th among the 89 regions in terms of gross regional product) and a donor to the federal budget. First is the Volga Automobile Factory (AvtoVAZ), which produces 55 percent of the region's output and more than two-thirds of Russia's cars. Even in the worst years of economic decline between 1993 and 1996, the factory only reduced output by 20-25 percent. The second factor is a well-developed oil and chemical industry. The oblast pumps 8 million tons of oil a year and boasts several large refineries. Despite declining output in the 1990s, the refineries and the chemical industry preserved their export potential, allowing them to remain economically stable. Automobiles and petrochemicals allowed the region to survive the decline in aerospace and other parts of the military-industrial complex in Samara.

Nevertheless, over time the oblast is becoming an appendage of AvtoVAZ, and car production is becoming increasingly dominant. In 1991 "machine building" made up 42 percent of Samara's industry, according to Goskomstat statistics. By 1999, it made up 59 percent.

The drop in oil production is not the only factor that explains the declining role of energy in the Samara economy. Also important are the pricing practices of Yukos, which owns the drilling and refining facilities located in the oblast. Yukos, like other Russian oil companies, sets the price of the oil it produces in Samara artificially low and transfers profits out of the oblast by selling this cheap oil to other units of the company located elsewhere. The result is to deprive the oblast and local budgets of tax revenue.

The oblast's economic policy also contributes to its success. Many view Samara as one of the most progressive and reformist regions in Russia today. It was one of the first to develop norms for making financial transfers to local governments. It also adopted an oblast land law allowing for private property and the sale of agricultural land. In 1999 it adopted a law on

investment, providing incentives to investors, and was one of the first regions to attract foreign investors.

### Slowing Growth

While Samara remains a leading region, during the last two years its growth rate has slowed in comparison with other regions. As early as 1999, the growth of Samara's gross regional product was slower than in other parts of Russia. The oblast is increasingly dependent on conditions in the automobile industry and the fate of the AvtoVAZ factory, while the 1998 crisis fostered greater economic diversification in other regions. The growth of small business has come to an end, although this sector has been one of the most advanced among the Russian regions since the 1990s.

The ownership structure of the oblast indicates potential sources of investment. Samara is in a good position because it has a wide variety of owners, but diversification does not necessarily lead to development.

Many of Russia's largest companies are active in Samara and they are pursuing a variety of policies. Yukos is pursuing a typical rent-seeking policy, earning income from existing facilities without significant investments. Siberian Aluminum has modernized the aluminum plant that it had purchased and has already received international product quality certification. The Siberian-Ural Company (SIBUR), closely connected to Gazprom, has purchased several factories, but they have yet to increase output. The Unified Energy System (EES) plays a large role in the region, where it has several generators. The creation of the Middle Volga Energy Company on the base of Samaraenergo increased this influence. Although the new company controls electricity supplies in some neighboring regions, it has not brought in new business to Samara.

Regional groups are also prominent owners. At AvtoVAZ, the top managers of the factory own a controlling stake, although the state holds somewhere between a quarter and a third of the shares as collateral on AvtoVAZ's tax debts. AvtoVAZ owners do not have the resources or the access to loans required to modernize the factory. Local business elites own the local fertilizer factory, construction firms, a large part of the food industry, the quickly developing telecom business, and the banking sector.

The main foreign investors in Samara are Nestle, Danone, and potentially General Motors, which may set up a joint venture with AvtoVAZ, though many similar plans have not been realized in the past.

Overall, despite the diverse local, national, and international group of enterprise owners in the region, there are not many sources of investment or sectors where growth can be expected.

### Highly Urbanized Population

Before looking at political issues, it is important to note Samara's population structure. Samara is highly urbanized, with 80.5 percent of the population living in cities. Most important is the Samara-Togliatti megalopolis, where 2 million of the region's 2.6 million people live. This

extensive urbanization has a positive effect on the ability of the population to adapt to change. The combination of the two cities into one agglomeration generates many advantages in terms of a large, concentrated consumer and labor market. However, competition between the two centers for leadership often cancels out these advantages. As the site of AvtoVAZ, Togliatti produces twice as much industrial output as Samara and has a higher standard of living. It also generates much more tax revenue than any other Samara Oblast city.

The city of Samara also sends more money to the oblast budget than it receives back. However, the city budget receives fewer funds per resident than other cities in the region. Per person, the city receives 25 percent less than the oblast average and only one half of what Togliatti receives.

This injustice is a result of the poor relations between Samara Governor Konstantin Titov and Samara Mayor Grigorii Limanskii. When Limanskii became mayor he did not pay back an international loan to develop the city's public transportation system. As a result, the oblast took over the debt and now is using money that would otherwise go to the city to pay it back. Additionally, the Samara mayor conducts a populist policy that blocks housing reform, meaning that considerable resources must go into housing subsidies. To force the mayor to change his policies, the oblast limits his access to resources.

Given his conflict with the Samara mayor, the governor formed an alliance with the city of Togliatti, which has taken on many of the functions of the oblast capital. As a result of such favoritism, Togliatti has been able to maintain its high standard of living. The situation has hurt Samara, and should the conflict continue, the oblast center will face diminished development opportunities.

The city of Samara's budget problems have led to increased pressure on small business. This sector grew especially quickly in 1997-1998, but has been shrinking in real terms since 2000. Such economic problems are not so apparent with the city of Togliatti. As a result, the two centers of the oblast's megalopolis are growing farther apart.

## The Future

Samara Oblast's future development depends on several factors:

First, the timing of Russia's entry into the World Trade Organization is crucial. Russia's accession will hurt AvtoVAZ, since high tariffs now protect its products.

Second, considerable future revenue depends on whether the oblast can change its relationship with the large Russian oil companies that are using its resources without investing in the region.

Third, the overall political atmosphere in the region depends on the ability of the governor and Samara mayor to resolve their dispute. A continuation of the hostilities would hurt the reformist image of the region, continue to dampen growth and modernization of the oblast economy, and worsen conditions for small business.

Fourth, Governor Titov has recently sought federal office (competing against Putin in the 2000 presidential campaign). This effort cost him control over his home region, adversely affected the local business climate, and strengthened leftist and populist groups.

In general, Samara will not lose its leadership position in the coming years because its overall economy is generally sound. However, the trends of the last two years show that without constant attention from the oblast leadership, the advantages the region now enjoys will start to dissipate.

## **THE INTENSIFIED SEARCH FOR A SOLUTION TO THE TERRITORIAL DISPUTE**

### **SEPTEMBER 11 FOSTERS PROGRESS IN RUSSO-JAPANESE RELATIONS**

by Gilbert Rozman, Princeton University

It is time to take a fresh look at advances in bilateral relations between Russia and Japan since Vladimir Putin took office. Difficult decisions remain on both sides over the territorial dispute, but the outline of an interim settlement parallel to the one between Russia and China can be discerned. To appreciate what may occur, we need to trace the state of negotiations, the preconditions for an agreement, and its potential contents.

Bilateral relations, which had been at a dead-end until 1986, passed through three stages prior to the year 2000: 1) the Gorbachev era; 2) the early Yeltsin era; and 3) the Krasnoyarsk process of the late Yeltsin era. A quick review of each stage points to the importance of a rapidly changing great power environment after the Cold War. In 1956, when diplomatic relations were restored, no peace treaty was signed. Moscow committed itself to return two small islands, Shikotan and Habomai, close to Hokkaido, but only on the condition that a peace treaty was concluded. Tokyo insisted on four islands, adding Kunashiri and Etorofu, together labeled the "Northern Territories." In 1960 Moscow, angered by the renewed U.S.-Japanese Security Treaty, abandoned its pledge to return any islands. It called all four islands the "Southern Kuriles" and administered them through Sakhalin oblast, over time making them a gateway for the Okhotsk Sea nuclear submarine force. Although large economic projects were started in Siberia and the Russian Far East when Japan was looking for natural resources, relations deteriorated sharply in the late 1970s and remained poor in 1985. Neither side was prepared for compromise.

The Gorbachev era was dominated by expectations in Japan for the "entry" approach, whereby Moscow would have to promise the return of all four islands before economic assistance and other bilateral ties would develop. All eyes focused on when Gorbachev would come to Japan and what present (*omiyage*) he would bring. On the Soviet side, glasnost came late to coverage of Japan. Apart from some papers by Japan specialists in 1990-91, there was little talk even of a return to the 1956 treaty promising two islands. Despite hopes that Gorbachev would make a bold decision without regard for public opinion, there was little prospect for a breakthrough. Even after Japan switched in May 1989 from the "entry" approach to a "balanced equilibrium" on economics and territory and Gorbachev turned more attention to Japan, the all-or-nothing atmosphere made step-by-step advances difficult. When Gorbachev visited in April 1991, he was sandwiched between intensified old-guard criticism and a growing rivalry with Boris Yeltsin and had little room for maneuver.

After six years of waiting for Gorbachev, Japan began a six-year wait for Yeltsin that finally led to a turning point at Krasnoyarsk in November 1997. Japan tried various ways to persuade Russia: a public relations campaign, use of the G-7 summits to mount collective pressure to return the four islands, humanitarian assistance in the Russian Far East to boost feelings of gratitude and dependency, and efforts to get Yeltsin to act boldly while dampening criticism to prevent Japanese opinion from turning against further economic assistance. In the "Tokyo Declaration" of October 1993, officials reconciled themselves to calling for a solution based on "law and justice" and inserting the names of all four islands. Yeltsin's reelection was followed by reassurances that Japan was eager to improve relations with the territorial question no longer so much in the forefront. In July 1997 Hashimoto Ryutaro announced Japan's new "Eurasian diplomacy."

Of all great power relations, Japanese-Russian ties were, at least on the surface, the most solicitous of each other from the time of the Krasnoyarsk summit. Both sides repeatedly tried to convey an image of progress. Yet, their contrasting interpretations of what had transpired in November 1997 suggest that they were fighting an uphill struggle. On the Japanese side, the message from the first "no-necktie summit" was that Yeltsin had agreed to make every effort to solve the territorial problem by the year 2000; dealing with all four islands and accepting the formula of the "Tokyo Declaration" could only mean that the outcome would be exactly what the Japanese wanted. Japan's press responded as if a deal for the return of all four islands was almost a *fait accompli*. In contrast, the Russian press mistook Japan's eagerness for a decision to mean that pressure for concessions on the islands would be ended since Japan had changed course to build long-term ties. Optimism on the Russian side faded after the Kawana summit in April 1998, when Japan called for a demarcation just north of the fourth island, and on the Japanese side after the Moscow summit in November 1998, when Russia answered with a call for a peace treaty in 2000 before the territorial issue was resolved. Neither side had really expected to compromise much; yet, they maintained a semblance of progress.

For a year after Vladimir Putin was elected president of Russia, Japanese diplomacy targeted him in pursuit of a breakthrough in bilateral relations. A leading LDP politician, Suzuki Muneo, enlisted Mori Yoshiro into this pursuit when he suddenly replaced Obuchi Keizo as prime minister. Working with a small group of Foreign Ministry Russia experts, Suzuki succeeded in narrowing differences during talks with Russian officials. Japan redefined the path of negotiations to treat two islands first, and Putin, when visiting Tokyo in September, recognized that the 1956 treaty, in which Moscow pledged to return two islands, is still in effect. Over the following six months leading to the Irkutsk summit in March 2001 a struggle ensued inside the Japanese Foreign Ministry and the LDP over the initiative towards Russia. It became highly personalized, blaming Suzuki, who was serving in the number two post in the Foreign Ministry, for hijacking foreign policy. When Putin went further at Irkutsk in accepting the 1956 treaty as a basis for future negotiations, critics in Japan viewed this as a step backward that suggested the Japanese government was preparing to sign a peace treaty in return for two islands first. After Mori's resignation in April, his successor Koizumi Junichiro and Foreign Minister Tanaka Makiko reversed Japan's Russia policy. Japanese foreign policy reached an impasse that lasted until the September 11 terrorist attacks in the US altered the global environment.

After Putin had aligned himself with the US war against terror and Japanese relations with both China and South Korea had deteriorated due to nationalistic textbooks and other causes, Koizumi had good reason to reconsider. In late October relations with Russia were back on track amidst speculation that a deal might follow since it fits the great power logic of both countries. Many preconditions were now in place. With bold leadership and a new willingness to compromise on both sides, an agreement can now be realized. Although Koizumi and Putin started with strong nationalist credentials, each has reason to consider abandoning some nationalist goals in order to have a better chance of realizing others. Russians now say that the ball is in Koizumi's court, but Putin too will have to challenge nationalists by agreeing to more talks on the status of the two islands.

From 1986 Moscow was engaged in border talks aimed at normalizing relations with both Beijing and Tokyo. In both sets of talks there were grounds for reaching an agreement on some of the disputed territory despite intensely opposed views on two or three islands. Recognizing the seriousness of their geopolitical situation and the urgency of a settlement, Beijing and Moscow compromised. They agreed to demarcate the border with the expectation that many small islands or parcels of lands would be transferred to China, while setting aside the three most sensitive islands for future negotiations. Tokyo and Moscow did not reach an agreement. They lacked a similar impetus to act, while the military on the Russian side and the far right on the Japanese side were obsessed with the value of the disputed islands to their objectives. Yet, from the beginning the contours of a compromise could be clearly identified. Japan would receive the two islands close to its shores, a joint arrangement would be made for the other two islands, and a new stage of negotiations would follow a peace treaty. A compromise may include five elements:

### **Elements in a Compromise Agreement between Japan and Russia**

- 1) Russia would transfer to Japan the two islands, Habomai and Shikotan, comprising 7 percent of the disputed territory.
- 2) Russia and Japan would agree to joint development of the other islands, Kunashiri and Etorofu, blurring sovereignty while protecting each side's claim to it.
- 3) A peace and friendship treaty would finalize the normalization reached in 1956 after the hostilities of August 1945, while acknowledging disagreement.
- 4) The two countries would announce a big boost to geopolitical as well as economic ties, centering the latter on energy and infrastructure as well as regional economic integration.
- 5) Further talks would be planned on resolving the status of the remaining two islands, for which Japan would likely offer added economic assistance.

A deal along these lines would rile Russian communists and other nationalists who have opposed the return of two islands, despite the 1956 accord, and object to an ambiguous status for the other islands. It would also alarm Japanese right-wingers and other nationalists who insist that Japan is entitled to four islands and must not make any agreement that may allow Russia to conclude that there is no need for future concessions. In neither country will it necessarily be easy to override this opposition, but the chances of doing so have risen recently.

The preconditions for a compromise along the above lines were slow to take shape over the past fifteen years. The situation is quite different from what prompted an agreement between China and Russia, where the priority to act was much greater. After all, China and Russia were very eager to cut military expenditures along their border sharply and to boost bilateral ties as a lever against other problematic great power relations. Each side recognized that their split over more than two decades had imposed a huge cost. In contrast, Moscow calculated that Japan's disinterest had largely resulted from the state of relations with Washington, while Tokyo was riding high in the late 1980s and expecting to have increased leverage in the next decade. Neither side dwelt on what had been lost due to poor relations. In fact, the presence of the Soviet threat had allowed the LDP to achieve its domestic political goals and prove its indispensability to the US as the centerpiece in its geopolitical strategy. Only as the post Cold War era unfolded did the two sides come to recognize the extent of their need for each other more, but conditions were missing for decisive action. In 2000-2001 additional prerequisites were realized. At last, there is a serious chance for a breakthrough, as seen in the list of preconditions that are now in place:

### **Preconditions Realized for a Breakthrough between Tokyo and Moscow**

- 1) Popular national leaders with a mandate for strong policies.
- 2) Good relations of both parties with the US in a shared cause against a common enemy, tempered by concern that US power is excessive and dependency must be reduced.
- 3) Shared concern about China's growing power, accompanied by strong expectations that its behavior can be shaped through joint efforts and regional integration.
- 4) A sense in each country that it needs to find a long-term solution to serious economic troubles and that bilateral ties can help.
- 5) Shared optimism that regional energy development will serve both economic and geopolitical objectives.
- 6) Concern by each that more clout is needed in the unpredictable evolution of the Korean peninsula and that the other party can help.

Through the 1990s most attention focused on whether the Russian side had the preconditions for reaching a deal. There was talk that public opinion was unprepared, Yeltsin's popularity was too low, Russians were focused on the imbalance between rising US power and their country's declining power, and Russia did not need investment because it lacked a strategy for economic development. Often it was assumed that once these circumstances had changed, Russia would be willing to agree to the return of four islands. Thus, there was no need to consider preconditions on the Japanese side. But in 2000, when Japanese leaders began considering a deal that would not bring four islands in one batch, attention naturally turned to the barriers on the Japanese side. Similar themes were raised: public opinion was unprepared, Mori's popularity was too low, Japanese did not appreciate the geopolitical benefits from a deal with Russia, and economic planning centered elsewhere. Just as Russians had insisted earlier that Japanese ignored the realities in their country in assuming that a deal was within reach, Japanese responded in 2000 and the first half of 2001 that Russians were being lulled into false

expectations that the Japanese side was ready to make a deal. To be sure, barriers endure, but at the start of 2002 many more preconditions are in place.

As for leadership, Russia and Japan are among the few countries whose current leaders enjoy popularity ratings in excess of 80 percent and reputations that suggest they could become national saviors. Putin and Koizumi each has a lot of political capital to spend on a thorny issue, which may produce an angry minority backlash but would be likely to boost the image of a strong leader willing to tackle the most daunting challenges. After September 11, 2001 Putin made a dramatic shift in Russian foreign policy, bringing Moscow and Tokyo together on the side of the US against a common enemy. Koizumi seized the opportunity to push through a law allowing Japanese armed forces to venture into distant zones of hostilities and assist the US. In late January 2002 Japan will host an international conference on assistance to the new Afghan government.

Both Moscow and Tokyo seek ways to stabilize Central and South Asia against the threat of terrorism. The US would welcome their closer cooperation, yet both also are concerned by the enormous power of the US and its unilateral inclinations.

China also is driving the two states closer. Japan's concerns about the rise of China mounted in the 1990s and show no sign of diminishing. Although Russian official policy belies such concerns, below the surface many voice a similar viewpoint. China remains the primary objective in Asia for the engagement policies of each state, and there is no reason to expect that to change. They can turn to each other not to contain China, but to gain more leverage in shaping its behavior. As talk of Northeast Asian regionalism intensifies, they may be comforted by each other's presence as a check on China. In Russia many see the ongoing economic recovery as still incapable of solving the crisis in the depressed, but promising, Russian Far East. Japan's economy has sunk recently, punctuating nearly a decade of stagnation. Each country needs a thoroughgoing set of reforms, but each could find hope in plans for regional integration. At a time of global concern that instability in the Middle East could interrupt energy deliveries and of rising expectations that Russia and Central Asia will lead the way in expanding oil and gas supplies, Tokyo and Moscow have reason to appreciate each other more. Important progress is being made near Sakhalin, and inland projects are receiving closer scrutiny. Energy security is driving Japan to Russia, while energy development and investment growth focuses Russia on Japan. Finally, North Korea's weapons of mass destruction constitute the greatest uncertainty for Japanese security, while offering Russia an opportunity to show the world that it must be consulted. They need each other.

There is, of course, no guarantee that a breakthrough is near. After many false alarms, this time at least we should be aware that a genuine opportunity exists.

Gilbert Rozman is Musgrave Professor of Sociology at Princeton University and is currently working on a book entitled "Northeast Asia's Rocky Road to Regionalism, 1989-2002: Great Power Competition and Clashing Perceptions."

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## INCREASING STATE-BUSINESS TIES

**GOLD MAGNATE BECOMES ADYGEYA PRESIDENT.** On 13 January, Adygeya, one of the poorest regions in the Russian Federation, elected gold magnate Khazret Sovmen, a native of the republic, as president. Although many of the national television networks described the results as "sensational," local observers had long seen the election as inevitable. The results only confirmed the ineffectiveness and bankruptcy of incumbent President Aslan Dzharimov's policies and demonstrated that he had lost his former popularity. Sovmen won 69 percent of the vote, compared to about 10 percent for Dzharimov. Participation was relatively high at over 60 percent. Adygeya is a North Caucasus republic wholly surrounded by Krasnodar Krai.

In his campaign, Sovmen pledged to invigorate the Adygeya economy, and there is reason to believe that he will have a positive impact. Sovmen is the president of the Polyus gold mining company. His officially declared annual income is 60 million rubles greater than the republic's projected budget expenses. Sovmen's victory follows a string of similar successes for rich corporate leaders in regions like Chukotka, Taimyr, and Evenkiya.

Sovmen has earned a reputation as a generous philanthropist. In addition to using his own money to build a modern hospital in the region, he has donated more than 100 million rubles to the social and economic development of the republic's Takhtamukaiskii Raion. In 1997 he donated one billion rubles to each of the republic's raions to support local agriculture. Last year he gave nine Russian universities, including Adygeya State University, 9 million rubles each. He has built dormitories at Kuban Agrarian University and provides dozens of student stipends. He donated a significant amount of gold to decorate the cupola of the Christ the Savior Cathedral in Moscow and served as the general sponsor for the recent city day celebration in Krasnodar.

Sovmen's close connections with prominent national politicians and activists also helped him win the election. He is friendly with Moscow Mayor Yurii Luzhkov, Krasnoyarsk Governor Aleksandr Lebed, Krasnodar Governor Aleksandr Tkachev, and Patriarch Aleksei II. He has pledged to work closely with Putin.

In his campaign, Dzharimov touted the republic's interethnic peace as one of the main accomplishments of his rule. However, most residents believe that Adygeya managed to achieve such peace in spite of Dzharimov rather than thanks to him. Most voters were focused on economic issues, hoping that a new leader would create more jobs. Demonstrating that he is in tune with the popular mood, shortly after his election, Sovmen said that job creation will be his top priority.

Clan politics also played a role in the elections. For several years there has been a battle between clans associated with Dzharimov and Sovmen. Dzharimov's group is known as the Koshekhablskii clan, since many of the key figures in the president's team are from the Koshekhablskii Raion. The population of this area is Russian, Kabardinian, and Temirgoevian, an Adygei subgroup. Sovmen's group is associated with the Western raions of the republic, near the suburbs of Krasnodar. Residents there include Russians, Bzhedugs, and Shapsugs, both representatives of another Adygei subgroup. Sovmen is a Shapsug, while ethnic Russians make up the majority of the population in the republic.

Some of the Shapsugs and Bzhedugs felt that Dzharimov's group discriminated against them in providing access to the authorities and other resources. Several years ago, Asker Zhane, the chief doctor of the Maikop City Hospital and a Shapsug, was fired. His co-ethnics staged a protest and demanded the right to defend him at a meeting of the republican parliament. Several republican newspapers have continued to discuss the case.

Sovmen has expressed support for his Shapsug people and Zhane. He built a modern hospital in the Shapsug village of Afipsip, where Zhane is now the director. In addition to his medical duties, Zhane served as Sovmen's campaign manager. Thus, from the very start, a significant number of Adygeyans were ready to back Sovmen.

Because Sovmen's campaign team was ethnically diverse, and because Sovmen himself has spent a significant part of his life in the Russian North, many ethnic Russians also voted for him. Tensions between ethnic Russians and Adygeyans did not play a central role in the campaign. - Oleg Tsvetkov in Maikop

## USING RUBLES TO PREVENT VIOLENCE

**REGIONS CONTINUE TO DEPEND ON FEDERAL BUDGET FOR KEY SUPPORT.** The 2002 federal budget will have a wide range of consequences for the Russian regions. Federal spending affects the regions in two ways. The most visible and direct mechanism is the Federal Fund for the Financial Support of the Regions, which provides direct transfers to the regions. Additionally, federal spending on all other programs, such as road construction, has an obvious territorial element, with some regions benefiting more than others.

In 2002, the Federal Fund for the Financial Support of the Regions comprises 147.5 billion rubles. Most of this money (135.9 billion rubles) will go for leveling the amount of budget support across regions. The largest recipients are Dagestan (9.5 billion rubles) and Sakha (8.0 billion). Overall, 71 regions will receive direct financial support.

Additionally, the budget has set aside 18.7 billion rubles to co-finance social expenditures and 17.5 billion rubles for regional development (2.2 billion rubles more than in 2001).

Most controversially, the budget provides 12.3 billion rubles for the social and economic development of Tatarstan through 2006 from the regional development fund. During the State Duma's budget debate, Deputy Vladimir Grishukov suggested reducing the aid to Tatarstan. He pointed out that the 13 regions of the Far East combined will receive only 681 million rubles in 2002 for federal development programs. Deputy Viktor Grishin explained that President Putin personally had made the decision to give Tatarstan so much money and therefore it was necessary to approve the budget line without question.

The budget sets aside 1.8 billion rubles for the federal program to develop the Russian South and 490 million rubles to develop the special economic zone in Kaliningrad Oblast. Far less money is going to the development of the Kurile Islands (221 million rubles) and to a program to reduce the differences in social and economic development between the regions (2.0 million rubles). Although the federal government has reduced the number of programs to spur regional development from 50 to six, federal funds cover only a fraction of these programs' needs. - Lilia Troshina in Moscow

**MOSCOW PAYS HIGH PRICE FOR DAGESTAN'S STABILITY.** In 2002, for the fourth year in a row Dagestan will receive more federal grants, transfers, and subsidies per person than any other Russian region. Politics is the only explanation for Moscow's largesse. The federal government wants to ensure that Dagestan, the largest region in the volatile North Caucasus, remains stable and loyal, especially as the Chechen conflict continues. Because of the on-going fighting, there is constant danger that new regions with large Chechen populations and underground networks of radicals preaching a militant strain of Islam, will be drawn into the fighting. Dagestan's current leadership has been able to preserve the peace, and Moscow is willing to pay significant sums for this service despite wide-spread financial violations in the region.

Past federal aid to the republic has not led to improved economic development and numerous mid-level bureaucrats have been at the center of corruption scandals involving the inappropriate use of federal funds. At the end of 2001, the Russian Audit Chamber found that Dagestani officials had misused \$23 million sent by the federal government for social programs. Nevertheless, Federal Auditor

Sergei Ryabukhin said at a December 2001 Moscow press conference that the amount of federal aid Moscow sends to Dagestan is justified.

The record sums given to Dagestan may also reflect federal support for Dagestani leader Magomedali Magomedov, who is likely to run for a third term in June 2002. The republic amended its constitution in May 2001 to allow him to seek an additional term (see *EWI Russian Regional Report*, 26 June 2001). In a region that receives 90 percent of its budget funds from federal subsidies, Dagestani voters have always considered Magomedov's ability to secure money in Moscow his greatest strength.

The list of benefits Dagestan receives from the federal budget is impressive. This year the republic will accrue more than 9.5 billion rubles from the Federal Fund for the Financial Support of the Regions. Through 2006 Dagestan will also receive more money from the federal program to develop the Russian South than will any other region of the Southern Federal District: 337.7 million rubles. The republic will also receive 13.3 million rubles from the federal 2002 budget to improve the health of children and teenagers. Dagestan will also get much more money from the federal government for road construction than will other regions in the south: 472.8 million rubles.

The federal budget has set aside 231 million rubles to ensure that Dagestan's public sector workers receive the larger salaries Putin enacted on 1 December on time each month. The federal budget has set aside 133 million rubles to provide benefits to invalids, and 652.6 million rubles for children's benefits. The federal budget will also provide funds for a variety of other purposes. - Nabi Abdullaev in Moscow

## **CENTER-PERIPHERY RELATIONS**

**LATYSHEV UNHAPPY WITH POLICE REFORMS IN URALS...** Presidential Representative to the Urals Federal District Petr Latyshev expressed dissatisfaction with the reform of the Ministry of Internal Affairs in his district and its overall crime-fighting effort at a 9 January press conference. "Minister Boris Gryzlov and I agreed to conduct a comprehensive analysis of the crime situation in the Urals Federal District and in the individual regions of the district. On the basis of this analysis, we will develop concrete programs aimed at stabilizing the situation and reducing the crime rate," Latyshev said.

Latyshev was happier with his progress in other areas over the last eighteen months. He said that he succeeded in 2001 in harmonizing regional laws with federal norms, with Sverdlovsk Oblast being the last to fall into line. Latyshev also noted that investment and exports had increased in the district, and that tax avoidance was declining. Additionally, the new justice of the peace system in the Urals Federal District reviewed more than 100,000 cases in 2001, significantly reducing the load on the over-burdened justice system. However, Latyshev complained that Sverdlovsk Oblast had yet to implement the reform.

Latyshev made clear that in the future he would seek to exert greater influence over the governors in his district, particularly in the way that they appointed key subordinates. He said that he would hold specific individuals responsible for carrying out the responsibilities assigned to them by federal law and the decisions of the federal authorities. He said that there was much work to be done in creating a reserve force of people who could serve in important positions, increasing the effectiveness and professionalism of the management training system, and raising the level of training among state employees. Currently the Urals Academy of State Service, which is subordinate to the presidential administration, provides such training. Latyshev's statements suggest that now the presidential

representative will have direct control over this institution. However, it remains unclear how much the presidential representative can do in this field. - Sergei Pushkarev in Yekaterinburg

**...AS VOLOSHIN MAKES INSPECTION VISIT.** Presidential Chief of Staff Aleksandr Voloshin visited Yekaterinburg on 17 January to meet with Presidential Representative to the Urals Federal District Petr Latyshev and other officials in the district. Voloshin plans to visit each of the seven federal districts, and has already been to St. Petersburg in September 2001 (RFE/RL Newsline, 22 January). Voloshin generally praised Latyshev's accomplishments, but drew attention to the need to deal with the district's crime rate, which remains high, as well as with its flourishing corruption. Latyshev, who is a former police general, will pay special attention to crime and corruption this year, perhaps making it his top priority. - Natalia Mints in Yekaterinburg

## BUSINESS AND POLITICS

**MAJOR RUSSIAN COMPANIES PURCHASING PRIMORSKII KRAI PORTS.** Some of Russia's largest financial-industrial groups are purchasing Primorskii Krai ports, bringing major new business interests to the region.

Three giant metal companies now are working in the region. Last year Severstal bought 60 percent of the shares in the Vostochnii Commercial Seaport, and this week Evrazkholding (which owns major metals plants in Western Siberia and the Urals) announced that at the end of December it had purchased 60 percent of the shares in the Nakhodka Commercial Seaport, mainly from port workers. The Novolipetsk Metallurgical Combine is seeking to purchase shares in the Vladivostok Commercial Seaport. The port is now on the verge of bankruptcy, and the battle for influence over it has become political, with Port General Director Mikhail Robkanov fighting off the outsiders. Robkanov unexpectedly ran for a seat in the krai legislature in December. At the same time, the Novolipetsk factory sought to elect an entire slate of candidates as part of the group "Lyudi dela (People of Business)." The elections were declared invalid because of low turnout and rescheduled, but had the results stood, Robkanov would have won his seat, while the Novolipetsk bloc would have failed to gain representation.

The metal companies all share a common interest in the ports. Having lost markets in the US due to American charges that Russia is dumping steel at an artificially low price, the factories are now seeking new customers in Southeast Asia. By investing in the ports, the metal plants seek to reduce both the fees they must pay to export their products and the price they must pay for railroad transportation across Russian territory. It currently costs \$1.50/ton more to send goods to Nakhodka than to Vladivostok. Since the railroads ministry is a major consumer of steel, the factories may be able to influence its policies if they gain further leverage through ownership of the ports.

Large Russian companies have also purchased ports in the southern part of the krai. The MDM financial group purchased Poset Port to export the Siberian coal produced by its subsidiaries. Sibesprom, a forestry concern, has purchased the port of Zarubino to send wood products abroad.

Neither local business nor the krai administration managed to revive the ports, and it remains to be seen whether the new owners will be able to do so. Former Governor Yevgenii Nazdratenko actively lobbied for the construction of road and railroad links from port facilities to the Chinese border

crossing at Kraskino-Hunchun. Although the rail link was completed after lengthy delays, the administration never built a modern border station at the site.

With new owners, officials at the Poset Port are now hoping for a four-fold increase in turnover. Sibesprom would also like to increase sales to China, but alleged in a recent press release that Russian security concerns prevent an increase in cross-border trade. China and Japan have also expressed an interest in increased trade, but the poor customs facilities at the Russia-China railroad crossings prevent increased transactions. Moreover, Russia and China use different rail gauges, further limiting easy exchange. The Railroad Ministry has promised to deal with this problem over the next two years.

Since these large Russian companies arrived in Primorskii Krai only after Nazdratenko's departure from office, some observers have suggested that Governor Sergei Darkin, who was elected in June 2001, is helping the national firms in exchange for the financial support they offered his campaign. When asked about this, Darkin said, "The Primorskii governor has no obligations. The fate of the Vostochnii Port was decided in the spring, before I came to office." Another krai official said, "the more money that comes to the krai, the better. These people are buying the ports to make them work." - Andrei Kalachinskii in Vladivostok

## GENERALS AS GOVERNORS

### **AFTER ONE YEAR, SHAMANOV HAS MADE LITTLE HEADWAY IN ULYANOVSK.**

Until his election as Ulyanovsk governor one year ago, General Vladimir Shamanov was famous primarily for the ferocity of his fighting in Chechnya. His victory in the gubernatorial campaign, like the examples of Aleksandr Lebed in Krasnoyarsk and Boris Gromov in Moscow Oblast, offered an opportunity to see how a general would deal with the complex problems of Russia's political and economic transition. To date, Shamanov continues to battle the consequences of economic policies imposed by his predecessor, Yurii Goryachev, without notable success. The following article takes a look at Shamanov's record in office so far.

#### Deteriorating Economic Conditions

At the end of 2001, a majority of regional legislators described the results of the region's social and economic development during the first nine months of the year as unsatisfactory. They noted that industrial output had dropped 3.2 percent and that the population's real income had fallen by 7 percent. They warned that living conditions were getting worse and that Shamanov's campaign promises remained unfulfilled.

Upon taking office, Shamanov pledged to double public sector employees' salaries. According to *Kommersant Vlast*, teachers' salaries subsequently rose by 83 percent and doctors' salaries went up 76 percent. However, oblast employees receive their salaries three months late. Shamanov claims that this problem stems from the regional legislators' decision to include 400 million rubles' worth of expenditures in the oblast budget without naming any source of income to cover these costs. Unexpectedly steep energy expenditures created a deficit, which could only be covered by withholding salaries. By the end of the year, the region's teachers and doctors were on the verge of striking. The oblast only was able to pay salaries thanks to a 70 million ruble federal loan that must be repaid in 2002.

## Severe Energy Problems

Meeting the region's energy bill is one of Shamanov's greatest challenges. The oblast does not have sufficient funds to pay for its current costs for heat and electricity and has mounted up debts totaling 3.2 billion rubles. These debts are the result of the former administration's policies, which kept prices artificially low; the high cost of heat generated by Ulyanovsk's thermal electric plant; and the enormous losses incurred by transporting heat from the central plant to residential consumers.

In February and October 2001, Shamanov raised prices for hot water, heating, and electricity, bringing the price the population of Ulyanovsk pays to 48 percent of the cost, while the federal standard for 2002 is 90 percent. Shamanov believes that his price hikes were a step in the right direction and helped him win support from the Russian government by demonstrating that he is making progress, even if the situation remains dire.

Since management of the region's electricity supply has been transferred from an Ulyanovsk supplier to the Samara-based Middle Volga Interregional Energy Management Company (SMUEK), a fully-owned subsidiary of the national monopolist Unified Energy System (EES), the energy providers have taken tough measures against customers who do not pay, including shutting off their electricity supply. The suppliers have also cut electricity to some rural areas and lowered temperatures in Ulyanovsk residences. Many apartments are no warmer than 10-12 degrees Centigrade, and some schools had to be shut due to the cold.

At the beginning of the winter, Shamanov had promised that there would be no heating or electricity problems. In the middle of November, he signed an agreement with EES head Anatolii Chubais to restructure the oblast's debts over the course of 4.5 years. The Ulyanovsk mayor denounced the deal because it required the city to pay an energy bill equal to the size of the entire city budget in 2002. Shamanov made no attempt to hide the fact that the agreement is more political than economic in nature and that without it EES would not have turned on the heat when outdoor temperatures started to drop. Shamanov claims that the agreement will make it possible to seek federal funds to pay off the region's debts.

## Relations with Moscow

In contrast to Goryachev, who rarely left the oblast, Shamanov spends a lot of time in Moscow lobbying the government. Over the course of 2001, he sought a meeting with Putin; and finally, in December, the president agreed to see him. However, the meeting was postponed three times due to the president's heavy workload, with the most recent date set for late January. Shamanov wants the president's help in paying off Ulyanovsk's electricity debts, building the second part of its gas pipeline, completing construction on a bridge across the Volga, and paying regional debts to residents entitled to children's benefits.

Shamanov has also traveled abroad twice. He went to the British offices of the Volga-Dnepr aviation company and visited Denmark and Germany to view agricultural equipment. Goryachev only left Russia once, to meet with Belarusian President Aleksandr Lukashenko.

## Relations with the Mayor

Relations between Shamanov and Ulyanovsk Mayor Pavel Romanenko are not free of conflict, but neither are they antagonistic. During the 1990s, Goryachev fought bitterly with Mayor Vitalii Marusin, creating a chronic standoff between the oblast and city authorities. Shamanov wanted to elect an ally as mayor, but the voters chose Romanenko over his chosen candidate Mikhail Shkanov (now an assistant to the governor).

Shamanov has generally supported Romanenko when it comes to raising prices for municipal services and dealing with the region's electricity suppliers. Their main conflict is over the budget. The mayor charges that the oblast's tax policy only provides the city with 1.4 billion rubles in income. However, the city needs 1.7 billion rubles just to pay public sector workers (without including the December 2001 raise Putin ordered) and cover expenses for heating and electricity.

#### Failure to Build a Coherent Team

Shamanov's critics point to his failure to put together a unified management team as a critical lapse. During the campaign, Shamanov's opponents claimed that a military leader was incapable of dealing with the difficulties of a civilian economy. Shamanov then said that his top priority was to put together a team of competent managers whom he could trust. Doing so has been a long and difficult process, and the administration continues to face a high rate of staff turnover. Initially, Shamanov promised to employ locals, but most key positions have instead gone to outsiders. Among them are many military men who served with Shamanov. These officers are divided among Samara and Moscow groups, with the Moscow group connected to filmmaker Nikita Mikhalkov, who backed Shamanov's campaign.

Observers believe that Shamanov incurred numerous debts by accepting campaign support from a variety of companies. These contributions oblige Shamanov to reciprocate by handing out key offices in his administration to his financial patrons. Shamanov's critics charge that these officials are generally more interested in exploiting the oblast's resources and their personal ties than in developing Ulyanovsk. Union of Rightwing Forces activist and businessman Isaak Grinberg told Russian Radio in Ulyanovsk that over the past year the situation in the oblast has deteriorated because Shamanov's administration has not taken a single long-term strategic step to improve the regional economy.

During its first year in office, Shamanov's administration has not faced any real opposition. Now such an opposition appears to be taking shape. After a year of virtual seclusion, Goryachev recently registered a charity fund to support the poor. Additionally, the newspaper *Simbirske izvestiya* openly criticizes Shamanov. This tabloid has little real influence, but its readership is growing rapidly. So far Shamanov has taken a good-natured view of the paper, in contrast to Goryachev, who often filed suit against opposition papers and then won decisions against them in courts he controlled. A significant number of regional legislators are also inclined to oppose Shamanov, a contrast to the earlier era when the majority had been loyal to Goryachev. Now the deputies feel "freer" to oppose the governor. - Sergei Gogin in Ulyanovsk

## REGIONAL ELECTIONS

## **INGUSHETIYA'S AUSHEV RESIGNS, TAKES SEAT IN FEDERATION COUNCIL.**

Ingushetiya President Ruslan Aushev unexpectedly resigned on 28 December and subsequently accepted a seat in the Federation Council as the representative of the interim president, Republican Prime Minister Akhmed Malsagov. The North Caucasus republic will hold presidential elections on 7 April, but Aushev does not plan to run again.

Officially, Aushev said that he resigned because he wanted to ensure that the republic's presidential and legislative elections were held on different dates, claiming that this division would ensure stability. Initially, both elections were set for March 2003, but Aushev wanted to move the presidential elections up to March 2002. Central Electoral Commission Chairman Aleksandr Veshnyakov opposed the move since Aushev had been elected to a five-year term in 1998. On 26 December, the republican Supreme Court ruled that the elections could not be held on 1 March 2002. Aushev resigned two days later (*Kommersant Daily*, 9 January).

The real reason for Aushev's departure remains unclear. Aushev was a constant critic of Moscow's policies in Chechnya and therefore extremely unpopular among the federal officials who were waging that war. However, he managed to preserve stability in his region despite a huge influx of refugees from the fighting. Given the importance of clan politics in Ingushetiya and the failure of Moscow's Chechnya policy, the federal government has been very careful about intervening in Ingushetiya. Moscow did not have an alternative to Aushev who could preserve the relative peace, and so the Kremlin put up with him. One explanation for Aushev's departure is that he left while still in a relatively strong position so that he can engineer the election of a chosen successor, as Yeltsin did at the end of 1999 when he departed the political stage in a surprise move that paved the way for Putin's election.

Another possibility is that Aushev left under pressure from Viktor Kazantsev, the presidential representative to the Southern Federal District. Kazantsev, like other backers of the Chechen war, has poor relations with Aushev. General Gennadii Troshev's portrait of Aushev in his book, *Moya voyna* [My war] illustrates the military's critical view. Troshev, now the commander of the North Caucasus Military District, claims that Aushev's first loyalty is to Ingushetiya, not the federal government, despite the fact that he was a general who served with distinction in the Afghan campaign. If Aushev did leave under pressure from the federal authorities, he would be the fourth governor to do so, following Kursk's Aleksandr Rutskoi, Primorskii Krai's Yevgenii Nazdratenko, and Sakha's Mikhail Nikolaev.

So far there are three candidates seeking to succeed Aushev, and all seem to have his tacit support. The first to announce his intention to run was State Duma Deputy Alikhan Amirkhanov, who was elected to the national legislature with Aushev's backing. Ingushetiya Minister of Internal Affairs Khamzat Gutseriev has also tossed his hat into the ring. He is the brother of Slavneft head Mikhail Gutseriev and State Duma Deputy Sait Gutseriev. Acting President Malsagov has also announced his intention to run. Chief Federal Inspector Musa Kelikov considers Malsagov a compromise figure, who could be acceptable to both Ingushetiya and Moscow, perhaps increasing his chances for success, polit.ru reported.

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**ISLAM IN RUSSIA**

**DAGESTANI GOVERNMENT CRACKS DOWN ON RADICAL OPPOSITION.** The terrorist attacks at the end of December in Makhachkala provided a pretext for the Dagestani government to take measures against the only functioning opposition in the republic: Islamic radicals.

Immediately after a 19 January explosion aimed at a car carrying soldiers from the 102nd brigade of internal troops killed 7 and wounded 12, Dagestani law enforcement agencies

claimed that the Wahhabis were responsible for the attack. Republican Procurator Imam Yaraliev said that the terrorists' tracks led to Chechnya.

Over the next few days, the authorities arrested approximately 30 individuals, including Nadir Khachilaev, the head of Russia's Muslim Union, and a former State Duma member representing Dagestan. He has well-known sympathies for Islamic fundamentalists and ties with Chechen field commanders.

Finding no evidence connecting Khachilaev to the bombing, the investigators charged him with illegal weapons possession after a search of his house revealed several automatic weapons. A few days later, they charged him with a double murder in 1999. In protest, Khachilaev announced a hunger strike on 22 January while he remained in custody in Makhachkala.

On 24 January, Dagestan's leader Magomedali Magomedov met with Dagestan's mufti, Akhmed-khadzhi Abdullaev, the leader of Dagestan's traditional Muslims. The two leaders agreed that the increasing number of terrorist acts aimed at public and social leaders in the republic showed that the campaign to counteract the spread of religious and political extremism in Dagestan was ineffective. They decided to intensify their efforts to combat extremism and strengthen the ties between the state authorities and the Spiritual Department of Dagestani Muslims in order to weaken the Wahhabi movement in the republic. In September 1999, after the attack on Dagestan by Islamic extremists from Chechnya, the Dagestani parliament adopted a republican law banning any expression of support for fundamentalist Islam.

The campaign against the extremist opposition is well timed to serve the Dagestani leadership's political goals. Magomedov will seek a third term as Dagestan's leader in June. He launched his campaign on 25 January when the well-respected Council of Elders, which works under the auspices of the Dagestani State Council, the supreme leadership body in the republic, announced that it would support Magomedov in the elections. - Nabi Abdullaev in Moscow

## **CENTER - PERIPHERY RELATIONS**

**BASHKORTOSTAN DEFENDS ITS CONSTITUTION AGAINST FEDERAL ATTACK.** On 17 January Bashkortostan's Constitutional Court published an official commentary on several articles of the republican constitution that lie at the heart of the republic's contentious relationship with Moscow: Bashkortostan's declaration of sovereignty, the provision for republican citizenship, the statements that republican laws have precedence over federal laws, and the republic's claim to international status. The commentary was a response to the Russian Procurator General's attack on the Bashkortostani constitution in 2001. The procurator charged that the articles in question did not conform to the federal constitution and federal laws.

The commentary argues that the republican constitution is in line with the Russian constitution and legislation. In particular, the Bashkortostani court asserted that the republic's sovereignty should be understood as relating only to the powers of the republican authorities within the spheres of their competence; republican citizenship does not affect the priority of Russian Federation citizenship; and the precedence of republican laws refers only to laws concerning issues that are exclusively within republican jurisdiction. In line with this commentary,

the court asked the Russian prosecutor general to withdraw his charges against the republican constitution.

This commentary is the second attempt by the court to address the contradictions between the republican and federal constitutions. The first attempt occurred in October 2000, before Bashkortostan adopted a new constitution on 3 November 2000 (see *EWI Russian Regional Report*, 15 November 2000). Additionally, the Bashkortostani Constitutional Court sent a request to the Russian Constitutional Court at the end of last year seeking an explanation of the article in the federal constitution, which defines republics as states (*gosudarstva*) within Russia. The federal court has yet to examine this issue.

By supporting the Russian prosecutor general, Putin could attempt to break the resistance of the Bashkortostani authorities to harmonizing their constitution with federal norms. He has all the legal powers necessary to do this, including the ability to fire President Murtaza Rakhimov and disband the republican parliament. In taking this course, Putin could count on the support of a significant number of oblast governors who are unhappy that republics like Bashkortostan and Tatarstan have special powers within the Russian Federation, while their own regions are less privileged.

On the other hand, in supporting the Bashkortostani authorities, Putin could accept the republic's limited sovereignty within the framework of a detailed delimitation of the powers between the federal and regional authorities as determined by the guidance of Deputy Presidential Chief of Staff Dmitrii Kozak, whose committee report on this issue is due on 1 July. Such a step would win Putin support in the national republics, as Baskortostan President Murtaza Rakhimov stated in an interview with *Nezavisimaya gazeta* (27 December 2001).

Alternatively, Putin could choose not to intervene in the conflict between the procurator and the republican authorities, allowing events to develop on their own. In this case, the peak of the conflict could come at the end of the year when the republican presidential campaign will just be getting under way. In that case federal officials could seek to achieve their goals by intervening in the elections and eliminating Rakhimov from the competition just as they succeeded in convincing President Mikhail Nikolaev to withdraw his bid for a third presidential term in Sakha.

In any case, Putin's method for resolving the problem of Bashkortostan's sovereignty will indicate whether the president will continue Yeltsin's policy of making concessions to the strong republics or will seek equal status for all Russian regions. - Igor Rabinovich in Ufa

## LEGAL ISSUES

**SVERDLOVSK OBLAST CHARTER COURT UPHOLDS FREEDOM OF ASSEMBLY.** On 25 January the Sverdlovsk Oblast Charter Court struck down a Yekaterinburg municipal law that required individuals to provide 10 days notice before holding public meetings. The case followed a decision by the Yekaterinburg mayor's office to deny the local NGO "Woman Lawyer" (*Zhenskii Yurist*) the right to protest. This NGO successfully sued the city in federal court, lifting the ban. However, "Woman Lawyer" went further to challenge the constitutionality of the local law.

In effect, this Charter Court decision, which is binding and cannot be appealed, limits the powers of the Yekaterinburg mayor to ban local pickets, demonstrations and rallies. According to strana.ru, the members of "Woman Lawyer" applauded the decision and expressed confidence that now any Yekaterinburg resident or association can assemble on the streets without special permission from the municipal authorities.

The Oblast Charter Court backed the NGO in ruling that Article 4.6 of the Yekaterinburg municipal by-law "On the Procedure of Organizing Meetings, Rallies, Demonstrations and Picketing," violated both the Russian Constitution and the Sverdlovsk Oblast Charter. According to the court's decision, written by Chairman Vladimir Zadiora, local government agencies cannot regulate individual rights and freedoms because this power lies exclusively in federal jurisdiction (Art. 71 of the Russian Constitution).

The court recognized the authority of local government agencies to protect public order during mass rallies and pickets (Art. 92 of the Sverdlovsk Oblast Charter). However, local officials cannot infringe upon the constitutional rights of individuals. The court determined that the contested provision of the municipal law had nothing to do with protecting public order; instead, it infringed on individual rights.

In its ruling, the Charter Court rejected the arguments of the Yekaterinburg City Legislature, which claimed the authority to regulate street protests under a decree the USSR Supreme Soviet Presidium issued in 1988. This decree gave local governments additional powers to restrict the freedom of assembly depending on local conditions.

The Charter Court judges found that this decree was applicable only to local branches of regional (oblast) government, which were distinguished from local government bodies by Russia's 1993 Constitution. Therefore, the 1988 decree did not apply to the policies of the Yekaterinburg City Legislature, a local government body independent of the regional government. The Court also rejected the city's claim that the contested law was simply a copy of this 1988 Soviet decree. While the decree specified conditions for halting mass protest actions once they were under way, the Yekaterinburg law made it possible to prevent such actions from beginning.

Finally, the Charter Court rejected the city's claim that the contested article was identical to the 1993 Russian presidential decree regulating street protests in Moscow. In the court's view, this 1993 presidential decree applies only to the city of Moscow. Moreover, the existence of this presidential decree means that the authority to regulate the constitutional right to assembly lies within federal jurisdiction, and therefore outside of the scope of local government.

- Alexei Trochev, University of Toronto

## MEDIA ISSUES

### LITTLE REACTION TO TV-6 CLOSURE IN ALTAI KRAI

by Yurii Purgin, General Director, Altapress Publishing House, and Vladimir Ovchinnikov, Chief Editor, *Svobodnyi kurs* (Barnaul)

Television viewers, journalists, and public officials in Altai Krai had little to say about the closure of the TV-6 network in Moscow. We received few calls of protest in our offices.

The local affiliate of TV-6 in the krai quickly switched to broadcasting material from TV Center, the national network associated with Moscow Mayor Yurii Luzhkov.

Most Barnaul journalists viewed the closing of the station as predictable. Only our company, Altapress, emphasized the political aspect of this event in its coverage. Other news outlets limited their discussion to the kind of shows that will now be broadcast on the network.

The Altapress journalists published the following declaration in the newspaper *Svobodnyi kurs*:

"The authorities in Russia can still be effective! It has been less than a year since the beginning of "military activities" against the best independent television company in the country, and today Media Minister Mikhail Lesin can report that NTV and now TV-6 no longer exist.

"The closure of Yevgenii Kiselev's TV-6 company confirms that the state is continuing to build a propaganda machine, leaving no room for independent newspapers, radio, or television.

"We are deeply convinced that our country needs free journalism, providing society a full-blooded exchange of opinions and points of view that may not coincide with those of the leadership.

"We want to live in a country where the press serves the interests of all citizens and not only those in power. Today we live under a crude tyranny and a television company working beyond the control of the bureaucrats has been closed down. It is sad that again we need to defend the freedom of speech and the freedom of the press. The authorities want to turn back the clock. We will not help them to do this."

Two factors explain the muted reaction of our journalist colleagues in Barnaul. First, the media community lacks unity. While in the past Altai journalists used Altapress information in preparing a coordinated response, this time we did not feel that it was necessary to make such information available. Second, many journalists fear repression. Everyone here understands what is happening: the existence of a press independent of the state and freedom of speech are under attack. There is an illusion that by not protesting against tyranny, it is possible to secure peace for yourself and your company and avoid becoming the next victim. Possibly one of the goals of the authorities' actions against TV-6 was to make the press more servile. This goal also has been achieved.

For Altapress and other members of the Russian independent press, the situation is complicated. We expect the general pressure of the state to grow, and possibly to become more direct. Thus, self-censorship is returning to the press. The only guaranteed way to survive in such conditions is to avoid providing a pretext for such an attack in newspaper articles or day-to-day business practices.

Why is this important? Because the feeling of defenselessness causes despondency. In Russia the people will not defend their press as they do in Prague. In Russia, the court will serve only the state authorities, hardly worrying about the decency of its activities. Probably, that is to be expected if the Kremlin is building an authoritarian state. We are hoping for a better future.

## **MONEY AND POWER IN PUTIN'S RUSSIA**

*To understand Russia today, it is important to examine the complicated relationship between big business and politics in Russia's regions. In the following article, Nataliya Zubarevich traces the history of this relationship from the mid-1990s. She also distinguishes between the large oil companies, which have interests ranging across many regions, and export-oriented metal and chemical companies, who tend to focus on specific regions. In each case, she examines the different strategies the two kinds of companies pursue in various regions. In conclusion, she lays out the benefits and drawbacks from business' increasing role in regional politics.*

## **RUSSIA'S BIG BUSINESSES IN REGIONAL ELECTIONS**

by Nataliya Zubarevich, Moscow State University

Until the financial crisis of 1998, Russia's large financial-industrial groups were the main representatives of big business exerting political influence in the regions. They gained regional leverage through two methods: 1) by setting up special, informal relations with the governor, or 2) by financially supporting several regional elite groups in elections in the hope that their interests would be better served by spreading their resources among all players rather than focusing on just one official. In 1996, Gazprom was the only large company to nominate and support its own candidates in gubernatorial elections in almost ten Russian regions. Its significant financial investment did not produce winning candidates anywhere except in the Yamal-Nenets Autonomous Okrug, where the company produces most of its gas. These failures led Gazprom to reduce its ambitions significantly in the next elections.

### **Strategies of the Oil Companies**

Higher oil prices at the end of the 1990s significantly increased the amount of resources Russian oil companies had at their disposal. In contrast to Gazprom, these companies widened their political activity in the gubernatorial elections of 1999-2000. The oil barons divided much of Russia into different spheres of influence and each company worked to preserve its influence in a particular area and expand into other areas. The oil companies used a variety of strategies to exert influence in various regions.

The most economical approach was "domesticating" incumbent governors through a variety of means beyond simply supporting their electoral campaigns. This was the basic strategy of the Tyumen Oil Company. Half of the members of the company's board of directors are governors. Board member-governors came from the oil producing region of Khanty-Mansi, processing regions such as Ryazan, and consuming regions, like Kaluga, Belgorod, and others. Similarly, LUKoil supported the election of Volgograd Governor Nikolai Maksyuta.

In cases where the interests of politicians and corporations coincide, the optimal strategy for oil companies is to "consolidate resources" in bringing a loyal politician to power. An successful example for the oil and gas industry was the election of Sergei Sobyanin, who represents the oil and gas rich

north, in Tyumen Oblast. In this oblast, the resource-rich north has often been in conflict with the relatively-poor south. Now the oil interests in the north control the south through Sobyanin.

The strategy of creating a "corporate region" has been employed in sparsely populated autonomous okrugs that have large reserves of exportable natural resources. In these regions, companies have sufficient resources to bring their own top managers to power. They effectively take complete control over the entire region in order to minimize corporate expenses for working in the region, reduce corporate tax payments, and block potential competitors with the help of friendly regional authorities. The best example of this strategy was the election of YUKOS manager Boris Zolotarev as governor of Evenkiya.

When two companies come into conflict in a region, as LUKoil and Severnaya neft did in the Nenets Autonomous Okrug, the economic strength of the larger company does not always guarantee victory. LUKoil failed to elect its representative as governor in this region because it launched its campaign too early and did a poor job of defending itself against allegations that it would not hire local workers. Severnaya neft provided financial support for the election of Governor Vladimir Butov to secure a license for a large oil deposit, ultimately leading to LUKoil's loss.

In large and economically diversified regions, where there are several export-oriented enterprises and it would be too expensive for one company to impose complete control, a strategy of "dividing spheres of influence" is used. In this case, the governor becomes the guarantor of an agreement on the division of resources between two companies and the corporations support his election in this capacity. LUKoil used this strategy in Perm Oblast by supporting the election of Governor Yurii Trutnev to strengthen its influence in the oil-producing raions of the oblast and in the city of Perm, where the oil is processed.

### **Strategies of the Metal and Chemical Companies**

In contrast to the oil companies, the resources of Russia's metal and chemical companies are smaller, therefore their activities are localized in specific regions. The choice of strategies and their effectiveness are connected to the presence of competitors and the financial strength of the company.

The strategy of "domestication" was used in Khakasiya where Siberian Aluminum was dominant and had no problem reelecting Governor Aleksei Lebed. Long before the oil barons began to set up their "corporate regions," Severstal did so in Vologda Oblast, electing Vyacheslav Pozgalev in 1996 and reelecting him in 2000. Severstal's strategy was not obvious because Pozgalev was not a top official at the company and the region was too large for one corporation to control completely. Corporations successfully used this strategy in Taimyr, with the election of Norilsk Nikel General Director Aleksandr Khloponin, and in Chukotka, with the election of Sibneft's and Russian Aluminum's Roman Abramovich. The head of the Novolipetsk Metallurgical Combine, Vladimir Lisin, is expected to compete for governorship of Lipetsk in the spring of 2002, but it remains unclear if he has the resources to win and create a corporate region because of the opposition of another big business (Interros) and the large number of voters.

One example of a governor who serves as the guarantor of the balance of power between two metal companies is Aman Tuleev in Kemerovo Oblast. He must work with Russian Aluminum and the Evrazkholding group. The same situation holds in Murmansk Oblast, where Governor Yurii Yevdokimov preserves the balance between Norilsk Nickel, the MDM bank group, and the Menatep-

Yukos group. Governor Aleksandr Lebed also tries to play this role in Krasnoyarsk Krai, but he is not very successful because of his own political ambitions.

National monopolies such as the Unified Energy System (EES) and Railroads ministry have generally pursued ineffective strategies toward regional elections. EES usually picks candidates according to their political philosophy (EES head Anatolii Chubais is a leader of the Union of Rightwing Forces), and such candidates tend to lose to more popular alternatives. The Railroads Ministry, like Gazprom, usually backs candidates with a railroads background who also do not do well.

### **General Trends in Business-State Relations**

Overall, the most recent cycle of gubernatorial elections has demonstrated that the actions of large Russian companies have changed significantly:

First, the export-oriented companies, now cash rich due to recently favorable market conditions, have expanded their territorial interests.

Second, the companies have optimized their ability to influence regional political processes by minimizing the amount they spend on gaining or preserving influence.

Third, there is a growing variety of forms of political influence. Corporations chose between "domesticating" governors, establishing a "corporate region," or a region with divided spheres of corporate influence.

Finally, the corporations are trying to secure more profits for their political investments, seeking a better balance between the resources they spend and the subsequent results.

### **The Consequences for the Regions**

Big business is now achieving some of its corporate goals by participating in regional elections. The consequences for the regions are varied. On the one hand, thanks to big business, regions are opening up to trade in raw materials and finished products, the creation of vertically integrated firms, and the destruction of the economic "feudalism" that existed in many regions earlier. On the other hand, when corporations secure political power in a region and use that power to create a "corporate region," they often work to close the region off from outside economic or political competition. The result is that what is good for YUKOS, LUKoil, or Norilsk Nickel is far from always good for the Russian regions.

### **DARKIN WELCOMES LARGE RUSSIAN COMPANIES TO PRIMORSKII KRAI.**

Primorskii Krai Governor Sergei Darkin praised the arrival of major Russian companies that have recently purchased several of his region's ports (see *EWI Russian Regional Report*, 23 January). Last year a Severstal subsidiary bought 60 percent of the shares in the Vostochnii Commercial Seaport, and last week Evrazkholding (which owns major metals plants in Western Siberia and the Urals) announced that at the end of December it had purchased 60 percent of the shares in the Nakhodka Commercial Seaport. Darkin said he was pleased that the companies were Russian-owned. He stressed that local sources in the krai did not have the money required to develop the ports and that therefore it was necessary to attract outside investors. The governor stressed that "nobody will be able to steal the ports from us" and that as

the governor "the main thing for me is that with the arrival of the new owners, the enterprises will continue to pay taxes into the local and krai budgets."

Primorskii Shipping Company General Director Aleksandr Kirilichev agreed with Darkin's assessment. Kirilichev described the new owners as "buyers" rather than "investors," but pointed out that they are "serious buyers," who would increase traffic through the ports and create new jobs.

Darkin again denied that his election as governor and alleged campaign debts to large corporations in exchange for financial support had anything to do with the arrival of the new companies. He also rejected allegations that Severstal's purchase of a controlling stake in the Vostochnii Commercial Seaport was connected to the murder of Vostochnyi Port General Director Leonid Bochkov in November 2001. However, Darkin stated that he would take over the investigation if necessary. The collegium of the Ministry of Internal Affairs examined the issue in Moscow recently and Nakhodka Mayor Viktor Gnezdilov said that the investigation is moving full speed ahead. - Andrei Kalachinskii in Vladivostok

### **IRKUTSK'S GOVORIN CLAIMS TO BALANCE INTERESTS OF BUSINESS,**

**POPULATION.** Irkutsk Governor Boris Govorin's administration is currently developing a plan to deal with the large financial-industrial groups working in his region in 2002. So far this year, the governor claims to have secured reasonable electricity prices for the enterprises and residents of the oblast. The governor also said that there would be no major spikes in coal prices.

Govorin said that he worked to balance the interests of the major financial industrial groups working in the region and the population. He warned that since the corporations think only about the bottom line, when the authorities do not influence their policy, the big businesses take resources from the region and leave it with nothing. Govorin asserted that only the authorities can prevent this from happening. - Teleinform in Irkutsk

### **GUBERNATORIAL ELECTIONS**

**NORTH OSETIYA PRESIDENT WINS SECOND TERM.** On 27 January North Osetiya President Aleksandr Dzasokhov won a second term with 56.02 percent of the vote and 60.13 percent turnout ([www.fci.ru](http://www.fci.ru)). Four years ago, Dzasokhov won 77 percent of the vote. In his first post-election interview, Dzasokhov announced that he would not seek a third term and would work to prepare a successor with "improbable intensity." Although Dzasokhov did not name this individual, he said that he would be visible and that possibly Dzasokhov would delegate some of his powers to him before the next presidential elections (*Kommersant Daily*, 29 January).

Dzasokhov enjoyed strong Kremlin backing in the race (*Kommersant Vlast*, 22 January). He also benefited from a court ruling that cancelled the registration of his most important competitor, former republican Prime Minister Sergei Khetagurov. The ostensible reason was that Khetagurov's property declaration statements were inaccurate and that he possessed two internal passports, one with housing registration in the republic and one listing his residence as Moscow. The removal of his main opponent greatly tarnished Dzasokhov's

reputation in the region as Khetagurov was popular and seemed to have a serious chance of winning (*Kommersant Daily*, 28 January). Numerous public protests followed his removal. Ironically, when Dzasokhov first won office in 1998, he was the first politician in a North Caucasus republic to remove a sitting president through the electoral process. Dzasokhov claimed that he opposed the removal of Khetagurov from the race since it would only boost his popularity.

One of Dzasokhov's main accomplishments during his first term was the legalization of alcohol production in the region. In the past, North Osetiya had been known as a major supplier of bootleg vodka. Now tax revenue from alcohol production makes up 50 percent of the republican budget (*Kommersant Vlast*, 22 January). Nevertheless the economic situation in the region remains difficult.

North Osetiya is unique among the North Caucasus republics because the titular nation, which makes up a majority of the population, is Russian Orthodox rather than Muslim. According to *Vlast*, this situation "makes the republic a forepost for Russia in the North Caucasus and an intermediary between the federal authorities and other North Caucasus peoples."

**KOKOV WINS THIRD TERM IN KARBARDINO-BALKARIYA.** On 13 January Karbardino-Balkariya President Valerii Kokov won a third term with 87.18 percent of the vote and 85.88 percent turnout ([www.fci.ru](http://www.fci.ru)). Kokov's performance dropped slightly from his last election in 1997, when he won 99.35 percent of the vote with 97.72 percent turnout.

Since Moscow favored his election as a guarantor of stability, Kokov was able to circumvent a clause in the republic's constitution limiting the president to two terms (*Kommersant Daily*, 15 January). This clause had been removed in the summer of 2001, but some of the other candidates in the race protested that Kokov did not have the right to run for another term.

Kokov has preserved stability in his Northern Caucasus republic, though he is not particularly popular (see *EWI Russian Regional Report*, 3 October 2001). His critics accuse him of corruption, favoritism toward his clan, impoverishing the population, privatizing all local gas stations and stores for his personal use, and reorienting all local enterprises toward the production of vodka (*Nezavisimaya gazeta*, 15 January). Local businessmen often register their businesses in Stavropol, complaining that otherwise as soon as they become profitable, someone from Kokov's clan takes over the enterprise (*Nezavisimaya gazeta*, 15 January).

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**EVOLVING TRENDS**

**DEMOCRATIC GAINS REVERSED IN REGIONAL ELECTIONS FROM MOSCOW TO SAKHA**

by Vladimir Gelman, European University, St. Petersburg

Many journalists and analysts have noted the undemocratic character of recent elections in a number of Russian regions. Often they are talking about different things: from dirty tricks employed during the course of the campaign to the advantages of incumbency, which allows office-holders to buy off or pressure voters. But if we are discussing democracy as a

competition of elites in elections, then the sole measure for the level of democracy is whether elections are the only mechanism for replacing the authorities. If elections do not threaten the incumbent with a loss of power or the elections simply serve to legitimize other ways to replace the authorities, then elections do not play a role as democratic institutions. By this measure democracy is losing ground in Russia. Examples can be found in several recent races where incumbents were able to name their successors: President Yeltsin at the federal level, and Krasnodar's Nikolai Kondratenko and Primorskii Krai's Yevgenii Nazdratenko at the regional level.

The recent Moscow City Duma and Sakha presidential elections further demonstrate these alarming tendencies in Russia's electoral processes. In both cases the elections were not a means of political competition. The results were known in advance and were achieved not as a result of voter preferences, but regardless of them.

In Sakha, as earlier in Kursk, the courts played an active role in removing candidates from the field even before election day. Other candidates were forced to resign from the race. Thus, incumbent Mikhail Nikolaev terminated his bid for a third term after meeting with Putin in the Kremlin and threw his support behind Alrosa President Vladimir Shtyrov, who went on to win. Deputy Procurator General Vasiliy Kolmogorov also withdrew from the race as a result of this deal.

In the Moscow City Duma elections, four parties, Otechestvo, Yedinstvo, Soyuz pravykh sil (SPS), and Yabloko, signed a cartel agreement dividing the electoral field between them. Such coalition agreements among parties about mutual support for each other's candidates are widespread in Russian elections. But in Moscow such an agreement achieved almost absolute success since the slate of candidates won 33 of 35 seats. There was no real alternative to the city's party of power represented in the elections. In contrast to the 1997 and 1999 elections, when first Yabloko, and then SPS opposed Mayor Yurii Luzhkov, these parties joined the winning coalition in order to secure their share of the seats (four and six, respectively) in exchange for loyalty to the authorities.

In both Sakha and Moscow, the deals did not inspire enthusiasm among the voters and turnout was relatively low. The problem here was not the use of negative campaign tactics or the powers of incumbency, but the lack of competition among candidates for votes. While the first regional elections held in the early 1990s were an important step on the path to democratizing political life in the regions, in the beginning of this decade we are witnessing movement in the other direction, a "de-democratization" of Russian political life. The formal elections are nothing more than a smoke screen for uncompetitive voting, hiding the informal practice in which leaders are simply appointed, as happened during the Soviet era. Such elections will not bring to power politicians who are responsive to the voters.

This development follows the logic of the federal government's policies toward the regions during 2001. Having failed to win the election of Kremlin-backed candidates in several key regions (particularly Primorskii Krai and Nizhnii Novgorod), the federal government has apparently decided to stop using elections as a means for obtaining a loyal regional elite. Instead it has adopted a number of other policies, such as the infamous amendment allowing the majority of current governors to seek a third, and in some cases, a fourth term, and refusing to

pursue a plan requiring regional legislatures to elect half of their members on the basis of party lists (a reform aimed at reducing gubernatorial control over regional legislatures).

As in the 1990s, the Kremlin is seeking to conclude informal contracts with the regional elites. The difference is that in contrast to the previous arrangement between the Center and the regional elite exchanging "loyalty for non-interference" the new bargain is "loyalty for agreeing not to compete." Such a deal is particularly important for the Kremlin on the eve of the national legislative and presidential elections set for 2003 and 2004. In those elections the Kremlin will need the support of a loyal regional elite to deliver the votes for the election of a conciliatory State Duma and another term for Putin. It is not clear that any regional groups will be able to block this retreat from democratic practices.

## MONEY AND POWER

### PUTIN AND THE OLIGARCHS: MORE COOPERATION THAN CONFLICT SO FAR

by Andrew Yorke, St. Antony's College, Oxford University

After Taimyr Governor Gennadii Nedelin lost his reelection bid to Norilsk Nickel's general director, he complained to NTV: "The president of our Russian Federation has pushed the oligarchs aside from federal level and they have been forced to move. Where? Into the regions, and not only into Taimyr and Chukotka."

Several recent articles in the EWI Russian Regional Report have examined how major Moscow-based companies are taking over enterprises and political power in the regions. Nataliya Zubarevich (*EWI Russian Regional Report*, 30 January) provided a valuable study of the various political strategies adopted by big businesses in the regions, and examined their economic motivations for seizing regional political power. She has also suggested that the implications for regional democracy and economic growth are at best ambiguous.

One interesting question which has not yet been fully explored is whether this takeover (usually referred to in Russian as a *peredel sobstvennosti*, or redistribution of resources) is an organic economic process, or one that has political causes and consequences.

Pavel Isaev (*EWI Russian Regional Report*, 16 January) has suggested that Russia's big businesses could constitute a future source of opposition to the Kremlin. What, then, is the Kremlin's attitude to the regional takeovers?

Answering this question requires an understanding of the relationship between business and politics at the federal level. In February 2000, then-acting President Putin said of the oligarchs that "they should be kept at an equal distance from power, and should have equal opportunities" (Jamestown Foundation Prism, March 2000). The fate of Berezovskii and Gusinskii has certainly demonstrated the Kremlin's determination to put certain oligarchs at considerable distance from power. But have these "oligarch-blackmailers" (to borrow the term used by media analyst Aleksei Pankin) merely been replaced by others who are more loyal, or has there in fact been a fundamental change in the relationship between the oligarchs and the Kremlin?

In my view, the answer is: both. The takeovers of NTV and TV-6 were instigated by Gazprom and Lukoil respectively. It would be naive to believe the Kremlin's insistence that both takeovers were merely business disputes. It seems almost certain that the two companies were doing the Kremlin's bidding - whether they were following instructions, or acted on their own initiative in order to curry favor with Putin, is to some extent irrelevant. What is important is that with Gusinskii and Berezovskii now largely removed from the Russian political scene, there remain no major Russian commercial interests in open opposition to the Kremlin. Not only have the two oligarch-blackmailers been ousted, but those major businesses that remain (such as Gazprom, Lukoil, Yukos, Interros, Sibneft, Russian Aluminum) are loyal to Putin and the Kremlin. They still enjoy a very close relationship to executive power. But while under Yeltsin the oligarchs took advantage of a weak executive and a sick president to act as de facto rulers, under Putin they are clearly subordinate to a newly invigorated executive. Their ability to influence the executive could now almost be defined by the civilized term "lobbying."

If this evaluation of federal-level business-state relations is correct, what are the implications for the takeover of regional enterprises by Moscow-based businesses? As Zubarevich pointed out, prior to these takeovers regional "feudalism" was a significant problem. While in the early 1990s the Chechen war prompted most analysts to see nationalism as the biggest threat to the integrity of the Russian state, by the second half of the decade the separatist threat had diminished. There remained a problem of regional autarchies, but it became clear that these were not restricted to ethnic republics such as Kalmykia, Tatarstan and Bashkortostan. A number of oblasts and krais, such as Primorskii krai, Kaliningrad, Ulyanovsk and Kursk, had also effectively fallen beyond the Kremlin's influence. None of these regions harbored any realistic ambitions to become fully independent from Russia and their leaders were quite content to rule unchallenged at the regional level without Kremlin interference. These regional "fiefdoms" drew much of their power from a fusion between the local political and economic elites, who between them controlled most of the media and enjoyed considerable influence over the regional electoral commission.

Therefore it was the regional economic elites who posed the greatest threat to the Center's power in the regions. Far from constituting an opposition to the Kremlin, the Moscow-based businesses, which are now taking over the major regional economic resources (and supplanting the local economic elites) are in fact assisting in the re-establishment of Kremlin control over the regions. It is therefore tempting to believe that the Kremlin has a policy of tacit support for such takeovers, and that this is an undeclared front in its wider campaign to establish a *vertikal vlasti* [power vertical] in Russia. As such, it is proving far more successful than the clumsy attempts by the Presidential Administration to influence the outcomes of regional elections (as we saw, for example, in St. Petersburg, Kursk Oblast, and Primorsky Krai).

In short, Russian big businesses' takeover of political and economic power in the regions serves Putin's interests and he is doing little to prevent it. Pursuing such a policy is not without danger because Putin needs to be sure that he can rely on the loyalty of the big businesses for this policy to succeed in the long-term. The ambitions of Yukos or Sibneft, for example, far exceed those of a Nazdratenko or a Rutskoi - former governors who were happy, like big fish in a small pond, to rule unchallenged in their region. Nevertheless, for the time being, in order for Russian corporations to become successful as major global economic players, they

need the support of the Kremlin and will remain loyal.

But a possible challenge to the current cooperative relationship between big business and the Kremlin is just around the corner in the form of Putin's plan to bring Russia into the World Trade Organization. How will Russian Aluminum react to the idea that its factories may have to pay market rates for the vast amount of electricity they consume? How will they make their investment in the Gorkii Automobile Factory profitable if their cars have to compete against unrestricted foreign imports? How will Putin ensure that disgruntled corporations do not use their regional power-base to challenge his power?

## **PRESENTATION IN NEW YORK**

**SERGEI KIRIENKO ON RUSSIA'S CHALLENGES, LOCAL GOVERNMENT, ISLAM, CHECHNYA.** Presidential Representative to the Volga Federal District Sergei Kirienko argued that the biggest problem facing Russia today was that social attitudes are lagging behind economic and political changes in the country. He spoke at a luncheon organized by the Project on the Lessons of Transition at the New School University's World Policy Institute on 1 February. The Russian people today know what they don't want, but they have yet to figure out what kind of life they should build, Kirienko said.

Kirienko described his main challenge as one of Putin's seven presidential representatives as dealing with a country that is deeply fragmented in terms of economics, politics, and information. After working for 18 months in his current capacity, he said that the Volga Federal District had brought more than 2,000 laws into line with federal norms, but that all this work had little impact because it did not change the way that people think of themselves. While Russia has adopted many good laws under Putin, popular mentality has not changed. Kirienko now is seeking the resources to address this issue.

For 2002, the main political task will be to develop local government and the main economic task will be to improve the microeconomy. Kirienko said that achieving these goals meant separating powers between different levels of government and also between state and society.

The federal government has made it a priority to maximize local governments' ability to govern within its jurisdiction. To achieve this end, Putin's administration plans first of all to introduce federal legislation that will create consistent conditions for all local governments in Russia and block governors from reducing the powers of local governments. Second, Putin plans to increase the budgetary power of local governments so that they have the resources to pay for the tasks that they are assigned. Third, the president plans to give local governments a much larger voice in strategic planning, a task that until now has mostly been performed at the federal level. Kirienko stressed that strengthening the power of local government would help create real democracy in Russia.

Kirienko, whose district includes such important Muslim regions as Tatarstan and Bashkortostan, warned of alarming trends among adherents of this faith. He noted that new leaders were taking over Muslim communities and that they distinguished themselves from the old leaders by removing any local influences from Islamic practices. These new leaders want to integrate all Islamic areas, both in Russia and abroad. The new leaders are well financed,

effectively organized, and work as part of large network that functions through out the world. Kirienko called these groups "integrationists" rather than "fundamentalists" because their main focus was on creating a uniform strain of Islam that would render national distinctions meaningless. In the context of a global battle against terrorism, Kirienko viewed the rise of these new leaders as particularly threatening.

Kirienko became most animated when discussing Chechnya. Commenting on his recent high-level meetings in Washington, Kirienko accused American leaders of holding double standards. When the US kills innocent civilians in Afghanistan, he said that the administration viewed it as regrettable consequences of the necessary war on terrorism. In Chechnya, the US characterizes similar deaths as human rights violations and evidence of brutal authoritarianism in Moscow. Kirienko charged that the US approach was not consistent and made little sense.

## **FEDERATION COUNCIL**

**NEW, BUT TRANSITIONAL, FEDERATION COUNCIL STARTS WORKING.** One of the first reforms President Vladimir Putin implemented on winning election as Russia's president in March 2000 was his overhaul of the Federation Council. His purpose in changing the way the members of the upper house of the national parliament were selected was to reduce the power of the governors to influence federal policies. Putin feared that the governors, in expressing the particular interests of their regions and their own personal interests, were preventing the country from pursuing its national interests. He also sought to take away the governors' legislative immunity from criminal prosecution and reduce their status from federal to merely regional politicians. Putin was not able to implement the reform as he had initially intended and had to compromise with the governors on specific provisions. While Putin has succeeded in reducing the governors' overall clout at the national level, the reform has also provided the governors with new lobbying opportunities at the federal level that did not exist in the past. Moreover, the governors remain strong in their regions, allowing them to block the implementation of federal laws.

The reform of the Federation Council took full effect on 1 January 2002, when all of the old members gave up their seats. Most observers believe that the current system for choosing members is transitional and debates are already well under way on how to change the system.

### **Federation Council 1993-2001: On-Going Transition**

In fact, the Federation Council has been in transition since its official establishment in the 1993 constitution. The constitution called for it to be "formed" by the executive and legislative branches of Russia's 89 regions (articles 95 and 96). This formulation suggests that while the lower chamber will be elected, the members of the upper chamber will be chosen in a different way. However, in December 1993, many of Russia's regional legislatures had been disbanded followed Yeltsin's attack on the Russian Supreme Soviet. Rather than letting the governors and regional legislatures delegate members to the upper chamber, Yeltsin allowed Russian voters to elect two Federation Council members from each region for a transitional two-year term. From 1996 until Putin's reform, Russia's governors and regional legislative chairmen automatically

became members of the council. Under the system Putin established, the governors and regional legislatures must appoint representatives to the Federation Council. The governor appoints his delegate to the upper chamber by decree (subject to a veto by two-thirds of the regional legislature), while the regional legislature elects its representative by secret ballot. Both bodies can recall their representatives if they are unhappy with their votes in the Federation Council.

From 1994 through the end of 1999, the Federation Council served as a buffer between the Communist-dominated, opposition-minded State Duma and President Boris Yeltsin. During this era, Orel Governor Yegor Stroev served as Federation Council chairman. He worked hard to win acceptance from both the Communists and Yeltsin's Kremlin. Nevertheless, the Federation Council often rejected leftist bills approved by the lower chamber, saving the president from having to veto them. In fulfilling this task, the Federation Council was seen as generally supporting Yeltsin, who had been willing to make extensive concessions to the regional leaders to preserve his own power. However, as Yeltsin's health deteriorated and the most powerful governors began jockeying for position in the post-Yeltsin era, the Federation Council began to oppose the president on important issues. The most crucial was whether to remove Procurator General Yurii Skuratov. Yeltsin wanted to fire Skuratov because his investigations of Kremlin corruption were apparently starting to hit too close to home. The Federation Council opposed replacing Skuratov until Putin's election.

Following the 1999 State Duma elections, Yeltsin's resignation, and Putin's election as president, the relationships between the Russian president and the two chambers of parliament changed dramatically. Putin managed to win effective control over the State Duma, transforming it from a seat of Communist opposition to a loyal ally in passing reform legislation. While the State Duma had limits in how far it would go to please Putin, such as rejecting the president's attempts to introduce private property for agricultural land, it became much more compliant in approving presidential initiatives.

Shortly after Putin took power and made clear that his first priority was reducing the powers of the governors, the Federation Council and the governors who formed its membership became a center of opposition to Putin, though one that was generally ineffective. Putin took advantage of the popular mandate he received in Russia's presidential elections by forcing the governors to accept a reform that transformed the Federation Council by removing the governors and regional speakers as members. As the governors left the upper house and their representatives took over, the Kremlin set up a pro-presidential faction, Federatsiya, to organize support for Putin among the new senators.

As 2001 progressed, it became obvious that the Kremlin was gaining control over the Federation Council. Putin resolutely forced the governors to accept changes the Kremlin desired but the governors opposed. The Kremlin's initiative to deprive the governors of a voice in the process of appointing regional police chiefs is illustrative of this transition. On 29 June 2001, the Federation Council rejected this bill and the members of the generally pro-Kremlin Federatsiya faction decided not to vote as a bloc. However, by 20 July, the Kremlin had won enough support to win passage of the measure in a slightly watered down version. The result was a victory for the Kremlin in gaining greater control over the law enforcement agencies at the expense of the governors. Of course, with this victory Putin changed the text of the law, but not necessarily the situation on the ground. Controlling the police is a function of numerous factors

beyond what is written in the law. Although Putin can manipulate the Federation Council, he may not be able to implement federal legislation in the regions.

Overall, from 1994 through the end of 2001, the Kremlin had less direct influence over the Federation Council than it will now, but even under Stroev, the Federation Council was not a source of real opposition. The governors were basically self-sufficient because of the enormous powers they wielded in their home districts. The Federation Council was not a major player on the political stage and, generally, only became important during crises (*Izvestiya*, 30 January). Nevertheless, the Council's monthly sessions served as a convenient excuse for the governors to come to Moscow, where they spent most of their time seeking federal funding for their regions rather than attending upper house debates. It also gave the governors legal immunity as members of the national legislature, formally protecting them from federal prosecution.

### **The 2002 Federation Council Seeks Larger Role**

With its new membership, the Federation Council seeks to play a much more active role in Russian politics than it has in the past. The governors gave the Federation Council high visibility, but its infrequent sessions meant that the upper chamber's staff wielded much of its power. Under the old system, the Federation Council only met for two days a month and its members had little time to analyze the legislation under consideration. According to its new procedures, the Federation Council will now meet at least twice a month. Additionally, the members of the Federation Council would like to play a much more active role in law-making than did the governors and regional speakers who served before them. For example, they seek the right to influence laws during preliminary discussions in the Duma. Aggressively seeking such rights has already put the senators in conflict with the members of the lower house, who do not want to share their powers and will do so only reluctantly. With the senators playing a more active role, the power of the Federation Council staff will also shrink.

The election of Sergei Mironov as Federation Council speaker on 5 December 2001, replacing Stroev, marked the culmination of the upper chamber's shift toward the Kremlin that had been apparent throughout 2001. In contrast to Stroev, who was a compromise figure between Yeltsin and the Communists, Mironov is an old associate of Putin's from St. Petersburg and was the president's clear choice for the job. In this election, the influence of the presidential administration was clearly visible. After all, it had spent the previous year pressuring many governors and regional legislatures to appoint pro-Kremlin senators. When the Federation Council adopted its internal rules and picked its key leaders on 30 January 2002, the presidential administration again played an extremely active role (*Izvestiya*, 31 January and *Kommersant Vlast*, 5 February).

### **Mironov Consolidates Power**

Mironov was able to consolidate his authority in the adoption of the new rules for the upper chamber, defining the number of deputies that will serve with him, and the use of a slate in choosing the new committee chairmen and first deputies. Mironov has one first deputy and three

deputies. Early reports on the structure of the new body had suggested that there would be seven deputy speakers, one to represent each of the seven federal districts, but that plan was never realized because Mironov thought it would complicate the upper chamber's procedures.

When Mironov first became speaker there were reports that he was not happy with the existence of the Federatsiya faction operating beyond his control, even if both he and the faction were working to support the Kremlin (*Rossiiskii regionalnyi byulleten*, 28 January). Now the new Federation Council regulations ban the existence of factions and Federatsiya's leadership has been incorporated into Mironov's team of deputies. Valerii Goreglyad, the former Federation Council staff member who led the Federatsiya faction, won the position as first deputy speaker. The coordinator of the Federatsiya group, former government staff member Aleksandr Torshin, has become one of the three deputy speakers (*Nezavisimaya gazeta*, 26 January). The second deputy speaker is former Sakha President Mikhail Nikolaev, who received the high Federation Council position as part of a deal with Putin in which Nikolaev agreed not to run for a third term (*Kommersant Daily*, 29 January). The final deputy speaker, Yekaterinburg businessman Andrei Vkharev, owes his appointment to his 1980s Komsomol work with Mironov, who wanted to have a familiar face among his key lieutenants.

The new Federation Council has 16 committees and 7 commissions. The change marks an increase of five new committees and five new commissions (Pavel Isaev, "S. Mironov i reforma Soveta Federatsii," *Rossiiskii regionalnyi byulleten*, 28 January). The members voted for the chairmen and their first deputies as a slate, giving the speaker considerable say over who would be in charge of each committee. In selecting the leaders, Mironov claimed that he sought to divide the chairmanships among seven federal districts, but most positions went to representatives of the Central, Volga, and Siberian districts, with the Southern district receiving the least. Many members of the upper chamber claimed that the procedure of choosing the chairmen was undemocratic because it concentrated considerable influence in the hands of the speaker and forced members to vote for some chairmen they opposed.

### **The New Members: Muscovites, Businessmen, Regional Elites**

As of 30 January, 166 of the Council's 178 members had been named (*Izvestiya*, 30 January). Of these 71 were permanent residents of Moscow, while 95 were from beyond the capital. The Muscovites thus make up a substantial share of the body that is supposed to include two representatives from each of Russia's 89 regions and indicates that many of the members have closer ties to the federal government and capital-based big business than to the regions they are supposed to represent (*Izvestiya*, 30 January). Putin's seven presidential envoys are also well represented: the Volga's Sergei Kirienko sent two deputies and one chief federal inspector; the Siberian Federal District sent two chief federal inspectors, and the Northwest Federal District sent one staff member.

Russian big business has extensive representation including senators who came directly from the corporate sector and other deputies who did not previously work in the private sector but have accepted support from Russian corporations. The two former CEOs in the upper chamber are Mezhprombank's Sergei Pugachev and Transaero's Aleksandr Pleshakov. Other businessmen-senators come from the ranks of second-tier managers, including two vice

presidents from Mikhail Khodorkovskii's Rusprom, two vice presidents from Russian Aluminum, and one from Interros. The Unified Energy System electricity monopoly and Gazprom each have two representatives. Sibneft, Transneft, and Slavneft have one each, while LUKoil and the Alfa Group do not have any direct representatives. Corporations have also helped dozens of other individuals become senators, but these people are not necessarily going to support the corporations on all issues.

The regional elite is represented through the presence of 23 former governors and 15 former regional speakers. Of the nine former generals, five come from the army, one from the navy, two from the Federal Security Service, and one from the police. Only six of the new members have party affiliations.

Critics of the new method for choosing Federation Council members have complained that the new body lacks legitimacy since the members represent the governors and regional legislatures rather than regional interests. Some argue that letting the residents of each region elect two members to the upper house directly, as happened in December 1993, would be the most logical way to choose senators. Others, such as Mironov, suggest limited elections, in which Russia's voters chose from candidates nominated by the governors and regional legislatures. Actually holding such elections, however, would require changes in the Russian constitution.

Today's senators must answer to the various interests they represent. These include: the governor or regional legislature; the various companies or interest groups where senators had past ties; and the presidential administration. The current method of choosing Federation Council members represents a compromise by the Kremlin that gives the governors much more power than Putin had originally intended. In Putin's initial proposal, the regional legislature would have appointed each region's two representatives and have the ability to recall them (see *EWI Russian Regional Report*, 31 May 2000.) Giving the governors the power to recall their senators theoretically provides them with a way to keep their representatives on a short leash. In practice, though, the governors may be hesitant to recall a senator who votes against their interests if such a move would anger the Kremlin.

While the governors are no longer directly involved in federal policy-making, their senators often give them access to professional lobbyists in Moscow. Many of the new senators are Moscow insiders who know how to work the halls of power. Additionally, by appointing a senator with ties to one of Russia's large businesses, a governor can establish or strengthen a mutually beneficial relationship with that corporation. Several senators have announced that among their top priorities will be securing investment projects for their regions. Additionally, by aligning themselves with rich senators, governors can gain access to campaign funding that will help them win another term in office, ensuring that the senator he appointed will also hold on to his position.

### **The Federation Council as Organizer of Regional Legislation**

Mironov has suggested that the new Federation Council could serve as a coordinator for the legislative activities of the regions (*Rossiiskii regionalnyi byulleten*, 28 January). He called on regional legislatures to submit their federal legislation initiatives to the Federation

Council, so that specific senators could coordinate the introduction of this legislation to the State Duma. Such efforts could help develop federal relations in Russia and systematize the federal and regional laws. Currently, however, the presidential representatives are responsible for harmonizing Russian legislation and they work under Putin. The president would have to sign off on transferring this authority from his representatives to the Federation Council before such a shift could occur.

In short, the new Federation Council under Sergei Mironov will be easier for the Kremlin to manage than the somewhat opposition-minded body that was in place from mid-1999 to mid-2001. The current members are dependent to various degrees on the regional elites, big business, and the Kremlin. Although Putin gained considerable control over federal legislation through this reform, the governors remain enormously powerful in their home regions and Putin may not be able to implement the bills he signs into law. In part, the governors can use the new lobbying power of the senators to affect the way that such implementation decisions are made. The future of the Federation Council will likely reflect the evolving relationship between the regional elite, the Kremlin, and big business, and the ability of the elites to determine a more permanent method of choosing Federation Council members. - Robert Orttung

## **KREMLIN, GOVERNOR CALL SHOTS IN PICKING PRIMORSKII**

**LEGISLATURE'S SENATOR.** In order to curry favor with Primorskii Krai Governor Sergei Darkin, who in turn is currying favor with the Kremlin, the krai's legislature elected Mikhail Glubokovskii, a former Duma member now working as a biology professor at Moscow State University, as its representative in the Federation Council. Speaker Sergei Zhakov had originally sought the job for himself, but failed to win enough votes from the other members of the legislature. After his own bid failed, Darkin recommended that Zhakov support Glubokovskii for the position and Zhakov was then able to round up sufficient support to confirm him.

Zhakov worked so eagerly to back Glubokovskii because he needs the governor's support in putting down an effort by other members of the krai legislature to remove him as speaker. Last December, the krai held legislative elections, but turnout was so low, the voters only succeeded in electing 16 of 39 members. Until new elections are held on 9 June, the old members will continue to serve in the legislature. Most of the current members were not reelected and they blame Zhakov for their defeat. They charge that the speaker did not do a good job promoting the legislature's accomplishments among the population. Additionally, the speaker has considerable control over how the krai's resources are spent and this power will be important in the run up to the new elections.

Thanks to the election of Glubokovskii, Zhakov managed to save his job as speaker and the governor was able to place his person in the Federation Council. Earlier Darkin had followed Kremlin instructions in appointing General Valerii Manilov as his Federation Council representative. Manilov claims that Putin himself approved his candidacy.

Many local observers believe that the presidential administration also initiated the appointment of Glubokovskii. His name only surfaced as a candidate at the last minute on the eve of the krai legislature's vote and immediately after the governor's trip to Moscow, where he regularly meets with the leadership of the presidential administration to coordinate his policies. - Oleg Zhunusov in Vladivostok

## **SENATOR-OLIGARCH BOOSTS TYVAN PRESIDENT'S REELECTION HOPES.**

Tyva President Sherig-ool Oorzhak's hopes to win a third term on 17 March increased dramatically after he appointed Mezhprom Bank President Sergei Pugachev, famous for his close ties to President Putin, as his representative to the Federation Council. Pugachev recently traveled to the Siberian republic, one of the poorest in Russia, and offered Oorzhak financial backing for his campaign. Most observers believe that Pugachev's deep pockets will assure Oorzhak's victory. Pugachev's seat in the national parliament's upper chamber depends on Oorzhak's reelection since the victory of another candidate would likely lead to his replacement.

Oorzhak's most formidable opponent is Sholban Kara-ool, the speaker of the republican parliament and a prominent businessman. Kara-ool and his brothers made their fortune producing alcoholic beverages in the republic. His main trump is that he heads the local branch of Yedinstvo. In Tyva, Yedinstvo and Otechestvo have yet to merge as they have done at the federal level because of the speaker's permanent conflict with Oorzhak, the head of the local Otechestvo branch.

Another potentially important factor in the race is the opinion of Russia's most important Tyvan, Emergencies Minister Sergei Shoigu. While Shoigu has a long-standing conflict with Oorzhak and would never support him, he has yet to say which of the six remaining candidates he does favor. Despite Shoigu's prominence in the republic, his candidate failed to win a seat in the 1999 State Duma elections. - Maksim Shandarov in Novosibirsk

## **SMALL BUSINESS**

**TVER PROTESTERS CRITICIZE HIGH LICENSE FEES.** The federal government has recently reinvigorated its campaign to improve conditions for small businesses working in Russia. This issue is currently a hot topic in Tver, where the situation for small business has never been good. If in Russia there are 4-5 small businesses per thousand people on average, in Tver there are only 1-2 (*Veche Tveri*, 31 January).

On 11 January the oblast sharply increased the prices it charges for licenses needed by small businesses. For example, the fee for the right to use a simplified tax payment system in the service sphere jumped 10 times (*Tverskaya zhizn*, 31 January).

In response, the Tver Organization of Realtors sent an open letter to Governor Vladimir Platov and the members of the regional legislature to protest the hike. The text pointed out that the oblast had set Russia's highest fee for opening a small business: 107,809 rubles. In regions similar to Tver, such licenses cost between 2,000 and 47,600 rubles. The letter requests that the authorities reduce the fees. - Boris Goubman in Tver

## **CIVIL SOCIETY**

**SARATOV GROUP PROTESTS MINATOM-GOVERNOR BACKED NUCLEAR PLANT.** Saratov's Grazhdanskoe deistvie [Civil action], a social organization founded in December 2001, is working to prevent the completion of the 5th and 6th reactors at the Balakov Nuclear Power plant. On 29 January Governor Dmitrii Ayatskov and Atomic Energy

Minister Aleksandr Rumyantsev signed a declaration stating that they intended to move ahead with the project. Currently, the 5th reactor is 35 percent complete and the 6th is 5 percent complete.

The results of a 1993 referendum showed that 70 percent of the Balakovo population did not export the expansion of the plant, fearing adverse ecological consequences. Legislation at that time allowed the use of referendums in resolving such issues and construction was halted.

However, two years ago Ayatskov requested that the Russian government continue investing in the project. In February 2001 a working group was formed in Saratov that prepared the statement of intentions in which the Ministry declared a desire to build the new reactors and the oblast expressed interest in receiving them.

Above all, the governor sees the new reactors as a source of cheap electricity. Currently Saratov buys 70 percent of the 13.5 billion kilowatt-hours it consumes from the federal wholesale market. Within 20 years, its energy needs will rise to an estimated 21.5 billion kilowatt-hours. Saratov will not be able to generate any additional electricity from hydropower. However, the new reactors could provide 40 percent of Saratov's electricity. The savings would be dramatic: currently the nuclear plant can produce electricity for 12 kopecks per kilowatt-hour, while the price on the national wholesale market is 1 ruble. Minatom is currently seeking funding for the project.

Additionally reactor supporters point out that the construction work and maintenance of the reactions would create 10,000 jobs and bring in 2.5 billion rubles worth of investment annually. Other construction associated with the reactors could cost up to 49 billion rubles. A tenth of the investment would go to the construction of housing, hospitals, and schools. However, residents fear that the government will not really spend money on such social projects, noting that the government failed to make similar investments in conjunction with the destruction of chemical weapons in the nearby village of Gornii.

Grazhdanskoe deistvie has already held one street protest against further construction and is planning a public hearing with presentations by scholars, activists, and legislators. The group is considering filing a lawsuit and conducting mass protest rallies. - Aleksandr Nesterov in Saratov

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## CIVIL SOCIETY

### REGIONAL NGOS FORCE MILITARY TO ACCEPT ALTERNATIVE SERVICE.

For several years dozens of non-governmental organizations (NGOs) in Moscow and the regions have waged a battle against military agencies to implement Russians' constitutional right to serve the country in civilian rather than military service. Various drafts of the law on alternative service have circulated in the State Duma for more than a year. The Civil Forum, held 21-22 November 2001, was a giant step forward because it provided a platform for a face-to-face discussion between the Defense Ministry leadership and prominent NGOs in Russia (see *EWI Russian Regional Report*, 28 November 2001).

In January, however, the military lobby tried to force through its approach to alternative service, forgetting about the compromises discussed at the Civil Forum session. The Defense Ministry tried to win cabinet approval for its plans, knowing that the government's position would be decisive for the State Duma. According to the ministry's version of the bill, a person seeking to substitute military with civilian service would have to demonstrate his convictions and then serve four years far from home in

military units similar to construction brigades.

However, the 30 January cabinet meeting rejected the ministry's approach. Prime Minister Mikhail Kasyanov and deputy prime ministers Ilya Klebanov and Valentina Matvienko were particularly critical. They pointed out that the Constitution does not require one to prove his convictions to secure alternative service. They also argued that there is no need for the service to be far from home, and no reason to prevent individuals performing their service from continuing their studies. Emergencies Minister Sergei Shoigu described the military's proposal as "something between military service and serving hard time in a prison colony." (*Izvestiya*, 31 January)

Such direct government opposition to the military is rare. Most likely, these ministers understand the intense social tensions surrounding the issue of conscription. Additionally, the government recognized the influence of the coalition "For a democratic alternative civilian service" set up after the Civil Forum. On 12 February the State Duma held a hearing on the proposal and on 14 February the government will again take up the issue. It will hear representatives from the two regions farthest along in setting up alternative civilian service: Nizhnii Novgorod and Perm. These hearings are a tactical victory for the NGO coalition, whose members hope that such prominent discussions of their concerns will help shape the final legislation.

Even before a federal law is passed, the Nizhnii Novgorod mayor is making alternative service available at the municipal level. In Perm the Center for the support of democratic youth initiatives, a local NGO, helps young people who want alternative service fight for their rights in court. Once the conscientious objectors have won the right to opt out of military service, they work as volunteers in places like senior citizens' centers and shelters for homeless children. These and other experiments in other regions demonstrated the theoretical significance of civilian service and its practical applications. The government's actions to make such alternative service more widely available reflect society's unhappiness with the militaristic solutions proposed by the Defense Ministry. - Andrei Suslov in Perm

## FISCAL FEDERALISM

**STEPANOV SETS UP FEDERAL MONITORING AGENCY IN ALLIANCE WITH BASHKORTOSTAN'S RAKHIMOV.** Until recently, Sergei Stepashin's Russian Audit Chamber, was the only federal "power" agency that did not have its own branches in the Russian regions. This situation made it difficult for the federal government to monitor the use of federal funds delegated as financial aid to the regions. Without such oversight, rich donor regions were able to preserve a significant share of financial independence. Now Stepashin is trying to impose greater transparency on how the regions spend federal money. But he is doing so in a way that seems to share considerable power with regional leaders like Bashkortostan's Murtaza Rakhimov, who has a record of resisting federal intervention.

On 28 January, Stepashin invited the heads of the regional monitoring agencies in the Volga Federal District to Ufa and asked them to join the Association of Russian Accounting Agencies, which he heads. This public-private organizational hybrid is an institutional innovation that allows Stepashin to build an "unobtrusive hierarchy of auditing agencies" without spending significant resources to create new bureaucratic

structures in the Audit Chamber itself.

Stepashin began to realize his plan at the beginning of 2001 when he set up branches of the association in the Central and Siberian Federal Districts. In the Volga Federal District, Stepashin chose to base his operations in Ufa and appointed Bashkortostani State Monitoring Committee Petr Bobylev as the chairman of the federal district association. Stepashin did not base the association in Nizhnii Novgorod, the capital of the Volga Federal District, because he wanted to emphasize the informality of the new association. Additionally, Stepashin has a long relationship with Bashkortostan President Rakhimov, whom he calls his friend. Rakhimov has long advocated strict state financial monitoring over the activities of private enterprises in his republic and supports the creation of the association. With his ally Bobylev at the head of the Volga branch, Rakhimov now might gain the ability to monitor the financial activity of republican enterprises across Russia.

Stepashin claims that his association will make it possible for federal authorities to know how regions are spending federal money. Naturally, regional leaders do not want federal inspectors watching over them, but without such monitoring they may not receive federal financial aid. Therefore all the regions in the Volga Federal District sent representatives to Ufa where each of them signed a declaration on joining the association. Additionally, Bashkortostan announced that it is interested forming an all-Russian system to monitor the use of budget funds. Through it, Rakhimov hopes to regain the ability to monitor the financial activities of large and medium-sized businesses that have fled Bashkortostan to other regions where the administrative pressure from the regional leadership is less intense. - Igor Rabinovich in Ufa

## PATTERNS OF REGIONAL DEVELOPMENT

**EX-DEPUTY DENOUNCES SHAMANOV'S RELIANCE ON MUSCOVITES IN ULYANOVSK.** Ulyanovsk Governor Vladimir Shamanov, a former general known for his vicious campaigns in Chechnya who won election as a Ulyanovsk's leader one year ago, has effectively delegated management of the oblast to his advisors, according to former Deputy Governor for Agricultural Issues Valentin Denisov, who spoke at a press conference marking his exit from the administration. Denisov said that he decided to step down because he "did not want to participate in processes that are illegal, to say the least."

Denisov competed against Shamanov in the region's 2000 gubernatorial elections and then became the only competitor whom Shamanov invited to join his administration. Denisov said that he recognized last spring that the new administration was headed in the wrong direction. He said that there are now two administrations in the oblast: "a formal one that includes the deputy governors and an actual one made up of Shamanov's advisors." Denisov charged that the "real governor is [Dmitrii] Piorunskii, and Shamanov repeats what is put in his head."

Piorunskii, until recently the secretary of the Union of Cinematographers, does not have an official position in the administration and is usually described as an unpaid economic advisor to the governor. The well-known filmmaker Nikita Mikhalkov recommended him to Shamanov. Now, Piorunskii has such extensive influence that Shamanov does not sign any documents without his approval. Denisov said that part of the reason he resigned was Piorunskii's ability to affect such a wide range of decisions.

Denisov charged that Piorunskii's policies were leading to the destruction of the region's agriculture. He claimed that the Piorunskii was forcing farmers to sell their crops to food processing plants at unreasonably low prices. The plants work under the jurisdiction of Deputy Governor Sergei Ilinskii, another Muscovite recommended by Mikhailov. Denisov expressed the hope that "sooner or later Shamanov would come to his senses and get rid of these people." - Sergei Gogin in Ulyanovsk

## INTERVIEW WITH VYACHESLAV IGRUNOV

*Vyacheslav Igrunov is a State Duma member who recently terminated his active involvement in the Yabloko party, though he formally remains a member of the party's Duma faction. He recently spoke to RRR Correspondent Vasilii Filippov about President Putin's federal reforms. Igrunov argues that Putin's management style may limit his ability to deal with Russia's complex problems and that the Kremlin lacks the personnel required to implement the kind of subtle policy required to push Russia forward. Interestingly, Igrunov also lays out a case for allowing the Kremlin to appoint Russia's governors. For a full transcript of the talk excerpted below, see this week's edition of the Russian language Rossiiskii regionalnyi bulletin.*

## IGRUNOV: PUTIN LACKS PERSONNEL FOR A DIFFERENT POLICY

Vyacheslav Igrunov: When the country faces difficult challenges, a centralization of power is effective; but it is not effective in the long term because all questions are resolved very simply. Such simple decisions do not create [the political equivalent of] a "biotsenoza," a biological term for a system where various organisms create specific niches and interconnect with each other. The more complex the system, the more easily it is hurt. Nevertheless, in the long term, such a system is more likely to survive because it is stable. The whole chain does not take the hit, but just one, or a few, links. The diversity is a guarantee of a successful long-term strategy. This relates to any self-organizing organism or system. ...

Now the key problem for the authorities is that they do not have access to the kind of people capable of switching to a strategy of diversified management, based on many points of support and using a variety of mechanisms to manage society. It is clear that Putin has softened his relations to the regional leaders, but he cannot find people who could conduct a different policy; he simply lacks a reserve of cadres. The regional leaders, seeing that Putin is simply a normal, moderate leader, began to slip out from under his "virtual boot" and started behaving badly.

Vasilii Filippov: They are no longer afraid?

Igrunov: No. The president's influence has gradually begun to fall. A phone call from the Kremlin is no longer sufficient to solve any problem. Accordingly, Putin needs to have a good staff for effective management. For example, in the case of Sakha President Mikhail Nikolaev, the president should have acted to protect the constitution. Here it would have been correct to act decisively. [In this case, Putin arranged for Nikolaev to become a deputy speaker of the Federation Council, a powerful Moscow position, if he agreed not

to seek a third term as Sakha president.] But he should not act so decisively against social organizations. His actions at the Civil Forum were ingenious and he won praise from [human rights activist] Ludmilla Alexeyeva. But in relation to Nikolaev he gave the impression that he lacked sufficient will. That was not appropriate. ...

Filippov: Do you think Putin's reforms are simply being carried out spontaneously or are part of a well thought out, long-term program?

Igrunov: I was not one of his advisors and cannot speak with full certainty. But I know the people who worked with him and think that there was a strategy. The concept was not thought out in detail, but they believed that it was necessary to have a "Thermidor," and after that Napoleon would establish an authoritarian regime, which would last two decades, during which a new president, like Pinochet, would implement democracy step by step. Not everyone in the team supported the same point of view and there was not a strict plan. This is good because we had a soft, velvet revolution, and the "Thermidor" should be analogous. But the main question is how long it should last.

Filippov: Who among Putin's advisers initiated the reforms?

Igrunov: Gleb Pavlovskii published the general line of the reform in the spring of 1999 and possibly he is the key figure in this Thermidor path. He might have been the one who came up with the regionalization of the country. But that is only my guess.

I suggested creating administrative units, managed from several centers. For example, a governor-general for a district would be located in Nizhnii Novgorod, a representative of the Central Bank or another financial institution that controls financial flows would be located in Kazan. The Ministry of Internal Affairs headquarters would be located in Saratov. However, it is necessary not to create a quasi-state within these boundaries in order to prevent regional separatism. ...

Filippov: Will the governor-generals gradually gain more power, especially in the economic sphere?

Igrunov: This could happen. Today this institution has not demonstrated its effectiveness. But I am not a specialist in this sphere. I think that federalism in the form in which it exists might not be fully effective.

I would prefer to have the governors appointed from Moscow, but their power should be limited by local parliaments. The legislatures should monitor tax collections, budget expenditures, etc. The activity of the governors should be transparent for the region.

If the center appoints governors, the danger of separatism disappears. I do not think that, in a country with low political culture, the population is qualified to elect an adequate governor. The central authorities have a better sense of responsibility. Yeltsin did not manage to deal with this. Now there is Putin. It would be useful to organize two vectors of power in the regions: horizontal (the regional parliament with its oversight) and vertical (central executive power).

Then the governor-generals would not be necessary. ... Fortunately, we have already lived through the greatest threat of separatism. The situation has stabilized. How long it

will stay stable I don't know, but the danger of a regional division of Russia exists. Economically, a developing China could take part of Russia, while the rest leans toward Europe. Most likely, the state will not be divided along ethnic lines, although we cannot forget that Muslims could make up half of the total population at the same time that the state considers itself Orthodox. Therefore, there should be mechanisms for stitching the country together.

## SMALL BUSINESS

**MORE PROBLEMS THAN ACHIEVEMENTS IN KURSK.** Small business owners met with Kursk Oblast officials on 5 February to discuss the problems of small business development in the region. The officials pointed out that over the last three years, the contribution of small business to the gross regional product doubled, reaching 9 percent. But this success is only relative. In Moscow, small business contributes 40 percent of gross regional product and in neighboring regions, the share is between 15 and 25 percent. Small business generates about one tenth of the income for the oblast budget.

Using the rare opportunity to share their opinion with the authorities, the businessmen complained that the main problem they faced was inordinate administrative barriers. Simply registering an enterprise or securing a license requires visits to dozens of offices, each of which charges a fee. Numerous inspectors from the fire department, tax police, pension fund, and the sanitation service visit an enterprise and must sign off on its activities. Rural entrepreneurs often have to travel great distances to file paperwork in the oblast capital. There were also complaints about high taxes and official bribe-taking.

In response, Governor Aleksandr Mikhailov announced that the 2002 oblast budget included 1.5 million rubles to cover interest payments on loans small businesses took from Russian credit institutions. The loans will support business activity in the region's priority areas of social and economic development. The oblast will also direct 15 percent of its orders to small businesses. There were also promises to invest half (!) of the oblast budget in small business. However, since last year the oblast only invested in one of 2,520 investment proposals for 300,000 rubles (\$10,000), there was considerable skepticism that the situation would be different this year.

While the authorities constantly assert that they are creating favorable conditions for small business, Kursk entrepreneurs with increasing frequency are throwing their licenses on the table and registering their businesses in other oblasts. Conditions there must be better. - Sergei Sarychev in Kursk

## DIRECT FOREIGN INVESTMENT

**PRIMORSKII FIRM RESOLVES DISPUTE WITH AMERICAN INVESTORS.** At the end of January, the Primorskii Krai grain processor Primorkhleboprodukt (PKhP) settled a two-year dispute with an American investor by agreeing to pay back a credit it received in the mid-1990s. In 1996 the Washington State based Euro Asian Investment Holding Inc. began to work with Primorkhleboprodukt, the largest Primorskii enterprise for receiving, storing, and processing grain. In May 1997, the investor acquired 20 percent of the firm's stock. However, after the 1998 financial crisis and ruble devaluation, the firm could not pay its stock and credit debts. In 1999 it renounced an agreement on

restructuring the debt and refused to release further financial information. As PKhP fought with its creditors, its share of the local flour market shrunk from 60 percent to 25 percent.

However, at the end of January the foreign investors won an agreement to restructure the debt over four years, according to the investors' representative Henry Bardon. Bardon said that the investors made significant concessions because they recognized the importance of the enterprise for the regional economy. The Americans noted that the presidential representative in the Far East helped resolve the dispute, as did the American consulate in Vladivostok and embassy by raising the issue at meetings with officials.

In order to develop the firm, the Americans appointed their representatives as PKhP's commercial and financial directors. The firm is now actively seeking new credits, including from Primorskii and Moscow banks. This year PKhP will prepare its accounts according to both Russian and international standards. Additionally, the foreigners will substantially increase their stock in the company, a step required to lift it out of crisis, demonstrate the seriousness of the current investors, and attract new creditors. In the next few years, PKhP hopes to turn itself into the Far East's largest integrated agricultural concern, develop its grain production and processing capability, and produce more animal feed. It also hopes to expand into other Far Eastern regions and increase its staff from 1,500 to 5,000. In the next year, the firm hopes to quadruple its annual turnover to \$100 million.

Bardon said that the investors were expecting help from the krai administration given the importance of the firm to the local economy and their desire to create new jobs and pay taxes. - Irina Drobysheva

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## CENTER-PERIPHERY RELATIONS

**TATARSTAN PREPARES TO AMEND CONSTITUTION.** Under pressure from President Putin, Tatarstan is preparing to adopt amendments to its constitution that will bring it closer into line with Russian legislation. The Constitutional Commission created by the republic's legislature in 2001 has completed its work after meeting four times. After an initial session last fall, it wrapped up its work in a flurry of meetings this month (the meetings took place 28 September 2001, and 7, 8, and 11 February 2002). The commission prepared a set of draft amendments to the current constitution, which the republican legislature will consider at its session beginning 28 February. Once the legislature approves the amendments preliminarily in their first reading, the text of the amendments will be published for public discussion. The amendments will be adopted no later than 1 July, and most likely in May.

Two conditions made it necessary to amend the constitution. First, the republic's current constitution was adopted on 6 November 1992, a year before the Russian constitution, and therefore did not comply with it. Second, Putin's insistence on creating a hierarchy of power and his campaign to bring regional laws into line with federal norms meant that the center could not accept the obvious contradictions between the Russian and Tatarstani basic laws. The federal authorities applied various types of pressure on the Tatarstani leadership to bring the republic's legislation into line. During the summer and fall of 2001, the presidential administration conducted negotiations with the Tatarstani leadership on the wording of the amendments. President Putin participated in determining several of the clauses in the last stage of the talks. The long process of reaching a compromise explains why Tatarstan greatly exceeded the 19 October 2001 deadline the federal government had given regions to bring their constitutions and legislation into line with federal norms. Moscow only held such negotiations with Tatarstan, telling the other regions simply to make the necessary changes.

The final product is a compromise between Kazan and Moscow. The result is not a completely new constitution, nor a rewritten version of the constitution, but several changes and additions to the existing republican constitution. In describing the new text, the republican leadership emphasizes that much of the draft basic law is a natural evolution of existing parts of the constitution or a preservation of earlier wording.

The amendments to the constitution fall into three groups. First, the Tatarstani leadership sought to preserve the constitution's declaration of the republic's sovereignty and definition of the way this sovereignty is implemented in practice. Also there is a statement that the power sharing agreement signed by Russia and Tatarstan on 15 February 1994 remains a part of the republic's legal system.

Second, Moscow sought to remove various clauses from the text, particularly declarations that Tatarstan is subject to international law, assertions that the republic is associated with Russia on the basis of a treaty, claims that republican laws are superior to federal laws in the republic, and several norms dealing with elections.

The third group deals with provisions of the constitution which violated federal norms. For example, federal law requires that the highest-ranking official in a region should head the supreme executive branch. In Tatarstan, therefore, the president should be the head of the Cabinet of Ministers. However, the current draft places the prime minister at the top of the cabinet. The parliament's upcoming debates will hammer out the final details of the document. - Midkhat Faroukshin in Kazan

## **SMALL BUSINESS**

*Small business can serve as an engine of growth in a transitional economy and help reduce the pain of the transition. Such businesses can fill in parts of the economy that were not being serviced by the old system and can provide jobs for workers displaced from the state sector. The OECD gives this issue particular attention in its February 2002 survey of the Russian Federation ([www.oecd.org](http://www.oecd.org)). In a generally positive assessment of Russia's economic trends over the last two years, the report highlights the small business sector as one of particular concern.*

*The number of small businesses stopped growing in the mid-1990s. Russia had about 900,000 small businesses in 1994 and about the same number in 2000. These businesses employed about 20 percent of the labor force in 1994, but this figure dropped 16 percent during the next six years. The actual state of the small business sector is hard to assess because of problems collecting data about it and may be larger because of firms working in the gray economy. However, Russia still does not compare favorably to the developed economies, where small businesses employ at least 40 percent of the work force.*

*The OECD found that one of the main problems Russian small businesses face is the ability of public officials in charge of inspections and licenses to extract bribes from entrepreneurs. "Despite the well-intentioned changes in federal laws and regulations, state officials, particularly at the regional and local levels of government, will continue to possess various means for gaining leverage on small businesses for purposes of extortion," the report notes. Only a reform of Russia's local governments and its methods for distributing money between federal, regional, and local governments will address these problems.*

*The articles below, representing a variety of regions, show that the situation in the small business sector is indeed dire, with increasing signs of unrest among small businessmen. The efforts of entrepreneurs to set up business associations to lobby for improved business conditions provide the hope that they will spur necessary reforms before strike actions become widespread.*

**TVER SMALL BUSINESSES GO ON STRIKE.** On 14 February, a group of Tver's small businessmen left their stalls and mini-markets to gather in the city's Glory Square in protest against the introduction of a unified social tax. Speakers at the demonstration expressed fears about the uncertainty of the new tax since it is unclear what exactly is going to be taxed. At the moment, all that is known is that businessmen selling goods that they make themselves will pay 22.8 percent of the taxed sum. Businessmen who rely on hired help will pay 35.6 percent. Overall, the tax burden is expected to double or triple and many believe that these sums will be unbearable (*Veche Tveri*, 15 February).

Many participants at the demonstration claimed that the only reasonable response to these conditions is to work on the black market. In addition to blasting the federal authorities and the idea of the new social tax, the businessmen criticized local public officials. Bureaucrats, they charged, are growing rich on the money collected from the businessmen.

Reacting to the protest, Deputy Mayor Tatyana Yevdokimova told *Veche Tveri* that she sympathizes with the businessmen. Arguing that the mayor's office has been supportive of the business community, she noted that it had not raised rents in several years. Additionally, the city government has held land fees stable for two years. Yevdokimova blamed the oblast and federal authorities for making conditions worse for the small business community. The protesters are now expecting a response from Moscow and the governor's office. - Boris Goubman in Tver

**ULYANOVSK SMALL BUSINESSES PROTEST CONDITIONS.** On 19 February about 150 Ulyanovsk small businessmen working in Ulyanovsk's markets picketed the mayor's

offices. Representatives from the Central Market protested against increased rents that they must now pay to work in the market. Sellers at the Zasviyazhskii Raion market were angry that the construction of new housing and a shopping center on land currently occupied by their market could cost them their jobs. The picketers sought to meet with members of the City Duma, but none of the members appeared to hear the protesters' concerns. The entrepreneurs held their demonstration on the eve of a visit to the region by Prime Minister Mikhail Kasyanov.

The city has raised the cost of renting floor space at the Central Market for 6 months from 7 rubles a square meter to 300. Storage space will now cost 240 rubles per square meter. This money will help the city generate the funds it desperately needs to pay its bills. Additionally, the market will charge 130-190 rubles a square meter for utilities. The businessmen claim that these price hikes, combined with the imputed income tax and the social tax they also must pay, mean that their expenditures will greatly exceed their income. No advance warning was provided for the rent increase, and many businessmen simply received a bill for how much they must pay for July-December 2001 at the end of the year. Collectively, the businessmen now owe more than 100,000 rubles, a debt they refuse to acknowledge, and have filed suit with the arbitration court.

In the case of the Zasviyazhskii market, the land was transferred to the Universalstroi company, which intends to build a modern shopping center on the site of the current market. The Ulyanovsk city authorities claim that each of the sellers will receive access to space in the new center once construction is complete and suggested that the 350 businessmen who now work in the market should contribute to the construction process in exchange for a share of the new enterprise. However, the Universalstroi leadership refuses to set up a joint stock company that could issue shares to the businessmen, who say that only the creation of such a company would protect their property rights.

City Duma Deputy Vasili Gvozdev believes that the new higher rents are realistic. "Any businessman who is unhappy with the rent can rip up his contract and another person will take his place," he said.

Most of the deputies in the city council come from the public sector and do not identify with the problems of the businessmen. Anatolii Saga, the leader of the "Entrepreneurs for their rights" organization, charges that they tend to view businessmen not as workers, but as "speculators," just as public officials did during the Soviet era. He warned that if the authorities did not improve conditions for businessmen, they would go on strike. - Sergei Gogin in Ulyanovsk

**SMALL BUSINESSES UNITE IN KOMI.** On 9 February about 100 owners of kiosks, small stores and private firms established Perspektiva, an organization of entrepreneurs to develop small business in the Komi Republic. The chief organizer of the new association is Vladimir Zharikov, a member of the Syktyvkar city council.

Zharikov charged that for the last 10 years the authorities have not provided any aid to small business. Therefore entrepreneurs had to unite to lobby their interests. The main goals of the new organization are to influence legislation affecting small businesses and work as partners with the authorities to improve business conditions, including signing a treaty on this topic with the republican government. The organization will also provide legal and informational aid to local entrepreneurs (*Ekspress-nedelya*, 14-20 February).

Recently elected Komi President Vladimir Torlopov has declared that he intends to abolish the current bureaucracy that is supposed to deal with small business and replace it with real aid to this sector. Toward that end, he eliminated the Committee to Support Entrepreneurship from the republican government. However, there will be a special department dealing with small business in the newly created Ministry for Economic Development. Of course, creating good conditions for businessmen is much more important than setting up a new state office, but also much more complicated. - Yurii Shabaev in Syktyvkar

## MAYORS v. GOVERNORS

**WITH POLTAVCHENKO, MAYORS CREATE ASSOCIATION IN CENTRAL DISTRICT.** At a 15 February meeting in Kursk, the mayors of the 18 Central Federal District capital cities voted to create an Association of Central Federal District Cities. Only Moscow Mayor Yurii Luzhkov, who was not present, and the Tver mayor did not support the proposal. Presidential Representative to the Central Federal District Georgii Poltavchenko initiated the idea and is expected to participate in the association's formal founding in a month. However, he sent two assistants, Aleksandr Gromov and Anton Fedorov, to this organizational meeting.

Working so closely with the mayors is a new step for the seven presidential representatives. Until now, they have focused on the governors, who are members of the federal district councils. These councils meet regularly in each of Russia's seven federal districts and are considered important components of the power hierarchy President Putin is establishing.

Now, the federal government is seeking to increase its influence over the cities. In the past, local officials generally approached the federal government (and federal districts) through regional intermediaries. Now the situation is changing and the presidential representatives will deal with the mayors directly. This new relationship should give the mayors new strength in their frequent confrontations with the governors.

The governors view Putin's "hierarchy of power" (*vertikal vlasti*) as running from the federal level, to the federal district, to the region, to the municipalities. The formation of the new association will reduce gubernatorial influence at the local level. According to the new model discussed in Kursk, the federal districts will now influence the regions working through the governors, mayors, and federal ministries with representatives in the regions.

The governors are naturally unhappy about this new arrangement, as one can surmise from the behavior of Kursk Governor Aleksandr Mikhailov. At the meeting, he read a short speech, focused on strengthening the hierarchy of power, and left. Luzhkov's absence also was an important indicator. The rise of the association suggests that the federal government's efforts to limit the power of the governors is continuing.

However, Gromov said that no attempt is being made to set the governors and mayors against each other. "The oblasts will be the main subject of our work, but we will not forget the cities," he said. More than half the population of the Central Federal District lives in the regional capital cities.

Poltavchenko's assistants explained the rationale for the association by pointing out that the big cities face many common problems and it will be easier to solve them working together. These problems usually amount to difficulty meeting local budgets, securing funds from the

oblast government, implementing housing reform, and working with the electricity and gas monopolies. The city of Kursk is typical. It gives two-thirds of its overall tax collections to the oblast and federal budgets and only gets back half of what it needs for its own expenses. The tax collectors do not do as good a job collecting taxes designated for the local level as they do with federal and oblast taxes. According to the representative of the Tax Collections Ministry, the collection rate for federal taxes increased 2.5 times, while municipal tax collections went up only 11 percent in 2001 (*Kurskaya Pravda*, 29 January). Only about half of municipal taxes are collected. Therefore the city has difficulty paying its police, teachers, and doctors; periodic blackouts shut down or darken city offices, public transportation, and residences; and all must pay higher fees for municipal services. The association will look for solutions to these problems.

Many of the meeting participants pointed out that other parts of Russia have already set up similar associations with little impact on local problems. Such an approach has also been tried in central Russia. The already existing Association of Cities in the Central-Black Earth Region has similar goals as the new organization, but was set up by the mayors without direct federal participation. Fedorov said that the new organization would not work with the existing one (Kursk TV, 15 February). In rejecting such cooperation, he sought to distinguish between the two organizations, claiming that the new one would emphasize economic rather than political goals. - Sergei Sarychev in Kursk

## LOCAL GOVERNMENT

**PRIMORSKII GOVERNOR REFUSES TO COVER NAKHODKA'S DEBTS.** On 11 February, Nakhodka became the first Russian city in which court bailiffs arrived to draw up a list of city property that could possibly be auctioned to pay municipal debts. The bailiffs arrived after Primorskii Krai Governor Sergei Darkin, in office for a year, refused to cover the city's debts even though they had been guaranteed by former Governor Yevgenii Nazdratnko's administration. Nakhodka amassed the debts during the winter of 1999-2000 in order to buy heating fuel.

As subsequently became clear, the city lost an arbitration court case to the Alfa-Eko-M company, which had provided the fuel two years ago. The company sought a payment of 200 million rubles for the fuel it had delivered.

Officials in the mayor's office blamed the crisis on the new governor, charging that Darkin did not want to cover the debts of his predecessor. Nakhodka Mayor Viktor Gnezdilov said that he would appeal the court decision. He also pointed out that all of the city's property combined would not amount to one tenth of the debt, so it was pointless to sell it off. If the court officers took possession of the city's assets, it would be impossible to govern the city, he noted.

Gnezdilov has long been Nakhodka's mayor, but the economic situation in the city has not improved during his tenure. Under Nazdratnko, the city received large subsidies from the krai administration. However, First Deputy Governor Aleksandr Kostenko charged that the guarantee provided by the previous administration was made in violation of the law. Alfa-Eko-M clearly expected the governor to pay off the debt. Now, neither the procurator nor the court is willing to accept the commitment as valid. This finding saved the krai budget and served as a lesson to all mayors who had been counting on the krai to pay off their debts. Gnezdilov may

lose his job as a result of the scandal. Kostenko said that his main task now was to find out what happened to the money that was supposed to be used to pay for the fuel. - Andrei Kalachinskii in Vladivostok

## **PRESIDENTIAL REPRESENTATIVES**

### **PULIKOVSKII WRITING BOOK ON NORTH KOREAN PRESIDENT, RUSSIA.**

Presidential Representative to the Far East Konstantin Pulikovskii returned from North Korea on 12 February, after a trip in which he discussed the development of ties between Russia and one of the countries that President Bush has included in his "axis of evil." Many were interested to hear Pulikovskii's impressions of North Korean leader Kim Jong Il, the head of one of the most secretive countries in the world. During the summer of 2001, Pulikovskii accompanied Kim on a 24-day train trip that took the Korean leader across Siberia and the Urals to Moscow and back.

During that trip, Pulikovskii spent 2-3 hours each day with Kim while Foreign Ministry officials took notes. He found the notes very interesting and has decided to write a book about his conversations and impressions of the leader. The book will also be about Russia, including discussions of many of the governors in Pulikovskii's Far Eastern Federal District and Siberia. While they were traveling through Primorskii Krai, Kim described how he shared a 16 February birthday with former Governor Yevgenii Nazdratenko and recalled various meetings with him. Pulikovskii explained why Nazdratenko had to resign. Pulikovskii also discussed Khabarovsk Governor Viktor Ishaev, describing him as a strong governor, and, while passing through Krasnoyarsk, talked about Governor Aleksandr Lebed, Chechnya, the Khasavyurt agreement that ended the first Chechen war, and about how he had fought in the Caucasus.

In writing the book, Pulikovskii will have the help of two journalists, Leonid Vinogradov and Olga Maltsev. Pulikovskii said that he had written about 100 pages at the end of last year, working on the book every evening. Vinogradov proposed the idea to Pulikovskii out of the blue at the end of Kim's summer trip, and Pulikovskii responded that he would write the book if Vinogradov helped him. Quickly after that meeting, which Vinogradov did not take seriously, Vinogradov received a request to help Pulikovskii write the book.

The book will include about 40 different chapters addressing a variety of themes. It will pay considerable attention to Kim's day-to-day life during his trip. Pulikovskii and Vinogradov had discussed publishing four of the chapters in newspapers to generate reader interest, but then decided not to reveal anything before the book is published. Pulikovskii will include material from his trip to North Korea in the book. He said that it will have considerable information on Kim's inner circle of advisors. - Oleg Zhunusov in Vladivostok

## **CHURCH AND STATE**

### **POPE UPGRADES CATHOLIC PRESENCE IN SARATOV, ANGERING**

**ORTHODOX.** When Pope John Paul II announced on 11 February that he was going to establish four bishoprics in the Russian cities of Moscow, Novosibirsk, Saratov, and Irkutsk, Saratov became one of the main points of confrontation between Catholicism and Orthodoxy.

Observers in Russia believe that the pope is setting up a parallel Catholic Church structure in lands that are traditionally Orthodox in order to increase the number of Catholics in Russia. The leadership of the Russian Orthodox Church in Moscow has sharply denounced the pope's decision. Catholic spokesmen have tried to put the best light on the pope's initiative, claiming that it is an attempt to improve dialogue and cooperation with the Russian Orthodox Church.

Father Michael, who has served three years in Saratov's Holy Clementine Church, has sought to deflect criticism and avoid conflict, suggesting that the Vatican had acted hastily. According to the inter-church principles of "canonical territory," there cannot be two bishops in one city. Father Michael said that his bishopric will not be associated with the city of Saratov, instead it will be called the bishopric of the parish of Holy Clementine. While the church leaders in Moscow spoke out against the pope's move, Saratov's Orthodox clergy remained silent.

On 14 February, Saratov Governor Dmitrii Ayatskov said that he opposed upgrading the Catholic Church in Saratov. He said that there were only 300-400 Catholic churchgoers in the region and that they did not have a major impact on Saratov's religious life. While saying that he respected all religions, Ayatskov professed special respect for Orthodoxy and said that he was concerned that it was losing ground within Russia. He announced that he was "even more concerned" about the opening of the Catholic bishopric in Saratov. He stressed the need to include religious studies in schools to help "Orthodoxy stand on its feet" and keep "the sectarians from opening offices in our region." He called for uniting the efforts of the church and state in this mission.

In the past, Ayatskov has frequently denounced foreign missionaries working in Saratov. Under pressure from society and the press, the regional legislature passed a law strictly limiting the activity of foreign religious organizations two years ago.

Most citizens are indifferent to the appearance of the Catholic bishopric. Despite the work of various missionaries in the oblast, 95 percent of the population claims not to have a religion. - Aleksandr Nesterov in Saratov

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## PREPARING FOR THE 2003 AND 2004 ELECTIONS

**REGIONAL ASPECTS OF PUTIN'S SOCIAL POLICY.** As Russia's voters look to the December 2003 parliamentary elections and the April 2004 presidential elections, one of President Putin's top priorities is supporting and developing Russia's social sphere. His ability to address the economic needs of the population will have a powerful impact on the outcome of the upcoming votes.

There are several warning signs that Russia is facing economic difficulty in the near future: higher inflation, slowing economic growth, conflict between the country's energy suppliers and consumers, increasing wage arrears for public sector employees, and a growing number of social protests. In response, the authorities have announced a number of populist policies and promised to slow the pace of reform in order to reduce its

initial adverse consequences for the population. Most importantly, the federal authorities have promised to increase salaries while paying off all debts to public sector workers and have postponed plans to force the population to pay all of the costs for their housing and municipal services.

On 1 December 2001, Putin raised public sector salaries 89 percent, but not all civil servants are receiving this new pay. Most of the money must come from regional and local budgets, which simply do not have sufficient funds. Only 40 of 89 regions managed to find the money to pay the higher salaries by the beginning of February. Many of the regions that did make the payments now face growing budget deficits. Moreover, in several regions (Kareliya, Khakasiya, Chukotka, Kostroma, Ulyanovsk, and Kemerovo), salaries now make up 70 percent of the regional budget. In January overall wage arrears rose by 3 billion rubles, reaching a level of 33 billion rubles. Under the newly adopted Labor Code, an employer's failure to pay salaries makes him liable to fees and many trade unions have announced that they are on the verge of striking.

Putin ordered the government to take immediate action and it promised to transfer 1.6 billion rubles to the regions and lend them an additional 1.6 billion rubles during the month of February. In doing so, the federal authorities stressed that there have been no federal wage arrears for several years and blamed the current wage arrears problem on regional governments. The federal authorities can benefit from the current situation by making sure that the first regions to receive aid are ones loyal to the Kremlin. The regions, in turn, place blame for the current problems on the federal government, charging that the federal authorities increased salaries without providing the money to pay for such raises.

The federal government can also secure short-term political benefit from slowing the pace of housing sector reform, which is unpopular among the population and the regional authorities used to the artificially low prices of the past. Nevertheless, even though the reform is moving forward at a slower pace, it is still proceeding.

In the long run, the housing reform campaign will help the federal government limit the power of Russia's governors. Currently, the regional authorities control most of the housing and municipal service sector and federal aid to this sector is directed through them. The essence of the reform is to make people pay for the services they use, while providing aid to families whose income is not high enough to meet these new expenses. The impact of this reform would be to redirect large flows of money away from the regional authorities to subsidizing the population directly. Under a new system now being developed on an experimental basis, the federal government would transfer credits to individual housing accounts directly. Individuals would only be able to use these credits to cover the cost of their municipal expenses. Federal subsidies to the housing sector in 2002 are projected to amount to 130 billion rubles. Switching to the new system would take this money from the direct control of the regional authorities, weakening their ability to use it for other purposes, and place it in the hands of the population, who might then be more positively disposed to housing reform.

Thus, Moscow is now trying to exert much greater control over how budget money is actually spent in the regions in an attempt to improve overall social conditions. These efforts fit in with the Kremlin's goals of winning the upcoming elections and limiting the power of the governors. - Pavel Isaev in Moscow

## RUSSIA'S LEGAL SYSTEM

### **JUDICIAL REFORM FACES SERIOUS OBSTACLES IN THE REGIONS.**

Understaffed regional courts, inadequate office space, and too few justices of the peace are some of the main obstacles hindering judicial reform in the Komi Republic, Oleg Markov, the deputy chairman of the Komi Supreme Court, told the annual conference of Komi judges on 21 February. At the root of these problems is insufficient federal financing to carry out judicial reform in the regions even though the federal government pledged a record 45 billion rubles over the next five years to revamp the Russian judicial system.

The lack of resources may block the implementation of the new Criminal Procedure Code (CPC), which requires the introduction of jury trials for serious violent crimes in all Russian regions by 1 January 2003. The 2002 federal budget earmarks 111 million rubles for this purpose. Markov complained that the federal government did not allocate any funds to renovate and expand small courtrooms so they could house 12-member juries.

Komi Supreme Court Chairman Vyacheslav Shishkin announced that the list of potential jury members for the republic would be ready by mid-2002. For 2003, most jurors will be former people's assessors (*narodnye zasedateli*), rather than ordinary citizens, to meet the federal government's quickly approaching deadline to start jury trials. During the Soviet era, the people's assessors were supposed to represent the public in the courts. They were elected at general meetings of factories or apartment buildings and served for a term of 2.5 years. They were full participating members of the bench with the right to call and question witnesses, examine evidence, and set punishment. They voted with the judge in closed chambers and tended to defer to the judge's opinion. However, in some cases, the two assessors outvoted the judge. Since the assessors are already familiar with courtroom procedures and will be ready to serve quickly, judges hope that their verdicts will have fewer chances of being overturned by a higher court.

According to Russian law, any citizen older than 25 who voted in last federal elections and has no criminal convictions can sit on a jury. Among those excluded from the list, however, are government officials, priests, law-enforcement officers, and citizens with debilitating health problems. According to federal law, governors must compile and publish annual lists of jurors picked from the voters' lists at random. It remains unclear if Komi will rely on people's assessors or tap into a broader range of citizens as jurors in 2004 and subsequent years. For 2003, Shishkin declined to specify the total number of individuals making up the jury pool because it was unclear how much money the Komi judiciary would actually receive from the federal budget to set up the juries. The federal law sets the juror's pay as two-thirds the salary of a federal judge.

A CPC provision requiring that 3-judge panels hear serious cases will be difficult to implement because of understaffed and overloaded courts. According to Markov, 450 regional courts across Russia, including four located in the Komi Republic, have only two judges and will not be able to hear such cases. Although the average Komi judge hears 432 cases per year (492 is the average for Russia as a whole), several judges in three Komi courts hear more than 1,000 cases a year, according to Mikhail Agranovich, the deputy chairman of the Komi Supreme Court.

Despite these difficulties, the federal budget does not allocate money for hiring additional federal judges or justices of the peace. These justices reduced the court load for regular judges in Komi in 2001 by hearing 16 percent of the republic's criminal cases and 36 percent of its civil cases. In addition to ruling on minor civil cases and petty crimes, the justices will now hear administrative cases, a change that is expected to increase their workload considerably. According to Markov, Komi Republic needs 80 justices of peace, but federal money will cover only 52 justices. (Overall, the Russian budget allocated 163 million rubles in 2002 to support the existing justices of the peace across the country.) Currently, there are only 43 justices of the peace working in Komi Republic, and higher courts rarely overturn their decisions. However, Markov cautioned that a greatly expanded caseload could threaten the justices' ability to maintain such a successful record.- Alexei Trochev (University of Toronto)

## CORRUPTION

### **NIZHNII NOVGOROD CONFERENCE EXAMINES REGIONAL**

**CORRUPTION.** Local academics, visiting experts, politicians, and concerned citizens gathered in the Nizhnii Novgorod Kremlin on 14 February for the Second Nizhnii Novgorod Anticorruption Hearings. Much of the discussion at the forum focused on how best to define corruption, and hence what fell within the scope of the hearings. Indeed, one audience member demanded early on that a common definition of corruption be settled upon, with all speakers agreeing to direct their attention only to the phenomena thus captured. In response, Andrei Makarychev of the Nizhnii Novgorod Linguistics University stated that he viewed corruption as involving a) resources, b) interest, and c) damage to some party. But other speakers chose different definitions. Boris Demidov, from the Moscow office of Transparency International (TI), suggested that corruption be viewed as the use of public office for private gain, an approach widely adopted in the academic literature on corruption.

In turn, Vladimir Rimskii of the Moscow-based think tank INDEM proposed that corruption be considered any activity that distorted the democratic process, whether legal or illegal. By that definition, Rimskii suggested, Russian regional politics was growing more corrupt, as business tightened its hold on local governments. Alla Bystrova of the St. Petersburg branch of the Russian Academy of Sciences Institute of Sociology stressed the regional variation in corruption in Russia. According to official statistics on corrupt acts, Bystrova reported, the Central Black Earth region is the most corrupt area of country, while the Central region is the least. Offering some hope that analysts will soon have another tool available to compare Russia's regions, Demidov reported that Transparency International was in the process of developing a "Corruption Perceptions Index" for Russia's regions along the lines of that employed by TI to compare corruption across countries (<http://www.transparency.org.ru/>).

Although Dmitrii Bednyakov, chairman of the oblast legislature, participated in the discussion, the organizers did not reach as many politicians as they had hoped. In order to better inform policy makers about the issues discussed at the conference, Makarychev announced that copies of his report on corruption in the Volga Federal District would be made available to all interested readers once it is published in the spring. (To obtain a copy of this report, please contact Makarychev at

nnd10123@nnov.sitek.net.) The conference was cosponsored by the Nizhnii-based Center for Socioeconomic Expertise, the Nizhnii Novgorod *Obshchestvennaya palata*, and the Eurasia Foundation. This meeting continued a discussion started at a similar event held in May 2000. - Scott Gehlbach in Nizhnii Novgorod

## LOCAL GOVERNMENT

### PUTIN FACES DIFFICULT TASKS IN REFORMING LOCAL GOVERNMENT.

After paying little attention to local government issues during the first part of his tenure, President Putin is making this issue one of his top priorities for 2002. Currently, a presidential commission headed by Deputy President Chief of Staff Dmitrii Kozak is examining how best to divide responsibilities between the federal, regional, and local governments and is expected to issue a report by 1 July. Russian mayors believe that new policies are necessary immediately. "If the tendencies of the last two years continue..., it will lead to the collapse of Russia's cities," Tomsk Mayor Aleksandr Makarov told *Nezavisimaya gazeta* (11 February).

Mayors are responsible for basic aspects of life for the average Russian, including roads, personal security, housing, heating, healthcare, schools, and public transportation. In 2001, local governments devoted 70 percent of their expenditures to housing, education, and health care (Bank of Finland, 22 February).

The federal budget reforms of the last two years have effectively transferred money from the local to the federal levels and put the squeeze on local governments. As Perm Mayor Arkadii Kamenev complained, the federal government is taking more from the regions, which, in turn, extract greater resources from local governments (*Nezavisimaya gazeta*, 28 January).

In its February 2002 report on the Russian economy, the OECD acknowledges this trend, pointing out, however, that some centralization of funds is necessary for a comprehensive reform of the fiscal federalist system (<http://www.oecd.org>). However, the organization stresses that the Russian government has not fully implemented such a program: it has centralized control over resources without developing genuine sub-national budgetary autonomy. The report argues that regional and local officials need to have greater taxation authority so that they will feel more incentives to develop their local economies and thereby generate the revenue they need to provide necessary public services. The current system does not provide such incentives.

Today local governments are struggling to meet their needs. In many cases they are required to provide services, but are not given the necessary resources to do so. In December 2001 the federal government raised public sector salaries by 89 percent (a burden of 120 to 150 billion rubles or 1.5 percent of GDP) without providing the funding to cover such raises completely. Additionally, the federal government hopes that Russian citizens will pay for a larger share of their housing and municipal service costs by the end of 2002. But the federal authorities have not provided sufficient funds to support poor families who cannot afford these higher charges, and the burden of doing so will inevitably fall on local governments. In another example, the federal government pays the salaries of police officers, but local governments are expected to provide offices, apartments, and municipal services. There is no money in the local budget for these

expenses and the federal government does not provide compensation (*Nezavisimaya gazeta*, 11 December).

In recent years, the tax system has changed so frequently that it is extremely difficult for local governments to estimate their revenues. Local officials complain that the federal government now takes 100 percent of the revenue generated by the value added tax (VAT), with none set aside for sub-national governments, as had been the case in the past. This tax is one of the easiest to collect and a reliable source of income. In place of their share of the VAT, sub-national governments were assigned taxes that are much more difficult to collect and therefore do not provide a secure source of income. Such a reform could make sense because it follows the principle of "one tax-one budget," and could give each level of government a reliable source of income and ensure greater regional autonomy. But for this reform to work correctly, it will be necessary to ensure the full collection of local taxes so that local governments have enough resources to meet their needs.

Another key problem for local governments is that they are often at the mercy of the governor who controls their region. In many of Russia's 21 republics, the republican president simply appointed local officials, violating federal laws that required elections. The federal government has tried to end this practice and has taken steps to force republics to hold local government elections. Tatarstan is expected to hold its first local elections in March (see *EWI Russian Regional Report* 5 December 2001). And Ingushtetiya will be the last region to do so, with elections set for 26 May.

As the federal government fights for greater democracy in the republics, some oblast governors are reducing the level of democracy in their regions. In 2001 Orenburg Governor Aleksei Chernyshev signed an oblast law that required mayors in the region to be elected by members of local councils at the recommendation of the governor (*Ekspert*, 17 December 2001). The governor has a much easier time controlling such elections than he would mayoral elections in which the population can chose its mayor directly. The governor's ability to select his own mayors increases his capacity to rule the region unchecked by other elected officials who may oppose his policies. Additionally, Chernyshev won local approval for mayors to serve simultaneously in the oblast legislature, further consolidating his power by giving him effective control over the regional legislative branch.

Chernyshev's moves are not only undemocratic, they violate federal norms. In a case concerning Tatarstan, the Russian Constitutional Court determined that mayors cannot sit in the regional legislature because an individual serving in both capacities violates the separation of power between the executive and legislatives branches.

Mayors also face problems when Russia's big businesses buy up local factories as part of their expanding empires. In Irkutsk Oblast, Russia's big business took over the key factories in company towns like Bratsk, Ust-Ilimsk, Angarsk, Usole-Sibirskoe, and Sayansk. In those cities, the corporations are keenly interested in electing their representatives as mayors in the elections set for this spring (*Nezavisimaya gazeta*, 24 January).

Putting corporate spokesmen in office would protect the companies from the kind of criticism they receive now. After Russian Aluminum bought the Bratsk Aluminum Factory, Bratsk Mayor Aleksandr Petrunko complained that the firm had taken several actions that harmed the city, including cutting salaries despite increased output at the

factory, ignoring environmental concerns in drawing up plans for refurbishing the factory, and cutting tax payments by 70 million rubles a month during 2001. Petrunko also accused Russian Aluminum of reneging on a pledge to move 700 residents from the village of Chekanovskii, located in an area directly affected by the plant's pollution, to a site with a cleaner environment (Teleinform, 30 January). - Robert Orttung (with reports from Teleinform)

## **CENTER-PERIPHERY RELATIONS**

**ENVOYS SET UP REGIONAL BODIES OF FEDERAL OFFICIALS.** On 20 February Belgorod Oblast became one of the last regions in the Central Federal District to set up a collegium of federal officials working in the region. First Deputy Presidential Representative to the Central Federal District Anton Fedorov chaired the meeting, which adopted a plan for the first half of the year. The leaders of all federal bodies working in the oblast automatically became members of the body, including representatives of the Ministry of Internal Affairs, judiciary, procurator's office, treasury, customs service, tax inspectorate, and others. The collegium, subordinate to the federal authorities, will coordinate the activities of the 46 federal agencies in the region (<http://beladm.bel.ru/terrorg.html>). Similar bodies have already been set up in most regions of the Central Federal District.

Belgorod Governor Yevgenii Savchenko said that he welcomed the new body, which would help the federal government carry out a coherent policy in the regions. Savchenko noted that he had good relations with federal officials working in the region, making it possible to implement joint programs aimed at improving living conditions.

Fedorov will serve as the chairman of the new body. He said that he was favorably disposed toward Belgorod and was looking forward to spending more time there. Until now, Fedorov was the key member of Presidential Representative Georgii Poltavchenko's staff dealing with Belgorod and the formation of the body institutionalizes this post. When Fedorov cannot attend meetings of the new body, Chief Federal Inspector for Belgorod Nikolai Shatokhin will chair the sessions. - Sergei Sarychev in Kursk

**FEDERAL OFFICIALS SEEK TO BRING PETERSBURG ECONOMIC POLICIES IN LINE WITH FEDERAL NORMS.** Federal officials are working to bring St. Petersburg's policies on taxing small businesses and setting up free economic zones in line with federal law. As of 1 February federal law sets the maximum allowable tax on imputed income, one of the main taxes charged to small businesses, at 15 percent. The city of St. Petersburg had set this tax at 20 percent, and neither Governor Vladimir Yakovlev nor the city council has taken action to reduce the tax rate. Now the St. Petersburg procurator is trying to force change. However, until city legislation is officially amended, businesses face conflicting laws. Most will likely follow the federal law since it has priority and offers a lower rate. The city had expected to receive 540 million rubles from this tax in 2002.

This case illustrates one of the key problems facing local governments: the federal government sets their tax rates, making it difficult for them to predict their actual revenue.

In a similar case, the office of the North-West Federal District branch of the Russian Procurator General has filed suit in federal court questioning the legitimacy of all St. Petersburg laws creating special economic zones. If the court sides with the procurator, it will eliminate all four such zones currently in St. Petersburg. The city is also working on setting up a fifth zone around the Pulkovo airport. The procurator charged that the zones violate federal tax and civil code legislation, which forbids offering tax benefits to specific companies or individuals. Such zones have already been eliminated in other regions.

The city administration claims that federal law allows it to provide property and profit tax breaks. It argues that income from other taxes makes up for revenue lost from such concessions. Additionally, city officials assert that the free economic zone status has stimulated business. For example, the free economic zone at the Izhora Factory allowed it to refurbish its metallurgy division and win a large contract to build nuclear reactors, according to Sergei Odokienko, a former administration official who oversaw the zones. - Marina Makova in St. Petersburg

## **BANKING REFORM**

**ONLY SARATOV'S LARGE BANKS TO SURVIVE SHAKE OUT.** The number of banks in Saratov Oblast could shrink by two thirds by 2007, when the Central Bank requires all banks to have a minimum of 5 million euros in capital. This reform will help bring Russia's banking system up to world standards, according to Yurii Zelenskii, the head of the Russian Central Bank's Saratov Department. It is also a necessary step if the Russian government wants to provide reliable deposit insurance for accounts in Russian banks.

Currently, there are 19 commercial banks active in Saratov, 15 branches of banks from other regions, a branch of the Russian Savings Bank (Sberbank) with an extensive network of offices, and one non-bank credit institution (Avtodor). Of these, only three had more than 5 million euros at the beginning of 2002: Ekonombank, Ekspress-Volga, and the Saratov Commercial Bank. Three additional banks seem likely to grow sufficiently over the next five years to survive. Zelenskii warned the owners and managers of the other banks in the region that they needed to join forces with other banks or face closure. - Aleksandr Nesterov in Saratov

## **HOUSING MARKET**

**MORTGAGES NOT AVAILABLE IN PRIMORSKII KRAI.** In 1999, the Russian government included Primorskii Krai in the list of eleven regions that would be among the first to offer mortgages to homebuyers. Nevertheless, an informal telephone survey of krai banks revealed that it is not possible to obtain a real mortgage in the region. According to Nataliya Marakova, the bank regularly provides credits to purchase homes, but not through a mortgage system.

To obtain a Sberbank housing loan, a client must provide guarantees from two individuals and demonstrate that he has enough money to pay for 30 percent of the purchase price. The bank can then provide a loan for the remaining 70 percent. The house

serves as collateral until the client repays the loan in full. During 2001, Sberbank issued about 100 such loans.

Marakova pointed out that developing a mortgage system requires local legislation. The Primorskii Krai legislature adopted a law on mortgages in the summer of 2001 and last year's krai budget included 5 million rubles to develop this service. However, because of the unexpected change in the leadership of the krai, neither former Governor Yevgenii Nazdratenko nor current Governor Sergei Darkin managed to develop a mortgage program or set up a mortgage agency.

According to the krai law, the krai's share of the new agency should be 51 percent, mostly coming from krai property. So far, however, it remains unclear how the krai will attract the rest of the capital, which should come from banks and other credit organizations.

Construction companies that want to participate in the mortgage program will most likely have to lower their prices and expectations for huge profits. Currently, they sell a square meter of new living space for more than \$2,000. Pre-owned living space usually sells for \$500-\$1,000 a square meter. Last year builders put up 110,000 square meters in the krai and about one-third of the projects had private financing, demonstrating strong potential interest in mortgages. The krai legislature will discuss the issue again on 28 February and the deputies hope that the new governor will now be able to pay attention to this issue. - Andrei Kalachinskii in Vladivostok

## **ELECTRICITY AND POLITICS**

**FIGHTING WITH GOVERNOR OVER RATES, OMSKENERGO HAS TROUBLE FINDING INVESTORS.** Omsk's electricity utility, Omskenergo, is having considerable trouble finding investors because it cannot convince the Omsk governor to support higher electricity prices. The conflict comes on the eve of a hotly-contested election to the regional legislature.

Once close partners, Omsk Governor Leonid Polezhaev and Omskenergo are now fighting bitterly over Omskenergo's application to the Regional Energy Commission seeking to raise electricity and heating prices 30 percent. The utility wants the additional income to finance necessary renovations in its equipment. The commission flatly rejected the request, pointing out that the utility's renovation plans were far too expensive. The preparatory stage alone was projected to cost an estimated 300 million rubles.

According to unofficial sources, the rates were supposed to go up on 1 January as part of an agreement between Polezhaev and Anatolii Chubais, the head of Russia's national electricity monopoly Unified Energy Systems (EES), which is the parent company for Omskenergo. The agreement was part of a deal to restructure the oblast's 300 million-ruble debt to the utility. After the commission rejected the request, however, Polezhaev announced that he would oppose any efforts to raise electricity and heating prices. In response, Omskenergo, under pressure from EES, began cutting electricity to some of the largest debtors in the region. In recent days, the oblast was barely able to prevent the utility from blacking out the region's street lights.

The oblast authorities countered the blackouts with an aggressive campaign against the utility in the local media. Vice Governor Viktor Shreider asked the oblast procurator to evaluate the utility's decision to switch off power to several raions. The

procurator did not find any legal violations, but invited the head of Omskenergo to his office to explain these policies.

At this stage in the fight, the natural gas supplier Mezhregiongaz stepped into the conflict on the side of the oblast authorities. Currently Omskenergo owes the gas company 12 million rubles. Mezhregiongaz cut off supplies to two of Omskenergo's generators, forcing the utility to switch to coal in order to produce its electricity. Omskenergo currently owes coal suppliers 130 million rubles.

All of these events will undoubtedly affect the region's 24 March regional legislative elections. Omskenergo General Director Aleksandr Antropenko was planning to seek a seat in the regional legislature, but the governor strongly opposed this move. After a meeting between Polezhaev and Antropenko, Antropenko agreed not to run. However, he remains the leader of the local branch of the pro-Kremlin Yedinstvo and could participate in the next State Duma or gubernatorial elections, both set for 2003.

With the election campaign now well under way, the core problem dividing the governor and the utility remains unsolved. The utility wants to raise electricity prices to cover its debts and build new facilities. The authorities, however, will not take the unpopular step of raising prices on the eve of the elections and would only be willing to agree to an increase on 1 April, at the earliest. However, then the hike would be large and the authorities would seek to blame it on the utility. For Omskenergo and its parent EES the only alternative is to win a price increase from the Federal Energy Commission as quickly as possible. - Pavel Shagiakhmetov in Omsk

**CORRECTION:** Due to an editorial error, last week's issue did not identify the author of the article entitled "Tatarstan Prepares to Amend Constitution." It was Midkhat Faroukshin in Kazan. We apologize for the mistake.

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## FOREIGN DIRECT INVESTMENT

**REGIONS BATTLE OVER TRANSPORTING SAKHALIN OIL.** Regions in the Far East are struggling to determine how the expected 12 million tons of oil a year produced by the Sakhalin-1 project will be transported to customers. The outcome will have a significant impact on the economic fortunes of Sakhalin, Khabarovsk, and Primorskiy Krai.

There are two methods to transport the oil from the northern part of the island: shipping it by pipeline to a southern Sakhalin port and loading it onto tankers there or loading it onto tankers in the north and taking it across the Tatar Strait to Khabarovsk Krai. Sakhalin authorities favor the pipeline method, while Khabarovsk and Primorskiy Krai authorities want to use the tankers in the north.

Exxon Neftegaz Ltd. has now demonstrated that it is possible for two ice-breakers to lead a 105,000 ton oil tanker from Sakhalin Island across the Tatar Strait to the De-Kastri port in Khabarovsk Krai during the winter. The foreign investors believe that it may be possible to transport the oil in such a way year round. Using this route would require smaller infrastructure

investments since it means building a relatively short pipeline to transport the oil from De-Kastri. A pipeline connecting the northern part of Sakhalin Island to a southern port would be three times as long. An Exxon spokesman said that the company plans to try out all possible routes and choose the best of them.

The Sakhalin Governor's office opposes using the ice-breakers and would prefer to send the oil through a pipeline on Sakhalin Island. In making this case, oblast official Galina Pavlova, argued that any benefits to be gained from the De-Kastri route are outweighed by the risk of large amounts of ice in the sea, the expenses associated with the ice-breakers, and environmental concerns.

The two ice-breakers that led the tanker across the strait in Exxon's experiment are based in Primorskii Krai. Nikolai Ushakov, Pavlova's deputy, said that the two ships had almost no trouble going across the straight. However, he pointed out that there was not nearly as much ice in the water this year as there had been last year.

The way the oil is transported affects which regions benefit the most. Sending the oil through a pipeline to southern Sakhalin Island and loading it onto tankers there would provide the greatest economic benefits to Sakhalin. Shipping the oil to De-Kastri would help Khabarovsk because it would provide funds for developing the port and direct revenue to the krai budget from oil export taxes. Primorskii Krai would also benefit because the scheme would employ its ice-breakers, which are currently underutilized.

The participants in the Sakhalin-1 project are: Exxon, 30 percent, the Japanese firm Sodeko, 20 percent, Rosneft-Sakhalinmorneftegaz, 20 percent, and the Indian State Company, ONGC, 20 percent. - Oleg Zhunusov in Vladivostok

## ISLAM IN RUSSIA

**SHAIMIEV, RAKHIMOV DROP THREATS OF CONFLICT.** During the 1990s, Tatarstan and Bashkortostan extracted resources from the federal government by threatening Moscow with the possibility that nationalist and religious extremists would run rampant if the Kremlin did not support moderate leaders like Tatarstan President Minitimer Shaimiev and Bashkortostan President Murtaza Rakhimov with political and economic benefits that other regions did not receive. These scare tactics were very effective and the republics benefited handsomely.

While the regions' desire to win benefits from the federal government remains constant, times have changed and so have the tactics employed by the leaders of Russia's largest Muslim republics. Rakhimov and Shaimiev now seek to extract economic resources from the federal government by promoting themselves as standing at the front of a Muslim population characterized, above all, by its moderation and tolerance of other cultures. This message is significantly different from what the republican presidents were delivering in the 1990s.

Under Yeltsin, the leaders of Bashkortostan and Tatarstan actively sought to intimidate the federal authorities with threats of ethnic and religious conflict in the republics in order to preserve the exclusive privileges they had received from the center. The leaders effectively blackmailed the federal government, claiming that if they lost their privileges, they would not be able to hold back a rising wave of ethnic and religious violence.

When Putin came to power, the republican leaders continued to play the "national card" fearing that the new president would reduce the status of the republics. However, Putin announced a campaign against national and religious extremism, first in Chechnya and then in Russia in general, and stole the political initiative from the republican leaders. After 11 September 2001, the Russian president, rather than Rakhimov and Shaimiev, became the main guarantor of ethnic and religious peace in Russia. The tactics the republican leaders had used to defend their privileges were no longer effective.

The leaders of Bashkortostan and Tatarstan have thus adopted a new approach. They claim that Tatarstan and Bashkortostan need special privileges because they play a strategic role in blocking the rise of Islamic fundamentalism in Russia. According to Rakhimov, Bashkortostan's Muslims view Islam as a spiritual culture, which preaches living in peace with other religions. He claims that the brand of Islam practiced in the republic has prevented the kind of massive ethnic conflict that takes place in the North Caucasus. Rakhimov thus asks the federal government not to dictate an "abstract ideal of democracy" to the republic, but to give the republic the opportunity to develop along its own path (*Komsomolskaya Pravda*, 2 March). Shaimiev also claims that residents of his republic practice the most tolerant form of Islam, which preserves the peace. He argues that to avoid upsetting the situation, it is necessary to maintain Tatarstan's special status. - Igor Rabinovich in Ufa

## CENTER -PERIPHERY RELATIONS

**IRKUTSK READY TO RENOUNCE POWER-SHARING TREATY, EXCEPT ON ENERGY ISSUES.** Irkutsk officials have announced their willingness to renounce the power-sharing treaty the oblast signed with Moscow 27 May 1996, though they want to preserve their stake in the Irkutskenergo electricity utility, which the treaty guarantees. The move comes as President Putin has made clear his position that the treaties are no longer relevant or useful in today's Russia. He has set up a commission under Deputy Chief of the Presidential Staff Dmitrii Kozak to investigate ways to better divide power between the federal, regional, and local governments.

During the 1990s, Moscow concluded 42 treaties with 46 regions. To date ten regions have renounced their treaties (Marii-El, Astrakhan, Ulyanovsk, Kirov, Chelyabinsk, Omsk, Magadan, Saratov, Perm, and the Komi Permyak Autonomous Okrug) (*Nezavisimaya gazeta*, 19 February). Another ten regions have sent documents to Moscow indicating that they are ready to drop their treaties (Buryatiya, Altai Krai, Amur, Kostroma, Nizhnii Novgorod, Rostov, Sakhalin, Tver, Yaroslavl, and Samara). Although these regions are willing to accept the president's position, many others are fighting to keep their treaties and the privileges they provide.

In the summer of 2001, Irkutsk Governor Boris Govorin staunchly defended his oblast's treaty. He claimed that without the treaty there would be no way to force the federal government to take regional interests into account (*EWI Russian Regional Report*, 23 July 2001). On 4 March, however, his first deputy chief of staff, Igor Kolomitsev announced that the governor was ready to cancel the treaty.

Kolomiitsev said that the administration had prepared a draft law on annulling the treaty. However, he made clear that the oblast would only give up the treaty if it were allowed to retain its 15.5 percent state in Irkutskenergo. Once the regional executive and legislature agree on a draft and consult with the Ust-Orda Buryat Autonomous Okrug, which also signed the treaty, they will present it to Putin's representative in Siberia, Leonid Drachevskii.

In place of the power-sharing treaty, the regional authorities plan to sign a standard agreement with the federal government ensuring the region's right to own a 15.5 percent stake in Irkutskenergo. Article 8 of the current treaty states that ownership shares of the utility will be divided on the basis of the previous privatization of Irkutskenergo. Since this privatization took place before the creation of the Unified Energy System electricity monopoly, Irkutskenergo is independent of this monopoly. In February 2001, the Supreme Arbitration Court ruled that the administration's stake was 15.5 percent, putting a temporary end to a long-running dispute over the size of the regional and federal stakes. Although the Russian procurator general filed a protest seeking to transfer the oblast property to the federal government, the court decision remains in effect. - Teleinform in Irkutsk

## CENSUS 2002

**ROSTOV BOLSTERS POPULATION TO MAINTAIN POLITICAL CLOUD.** Rostov city leaders are worried that the Russian census conducted at the end of this year will show that Rostov-na-Donu's shrinking population has dropped below one million inhabitants. Falling below the one-million mark could have negative political and economic consequences for the city, so the authorities are looking for ways to increase the population.

Falling below the one million mark could significantly cut Rostov's access to high-level officials in Moscow. Most importantly, this year President Putin is paying special attention to local government. The president himself will meet with the mayors of cities over one million residents, while mayors of Russia's smaller cities will only have an audience with his seven presidential representatives.

Having more than a million residents could also provide some economic benefits for the city. In theory, crossing this line makes the city eligible for federal financing in constructing a subway. Such a plan is the long-time dream of city fathers and has become even more pressing now that downtown streets are clogged with daily traffic jams. However, the federal government has not had the funds for such a project since the 1980s, when Rostov first crossed the million-resident barrier. With the population dipping under one million, the federal government is even more unlikely to authorize such funding.

According to the Rostov Oblast statistics office, mortality figures are much higher than the birth-rate and the city population is shrinking. On 1 January 2001, Rostov-na-Donu boasted just over one million people, but it could drop below the threshold by the time the census is complete.

In order to increase its population, the authorities are looking toward students and migrants, whose presence has increased enormously in recent years. Observers believe that there are 70,000 to 100,000 people in the city who are not registered anywhere. If just some of them are taken into account, Rostov will reach its goal.

City bureaucrats are also considering merging some outlying villages into Rostov. However, these population centers are up to 15 kilometers from the city. - Marina Svetlova in Volgodonsk

## **ELECTRICITY AND POWER**

### **CENTRAL BLACK EARTH ASSOCIATION LOBBIES FEDS ON ELECTRICITY.**

The Central Black Earth Interregional Association held a meeting on 27 February to analyze how reforming Russia's electricity monopoly Unified Energy System (EES) would affect the regions. The reform should divide up the current company into privately-owned generating companies and state-owned transmission lines. The representatives of the regions fear that the changes will lead to higher electricity prices and want to prevent such an outcome.

The members of the association face many problems. Currently there are 17 regional utilities (usually called "energos") operating in the association's area of jurisdiction, four EES electric generating stations, and four nuclear power plants run by the Rosenergoatom company. Today Central Black Earth generators produce 43 million kilowatts, but anticipated consumption by 2010 will be 50 million kilowatts, assuming an average growth rate of 2-3 percent a year. By 2010 the nuclear plants will have reached the end of their anticipated lifetimes. Since it takes 10-12 years to build new generators, future energy supply has become the main economic question facing the Central Federal District.

According to Kursk Governor Aleksandr Mikhailov, EES is doing nothing to address this problem even though it is the main electricity provider in the region. Additionally, the governors and deputy governors participating in the meeting expressed dissatisfaction that regional representatives had been removed from the boards of directors of the energos.

In contrast, Rosenergoatom (which produces 40 percent of the electricity in the region) is actively working with the regional authorities. Created by the Russian government eighteen months ago, this company now controls ten of the largest nuclear generating plants. Many regional leaders see working with Rosenergoatom as an alternative to reliance on the EES monopoly.

As part of the discussion, Mikhailov proposed creating a unified electricity distribution company on the basis of the existing networks in Kursk, Bryansk, and Orel oblasts. Such an interregional company would have tremendous competitive advantages on the wholesale electricity market, he argued.

In a final document adopted by the delegates attending the meeting, the regions defined their interests as maintaining state ownership of the reformed electricity sector, ensuring the availability of electricity and heat to enterprises and residences, and maintaining the line against price increases. Since Russia's nuclear power plants are now part of a national, state-owned generating company, the regional leaders sought to ensure that tax revenue generated by the plants remain in the regions. The regional leaders also sought to ensure that Rosenergoatom could be held responsible for addressing the social needs of people living near nuclear power plants. The regional leaders in the association believe that the Russian government will give their concerns a favorable hearing since numerous regions are involved. - Sergei Sarychev in Kursk

**REGION SEEKS ALTERNATIVE TO CHELYABENERGO.** This month the Chelyabinsk Oblast government is considering a plan to create an electricity marketing company that will compete with monopolist Chelabenergo on the regional market. According to Deputy Chairman of the oblast's Industry Committee Valerii Tsukanov, the new company could provide electricity for enterprises and organizations that cannot afford to generate their own electricity at lower prices. (Chelyabinsk's largest enterprises, like Magnitogorsk and Mechel generate enough cheap electricity on their own to meet 90 and 80 percent of their needs, respectively.) Oblast officials believe that the new company would encourage lower prices by increasing competition.

The idea to create the electricity marketing company came from Atomenergosbyt, a subsidiary of Rosenergoatom. The company's main purpose would be to sell electricity from nuclear power plants through the wholesale electricity market (FOREM). The founders of the company would be Rosenergoatom, Atomenergosbyt, the Chelyabinsk Oblast government (with a blocking 26 percent share), and various city administrations and municipal enterprises.

Rosenergoatom is currently setting up a unified marketing network to sell electricity generated at nuclear power plants across Russia. With the Russian government's support, the nuclear ministry (MinAtom) is working to build four nuclear power plants and raise the proportion of Russian electricity generated by nuclear power to 30 percent.

Chelyabinsk First Deputy Governor Viktor Timashov sees many benefits for Chelyabinsk from participating in this program. He argues that the appearance of the company should help bring down electricity prices. Over time, it will make cheap electricity produced from nuclear energy more widely available. The company would also be able to guarantee electricity supplies to oblast consumers.

This project is far from winning final approval, however. While such marketing companies are described in the government's basic plan for reforming the electricity system, it is not clear if they will be allowed to sell energy through the wholesale market. The lack of clarity over who owns Russia's electricity transmission lines could present another major obstacle. On 5 February, the governor set up a working group to study all of these issues.

Even without competition from the nuclear industry, Chelyabenergo is already facing a difficult situation. With overall economic growth in the oblast slowing, the company reduced electricity production by 11.6 percent in January to 1.9 billion kilowatt-hours. Consumption already fell approximately 3 percent in 2001. Electricity prices are currently too low to give the utility the money it needs to develop. It not only lacks the profits to invest in new generators, but does not even have funds to pay for simple maintenance of its existing equipment. - Igor Stepanov in Chelyabinsk

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## PARTY BUILDING IN THE RUSSIAN REGIONS

Despite their reputation for being venal and vulgar, political parties are a necessary part of the democratic process. They cultivate new leaders, define the issues facing society, and make it possible for people across vast distances to work together. Political parties have not developed very quickly in Russia for a variety of reasons. Seventy years of single party rule under the Communist Party of the Soviet Union discredited the very idea of political parties for many Russians. More concretely, governors block party development because they do not want to have independent organizations operating in their regions.

However, the 21 December 2003 State Duma elections and the 7 March 2004 Russian presidential race provide strong incentives to form political parties. The Kremlin has set up a new "party of power" to mobilize its troops and the Communists are also marshalling their forces. The articles in this section illustrate the difficulties each side faces in coordinating between Moscow and the regions.

In November 2001, Yurii Luzhkov's Otechestvo and its ally Vsya Rossiya joined with the pro-Kremlin Yedinstvo to create a new pro-Kremlin party called Yedinnaya Rossiya. The three parties officially disbanded and agreed to merge their regional chapters into the new party. The party is closely identified with President Vladimir Putin, though he is not officially a member.

The former party of power, Viktor Chernomyrdin's Our Home is Russia, fared poorly in the 1995 State Duma elections. In contrast, Yedinstvo performed well enough in the 1999 State Duma elections, to set the stage for Putin's ultimate victory in the March 2000 presidential polling. However, the new party shares many features of its predecessor. It has no coherent ideology beyond a vaguely defined centrism. There is little practical organization. And many opportunists want to join simply to gain access to politicians who can dispense political and financial benefits.

Yedinnaya Rossiya is pursuing a radically different policy from Our Home is Russia in the regions. Chernomyrdin's party tried to sign up as many governors as possible to boost its ranks and generate electoral support. This strategy reflected the general Yeltsin-era efforts to woo the governors. In contrast, Yedinnaya Rossiya is setting up party branches that are in opposition to the governors in their region, reflecting Putin's general efforts to reduce the governors' powers.

The new party is facing many difficulties in carrying out the administration's mandate outside of Moscow. In many cases, the governors are trying to take over the party's local branches to minimize local opposition and to use its opportunities to extract resources from the center. In some places, other regional elite groups are fighting to control the party chapter, complicating the Kremlin effort. In Chelyabinsk, for example, a group of businessmen is fighting against the governor's administration for control of the party.

Another problem is that the local branches of the Otechestvo and Yedinstvo are often not interested in combining their resources since the politicians in these parties are rivals. The experiences of Kursk and Tver in setting up Yedinnaya Rossiya party chapters illustrate these issues in greater detail.

The Communist Party has much greater internal discipline as the report from Smolensk indicates. Nevertheless, most observers give the leftists little chance of victory since pensioners make up most of their shrinking voter pool.

**YEDINAYA ROSSIYA'S KURSK FOUNDING ENDS IN DISARRAY.** The Kursk Oblast congress to merge Otechestvo, Vsya Rossiya, and Yedinstvo into Yedinnaya Rossiya on 1 March closed inconclusively when the delegates refused to confirm Moscow's choice for regional party leader and could not elect a leader on their own. The Moscow-based central council of the party had chosen Vitalii Gukov, the former leader of the Kursk Oblast labor unions, as the Kursk chapter party leader, but he failed to win the support of local party members. Gukov was the only candidate of 35 seeking a seat in the regional party's political council not elected: 198 delegates voted against him, while only 171 backed him.

There are several reasons for Gukov's failure. First, he is already the chairman of the oblast branch of the Agrarian Party and many Kursk party delegates may not have wanted to elect someone with split loyalties. Second, many of the regional activists may have been insulted that the central leadership of the party had chosen a candidate convenient for it but not the local party. Third, Governor Aleksandr Mikhailov has clashed with Gukov for many years and certainly had some influence in blocking his election. In the end, the results demonstrated a lack of unity within the Kursk party chapter.

Having rejected Gukov, the oblast party chapter could not elect an alternative leader because, according to the party's by-laws, the candidate has to be nominated by the central party leadership. Vladimir Losev, the former leader of the oblast Yedinstvo branch, tried to place his candidacy before

the delegates, but others pointed out that the party leadership could simply disband the regional branch if it so flagrantly violated the rules. Ultimately, the delegates elected Vsya Rossiya leader Boris Chukhraev as the acting leader and postponed further action until Moscow could send new instructions.

On 7 March, *Kurskii vestnik* published a resolution from Yedinaya Rossiya's central party council, in which the party leaders decided to renominate Gukov and try to win his election at a new conference with expanded rural representation. The Moscow leadership charged that representatives from the city of Kursk had dominated the founding conference, with only a few participants from other parts of the oblast. - Sergei Sarychev in Kursk

**TVER GOVERNOR WIELDS EXTENSIVE INFLUENCE IN YEDINAYA ROSSIYA.** On 2 March, Tver Governor Vladimir Platov blocked the election of the Yedinaya Rossiya central party leadership's candidate as the head of the new party's regional branch. The new party is based on the merger of the Tver branches of Yedinstvo and Otechestvo.

Tver's Yedinstvo party branch represented both the federal and gubernatorial authorities in the region. Its leader was Deputy Governor Yurii Krasnov, who hopes to win the next gubernatorial elections with Platov's blessing.

Otechestvo's leader was State Duma member Viktor Opekunov, a former deputy governor under Platov, who ran a losing campaign against his former boss in the most recent gubernatorial elections. Opekunov is closely tied to Platov's main opposition in the oblast, the head of the local Union of Industrialists and Entrepreneurs, Sergei Potapov, and the ideologist of this movement, Valerii Nekhaev (*Tverskaya zhizn*, 5 March). Potapov is most likely to be Kranov's main opponent in the next gubernatorial election.

The Moscow leadership of Yedinaya Rossiya gave Opekunov its blessing to lead the local branch of the party. In order to support his election, the central party leadership sent State Duma members Andrei Kokoshin and Valerii Ryzanskii to the 2 March Tver meeting. Naturally, the governor's administration feared that if Opekunov were elected as the head of the new party, he would turn it into a center for organizing the anti-governor opposition and took action to block his rise.

At the founding meeting of the Tver regional chapter, the governor's team turned out to be more organized than the federal delegation. Despite Moscow's support, Opekunov, Potapov, and Nikhaev all failed to win election to the Tver branch's political council. The governor's team benefited in particular from a campaign of compromising materials against Opekunov released in the press before the meeting. In line with Opekunov's defeat, many of the governor's allies won election to the political council.

However, the governor was not able to elect his choice of Krasnov as the head of the Tver party branch. The central leadership of the party must nominate a candidate, whom the regional party members must then support. Most likely, now the central party leadership will try to convince the Tver branch to follow the party line without expecting to benefit from democratic elections. - Boris Goubman in Tver

**COMMUNISTS LOOK TO 2004 PRESIDENTIAL ELECTIONS IN SMOLENSK GUBERNATORIAL RACE.** On 2 March, the Smolensk Communist Party organization voted to back Governor Aleksandr Prokhorov in the region's 19 May elections. The decision was extremely controversial among the party rank-and-file, with several raion party chapters refusing to support Prokhorov because they objected to his policies (*Rabochii put*, 5 March). Prokhorov's tenure has been marked by numerous accusations of corruption. A majority of Smolensk Communists would prefer to support Prokhorov's main opponent, Smolensk Federal Security Service (FSB) head Viktor Malov.

However, the party's Central Committee sent a firm order to the regional members: support Prokhorov. As a result, the leaders of the oblast party chapter held an extraordinary conference to demonstrate that they were falling into line. Smolensk party leaders accused raion party branch heads who refused to back Prokhorov of splitting the party.

The Communists are supporting Prokhorov because they are looking forward to the 2004 presidential elections. In the gubernatorial campaign, the Kremlin is backing Maslov through the Yedinaya Rossiya party in an attempt to unseat Prokhorov. If Maslov wins, he will be in a position to ensure that the region backs Putin in the upcoming presidential elections. Although the Communists view Prokhorov as a poor governor, they are willing to overlook his faults because he opposes the federal government. In backing Prokhorov, the Communists demonstrated that they are thinking strategically and fighting for every vote in the upcoming presidential elections. - Arsentii Ledovskoi in Smolensk

## CENTER-PERIPHERY RELATIONS

**FEDERAL, SAKHA LEADERS CONTINUE BATTLE OVER DIAMONDS.** Upon coming to power, President Putin announced that he would seek to undo what he described as the "privatization of the state" that took place under President Boris Yeltsin. Russia's diamonds, 98 percent of which are located in the Republic of Sakha, are one of the sources of Russian wealth that regional leaders managed to grab during the early 1990s. Putin's efforts to reassert federal control over the country's precious stones show the extent and limits of his ability to exercise federal power in the regions. Although Putin was able to force out Sakha's long-entrenched president, Mikhail Nikolaev, the local elite continues to resist federal control over the republic's mineral wealth and has blocked a conclusive decision.

### How Sakha Gained Control of Its Diamonds

Like Tatarstan and Bashkortostan, Sakha was one of Russia's 89 regions that benefited most from Yeltsin's policy of ceding extensive powers to the regional elite in exchange for political support at the federal level. Nikolaev became Sakha's top leader two years before the collapse of the Soviet Union in 1989, when he was elected chairman of the Sakha Supreme Soviet presidium. In the Soviet era, Moscow had reaped huge benefits from the region, collecting as much as \$1 billion a year from Sakha's vast diamond resources and other natural wealth. Under the Communist government, locals saw few benefits from the bounty that surrounded them. The rise of an independent Russia inside the Soviet Union and Yeltsin's need for allies in his battles against USSR President Mikhail Gorbachev gave Nikolaev a chance to turn the tables on the capital.

In exchange for supporting Yeltsin, Nikolaev negotiated a better deal for the republic. In 1992, Yeltsin set up the Alrosa company by presidential decree as Russia's diamond monopoly. In November of that year, the federal government designated the republican government as the owner of the extensive diamond mines in the republic, which the federal government had controlled until then through the Yakutalmaz state company. The republic now licenses these mines to Alrosa and receives rent payments from the company of \$330 million a year. Overall the company contributes \$450 million to federal, regional, and local budgets, according to Gokhran head Valerii Rudakov (*Finansovaya Rossiya*, 6 February).

Additionally, in a 31 March 1992 treaty with Moscow, Sakha won the right to buy 20 percent of its diamond production at cost and then pocket the proceeds when the diamonds were sold at

market prices. This money (about \$150 million a year) went into a special fund personally controlled by Nikolaev and, along with other money generated from diamond sales, provided the basis for his rule in the republic (*Nezavisimaya gazeta*, 14 November 2001).

Beyond access to the republic's diamond wealth, Nikolaev gained other concessions as well. In the summer of 1993, Nikolaev unilaterally withdrew from Russia's tax system, making Sakha one of only four regions to do so successfully. Ordinarily regions pay taxes to Moscow and then receive money back as payment for federal programs. However Nikolaev was angry that the federal government was not sending enough money to the region in preparation for the harsh Siberian winter. He withheld republican taxes and used them to finance federal programs without which Sakha residents may have starved or frozen to death. The federal government subsequently agreed to some tax concessions. Sakha signed a power-sharing agreement and 15 separate side agreements with Moscow on 29 June 1995 that gave further status to these concessions.

Beyond his close personal relationship with Yeltsin, Nikolaev had a powerful friend in the Kremlin in Pavel Borodin, the former mayor of Yaktusk. Yeltsin liked Borodin so much that he put him in charge of all of the Kremlin's property holdings, a position Borodin held through the end of Yeltsin's term.

## **The Politics of Alrosa**

In theory, during the 1990s the Russian government had a voice in the selection of the Alrosa president; in practice, however, the Sakha president named him (*Kommersant Daily*, 25 January). In 1995, Nikolaev appointed Vyacheslav Shtyrov, a close political ally who served as his vice president, as Alrosa president. According to Political Scientist John F. Young the republican government and Alrosa's managers had an extremely close and mutually beneficial relationship: "As members of Nikolaev's presidential council, Shtyrov and Alrosa have the opportunity to vet major policy proposals and economic investment. The company is not only well positioned economically - its ties with the government are blurred enough that what is good for Alrosa is good for Sakha. With a major corporate power, Sakha is an economic player beyond the boundaries of the republic. This also strengthens the hand of the republic government."

Shares in Alrosa are divided between the federal and republican governments (each with a 32 percent stake), the workers' collective (23 percent), eight Sakha local governments (8 percent), and a federal veterans' fund (5 percent). In practice, Sakha has majority control with its own stake, the workers' shares, and those of the local governments. However, Moscow has powerful tools of influence since it distributes the actual diamonds, sets the timing and terms of the exports, and determines company prices through Gokhan, whose head is a deputy Finance Minister (*Nezavisimaya gazeta*, 28 December 2001 and 2 March 2002). The company provides about 70 percent of the republican government's income in the form of taxes and rent (*Kommersant vlast*, 18 December).

## **What the Federal Government Wants**

The federal government had been trying to regain control of Russia's diamond wealth long before Putin came to office. In Spring 1997, then First Deputy Prime Minister Anatolii Chubais complained that Sakha had not transferred any diamond profits to the federal government and began to seek ways to redirect the flow of money from the republic to Moscow. Following up on Chubais' complaint, President Yeltsin signed a decree limiting Sakha's ability to control its diamond sales on 20

July 1997. Rather than letting the republic buy 20 percent of its diamonds at production cost, the decree allowed the federal government to determine how many diamonds the republic could buy and at what price. The decree also reduced the republic's take from the diamond sales that went through the De Beers international monopoly. At that time, Nikolaev signed an agreement with Chubais committing the republic to paying taxes like other regions. Shortly after this deal, Chubais lost his position and the federal government seems to have set aside the campaign against the republic.

Now Putin's Kremlin is pursuing a two-pronged strategy to secure a larger cut from Russia's diamond sales for federal coffers. The first effort is to reassert federal ownership of the diamonds and take over the rent payments that Alrosa now pays to the republic for the mines its uses. The second effort is aimed at giving the federal government a majority stake in the company.

On 27 June 2000 the Russian Constitutional Court ruled that the federal government owns Russia's natural resources (*EWI Russian Regional Report*, 12 July 2000). In implementing this decision, Moscow wants the republic to transfer back to the federal government the ownership of the mines that it received in 1992. Gokhan head Valerii Rudakov argues that the federal government rightfully owns the mines and therefore should receive the rent payments from them. However, he told *Izvestiya* (21 December 2001) that no one is planning to take this income away from the republic immediately. "Now we are seeking a path that ensures that we follow the law while not carrying out any revolutions," Rudakov asserted. But he does want to make the rent payments more transparent and insure that they are taken into account in calculating Russia's overall budget and fiscal flows between the federal and regional governments. He claimed that until 1998, when the federal treasury system was established, many of the Alrosa rent payments did not appear in the Sakha budget, meaning that the public has no idea how the money was spent.

There is considerable speculation in the press that the republican leadership used this money for its own purposes. Sakha residents suffer from some of the worst living conditions in Russia. In December, *Komsomolskaya Pravda* ran a series of articles examining why this was so. Investigative journalist Nikolai Varsegov charged that a considerable amount of diamond money went into a variety of off-budget funds associated with the republican leadership (*Komsomolskaya Pravda*, 11 December 2001). One example is the Deti Sakha-Aziya Fund controlled by Nikolaev's daughter Olga Androsova. According to the paper, the republic's law enforcement agencies blocked all investigations of the fund's finances.

Additionally, the federal government is trying to increase its holdings in Alrosa (*Kommersant Daily*, 2 November 2001). While none of the current owners are interested in selling their stakes, during the fall of 2001, the Presidential Administration's Main Oversight Department questioned the original privatization of Alrosa and seemed to be moving toward taking full control of the company. Additionally, the federal property ministry and the tax collection ministry are conducting investigations of Alrosa. Since Shtyrov's election, however, the Kremlin has not pursued this approach with much vigor, though it could possibly return to it if other federal efforts prove fruitless (*Vremya novostei*, 1 March).

Regardless of the federal government's ability to influence these ownership issues, Putin's reform of the tax system hit Sakha hard. According to then republican Prime Minister Vasilii Vlasov, the region lost at least half of its tax base in 2001 (*Ekspert*, 5 November 2001). Vlasov claimed that the new tax laws wiped out the effect of the 1995 power-sharing treaty and agreements.

## **Nikolaev's Removal to a High Post in Moscow**

Yeltsin's resignation cost Nikolaev his support in Moscow and his position began to weaken in Sakha. On coming to power, Putin quickly removed Borodin from the presidential administration and Sakha's parliament began to move into opposition to Nikolaev. One of Putin's clear objectives was to replace Nikolaev with a figure who would be more willing to take federal interests into account. With the 23 December 2001 republican presidential elections approaching, the Kremlin announced its support for Deputy Russian Procurator General Vasili Kolmogorov to replace Nikolaev just as the republican procurator began to investigate Nikolaev's campaign tactics. Moreover, as the campaign heated up, Sergei Stepashin's Audit Chamber found serious financial violations in the republican government's work.

Ultimately, bargaining behind closed doors rather than a popular election determined who would be the new republican president (*EWI Russian Regional Report*, 6 February). In a Kremlin meeting on 10 December with Putin, Nikolaev agreed to end his bid for a third term if the Kremlin backed Alrosa President Shtyrov's election as president. Nikolaev felt safe that his friend would not use his office to investigate allegations of corruption under Nikolaev (*EWI Russian Regional Report*, 16 January). Nikolaev also extracted a presidential pledge that he could serve as a deputy speaker of the Federation Council, all of whose members have legal immunity (*Kommersant Daily*, 29 January). This deal was quickly implemented as Shtyrov went on to win the presidency and appointed Nikolaev as his representative to the Federation Council. On 30 January, the upper chamber elected Nikolaev as one of four deputy speakers, though he does not seem to play an important role in the upper chamber's leadership (*Nezavisimaya gazeta*, 4 March). Nikolaev's fate mirrored that of former Primorskii Krai Governor Yevgennii Nazdratenko, who resigned his governor's seat for a lucrative Moscow position in charge of Russia's fishing industry.

### **Local Elite Retains Control of Sakha, Alrosa (For Now)**

Although Putin was able to remove Nikolaev from office, he failed to impose substantially new leadership in Sakha. Shtyrov is one of Nikolaev's key allies and was definitely not the Kremlin's first choice as the new republican president. Most members of Shtyrov's cabinet are holdovers from the Nikolaev era (*Kommersant Daily*, 6 February). Moreover, in winning the Kremlin's backing, Shtyrov undoubtedly had promised to bring the republican constitution into line with federal norms, but the legislature, which faces elections within a year, is proving recalcitrant despite strenuous protests from the republican procurator, who has even threatened to disband it (*Kommersant Daily*, 5 March). Shtyrov has rejected the procurator's demands and says that he is basically satisfied with the changes made so far.

The federal effort to remove Nikolaev and the subsequent election of Shtyrov as republican president left the position of Alrosa president open. Here again the federal government had an opportunity to put its own person in a key post that helps determine who benefits from Sakha's diamond wealth. Again, however, the Kremlin had to compromise with the regional leadership. Part of the problem for the Kremlin is that 75 percent of the shareholders in Alrosa must elect the new president, meaning effectively that the federal and republican governments must both agree to the final candidate.

On 1 March, after six weeks of negotiations, Alrosa's board of directors appointed the company's chief engineer, Vladimir Kalitin, as the new president. Kalitin has worked at the company since 1977 and knows the technical aspects of the business inside out. He is considered an apolitical professional. Kalitin's name had not figured among the twenty or so candidates publicly discussed for the post and his main qualification seems to be that he was acceptable to all sides. Moscow

undoubtedly wanted someone who was not closely tied to local interests but was willing to accept Kalitin because he has little political experience and may be easy to manipulate (*Izvestiya*, 2 March). Shtyrov had preferred Alrosa Vice President Aleksandr Matveev, who has a much stronger personality, more developed political sense, and a better understanding of the financial side of the business, but accordingly was not acceptable to Moscow (*Vedomosti*, 27 February). Shtyrov, like Moscow, was willing to accept Kalitin.

The appointment of Kalitin leaves the battle between the Kremlin and the republic over Alrosa's financial flows unresolved. Most likely, Moscow will seek to force the company to make its rent payments to the federal government at an April meeting of the board of directors (*Kommersant Dengi*, 5 March). But the outcome of that effort remains unclear. Thus, the election of new presidents in Sakha and Alrosa does not conclude this story.

### **Impact on Moscow Clans**

A real problem for Moscow is that the regional elite is able to take advantage of splits within Putin's team and the federal authorities' inability to find a viable candidate to run against local leaders. Chubais was at his most effective in fighting Sakha when the federal authorities were relatively united following Yeltsin's election to a second term (see *EWI Russian Regional Report*, May 22, 1997). In earlier periods, the Sakha authorities had been able to appeal to some of Chubais's enemies, such as former First Deputy Prime Minister Oleg Soskovets, to secure their aims at the federal level. Chubais's transfer to EES and the increased factional fighting among Yeltsin's inner circle in the late 1990s undoubtedly gave the republican elite more room to maneuver and meant that Yeltsin's Kremlin could not continue Chubais's crackdown.

In the Putin administration, the victory of Shtyrov over Kolmogorov as republican president worked in favor of Presidential Chief of Staff Aleksandr Voloshin and other holdovers from the Yeltsin era in their conflict with the St. Petersburg group associated with Russia's law enforcement agencies (*Obshchaya gazeta*, 10 January). It was the law enforcement agencies that had originally induced the Kremlin to back Kolmogorov in the presidential race. However, Kolmogorov was relatively unknown in the republic and proved not to be a viable candidate. Accordingly, his Moscow backers suffered a defeat at the hands of their rivals.

### **Conclusions**

With this apparent outcome, no player seems to have won or lost completely. Putin was able to remove Nikolaev from office and get additional tax revenues from Sakha, but Nikolaev's allies remain in charge of the republic and Alrosa. The new Sakha and Alrosa authorities will likely cooperate more with the Kremlin than their predecessors did in the past, but Moscow has yet to assert its control over Sakha's diamonds. Nikolaev had to give up his position in Sakha, but won a powerful federal post instead. Thus, rather than imposing federal control on the republic, Putin seems to have negotiated a slightly better deal than existed earlier, building incrementally on some of the progress Chubais made in the mid-1990s. - Robert Orttung

### **FORESTRY INDUSTRY**

If it ever reaches its full potential, Russia's forestry industry could generate \$100 billion a year for Russia, according to industry officials. In 2001, Russia produced only \$7.5 billion worth of timber and related products, with exports earning \$4.3 billion (*Moscow Times*, 25 February). Although the country has 23 percent of the world's forests, it produces only 2.3 percent of the world's timber and paper products. Much of Russia's trees are cut illegally and then exported through the black market.

The industry is experiencing a major consolidation. The St. Petersburg based firm Ilim Pulp now controls 70 percent of the Russian pulp market and is on its way to becoming one of the world's largest forestry products companies, like the US's International Paper, Finland's M-Real and Stora Enso, and the Swedish SCA. In recent months, Ilim Pulp gained control of the Bratsk and Ust-Ilimsk plants in Irkutsk and one in Arkhangelsk. The company works closely with Yukos, which has provided some of its capital (see *Kommersant Vlast*, 29 January).

Generally, foreigners have stayed out of the market. Over the last decade, for example, Finnish companies have only invested \$79 million in the industry because of concerns about the lack of predictability in Russia, tax problems, the difficulty of securing the requisite amount of timber for local operations, and bureaucracy (*The Russia Journal*, 7 March). Nevertheless, the Finns are happy to use Russia as a source of raw timber for their own mills. Russian Prime Minister Mikhail Kasyanov said the Russia wants to move away from simply exporting trees, but the current mills in the northwest regions of the country alone require \$1 billion worth of investment to bring them up to international standards. However, as the story below indicates, some hearty foreign investors are moving in.

**FOREIGNERS BUY KOMI FORESTRY MILL.** On 6 March Kominform reported that the Anglo-American Corporation had purchased the Syktyvkar Forestry Complex (SLPK), one of the most profitable enterprises in the Komi Republic. Half of its products are exported and its share in the republican economy is substantial. Forestry products make up 25 percent of Komi's income.

As a result of the deal, the Austrian firm Neusiedler, a subsidiary of Mondi Europe, which is itself a subsidiary of Anglo-American, will own an 87.9 percent stake in the plant. The parties involved refused to say what the price was, but it is thought to be under the \$300 million market capitalization of the plant. Until now, the largest shareholders had been the Austrian Frantschsch (19.4 percent) and the portfolio investors Capital International (7.7 percent), Russian Partners (8.1 percent), and Baring Vostok (9 percent).

Numerous questions remain about this deal since it is not clear under what conditions the tender for the factory was held, who participated in it, and what the consequences will be for the factory and its employees (*Tribuna*, 9 March). Before the purchase was announced, the factory's managers appealed to President Putin and the republic's newly elected leader Vladimir Torlopov to protect the interests of the plant's managers and workers (*Krasnaya znamya*, 28 February). Torlopov had said that he would not allow the sale of the plant. - Yurii Shabaev in Syktyvkar

## BUSINESS AND POLITICS

### **KURSK, TYUMEN OIL COMPANY SIGN 5-YEAR COOPERATION AGREEMENT.**

Kursk Governor Aleksandr Mikhailov and Tyumen Oil Company (TNK) President Semen Kukes signed a 5-year general cooperation agreement on 6 March. As part of the agreement, the oblast agreed to help the company expand its operations in the region by providing land for the construction of oil storage facilities, gas stations, employee housing, and social centers. Since 1997, TNK has been the main supplier of petroleum products in the oblast, even though other companies would like to work in

the region. The agreement will allow TNK to expand its sales of gasoline in Kursk from 60 percent of the market to 80 percent, making it an effective monopolist. Additionally, it will be easier for the company to use its base in Kursk to expand into Belgorod, Voronezh and Orel oblasts, which are now considered Yukos territory.

In exchange, TNK promised the oblast that it would participate in local agricultural, industrial, housing, and social programs, as well as developing the local energy industry. The contract foresees stable oil prices and regular supplies for regional consumers. Kukes said that such an agreement was possible after the completion of the company's refinery in Ryazan Oblast. Kukes also noted his good personal relations with the Communist Governor Mikhailov. Kukes and Mikhailov kissed three times after signing the contract. - Sergei Sarychev in Kursk

## NATURAL MONOPOLIES AND THE REGIONS

**NEW GAZPROM LEADER WANTS REGIONS TO RETURN OLD DEBTS.** The Russian government's February decision to raise natural gas prices by 20 percent was partly motivated by the colossal debts, amounting to tens of billions of rubles, that the Russian regions owe Gazprom. The regions racked up these debts during the 1990s, when Rem Vyakhirev ran the company. Vyakhirev often set up exclusive relationships with the governors since he and many of them came from the same generation of Soviet managers. During the Yeltsin era, it was acceptable to make such agreements for political or other reasons and Vyakhirev kept his job even though his management of Gazprom was inefficient and opaque. His actions demonstrated the priority of Soviet traditions over the principles of the market economy for the company.

One of Putin's early moves as president was to appoint Aleksei Miller as the new head of Gazprom, giving him clear instructions to bring this behemoth Russian monopoly under firm federal control and make its activities more transparent. For Miller, it is extremely important to win back the money which Gazprom effectively credited to the ineffective regional economies and force all regions to pay for their current gas usage at the new higher price. Miller has conducted an inventory of the debts he inherited from his predecessor and has started sending representatives to negotiate with the regional leaders about paying for the gas that they used in the past. However, many regions have announced that they are not in a position to cover the debts.

Bashkortostan has offered the company a number of deals, but so far Gazprom is sticking to its demand that the debt be paid off as soon as possible. Republican officials point out that since 1999, they have reduced Bashkortostan's debt to Gazprom from 5 billion rubles to 1.3 billion. Bashkortostan paid for current deliveries in 2001 and managed to reduce debts somewhat. The republic has also said that it would guarantee that the nine largest enterprises in the regions, the ones that have run up the largest debts, would pay back what they owe. Moreover, Bashkortostan has proposed transferring to the company a network of local natural gas delivery pipelines valued at 627 million rubles. In exchange for dealing with these problems, Bashkortostan wants Gazprom to increase deliveries of natural gas from 12 to 16 billion cubic meters a year and to finance a number of energy projects in the region.

Despite the republican leadership's optimism, Gazprom has not accepted these offers. It is demanding the immediate repayment and is even planning to charge interest on the remaining portion of the debt if it is paid back over time. Gazprom has not ruled out reducing gas supplies to the republic in order to pressure it into paying back the debts. - Igor Rabinovich in Ufa

## INTERNATIONAL TRADE

**PETERSBURG CARGO TERMINAL THREATENED BY EU SANCTIONS.** A new cargo terminal at St. Petersburg's Pulkovo airport, built by the European Bank for Reconstruction and Development (EBRD), FGUP Pulkovo, and Lufthansa Cargo AG, opened for business on 4 March. However, the new terminal could quickly lose most of its potential business as a result of the EU's threat to ban Russian aircraft from Europe's skies if they do not comply with strict new noise limitations. According to the German *Bild*, Russian Transportation Minister Sergei Frank threatened to close Russian air space to Lufthansa if Pulkovo Airlines is not allowed to fly to Europe with its "noisy" airplanes as an exception to the new regulations. Lufthansa Spokesman Dmitrii Zelenin said that the company would have no choice but to comply with the decisions of the public officials.

Lufthansa played the most active role in building the terminal, hoping to use it as a staging area for cargo transported on transcontinental flights. Pulkovo reached agreement with the German airline in 1998 and the EBRD loaned \$8 million to construct the terminal. Overall investment was \$12 million. The terminal can handle up to 30,000 tons of cargo a year. For the time being, it will service only domestic flights. - Marina Makova in St. Petersburg

## PATTERNS OF REGIONAL DEVELOPMENT

**TATARSTAN'S ECONOMY SLIDES IN 2002.** Tatarstan turned in a poor economic performance in January and February 2002. In January, the republican economy registered zero growth over last year, while the February numbers showed an accelerating slide. Republican leaders place the blame on two factors. First is the low price for oil on the world market and the reduction of exports from the republic. Tatneft, the republic's oil company, had to shut down some of its least profitable wells. Prices are also falling for the output of the republic's refineries. Proceeds from oil sales make up a significant part of the republican budget.

A second reason for the economic drop is the increased share of taxes going into the federal budget. Republican leaders have made a special point of emphasizing this situation. On top of these problems, key republican factories like the KAMAZ truck producer and the helicopter factory are having bad years and had to cut production.

According to Republican Prime Minister Rustam Minnekhanov, Tatarstan needs to focus its attention on money-making industries and cut its losses on long-term projects. Perhaps, most embarrassing of all is the republic's lack of funds to continue construction of the Kazan metro. The 2002 republican budget includes no money for this project and if the federal government does not provide any funding, construction will come to a halt. To make matters worse, on 1 January 2002 Tatarstan was in second to last place among the 15 regions of the Volga Federal District in terms of wage arrears, with more than 1 billion rubles in salary debts. Only the situation in Orenburg Oblast is worse.

Against this background, some government expenditures seem to strike the wrong note. According to *Novaya vecherka* (6 March), the prime minister spent 700,000 rubles from a government reserve fund that he controls on a house for the mayor of the Buinskii Raion. The newspaper questioned why the government built a mansion for one official, rather than paying off wage arrears or supporting municipal services. - Midkhat Faroush in Kazan

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**FEDERATION COUNCIL**

**VYBORG CITY COURT BLOCKS KOKH CONFIRMATION.** In an unusual move, the Vyborg City Court issued an injunction on 5 March preventing the Federation Council from confirming the appointment of Alfred Kokh as the Leningrad Oblast legislature's representative to the upper chamber. The case is important because of Kokh's position in Russian politics and the evolving role of the courts in regulating a sensitive political issue.

Kokh rose to prominence as the deputy head of the State Property Committee in charge of privatization under Anatolii Chubais during the mid-1990s. More recently he was the head of Gazprom-Media when it helped bring NTV's independence to an end. The daily Fontanka.ru speculated that Kokh's appointment marked the growing influence of Chubais' clan in Leningrad Oblast. The Leningrad Oblast legislature chose him as its representative to the Federation Council on 26 February in a surprise move as it had been expected to choose a less controversial candidate approved by the presidential administration. However, the legislators were apparently impressed with Kokh's business and lobbying connections.

Oblast Legislature Deputy Oleg Petrov appealed to the court to overturn the decision, arguing that the legislature violated numerous federal and oblast laws when it chose Kokh. Petrov argues that Kokh failed to disclose his total income for 2001 and committed legal violations in collecting signatures in support of his candidacy. In his disclosure, Kokh claimed that his 2001 income was 41,864,619 rubles (about \$1.35 million), including 37.2 million rubles for research honoraria, consultancies, and scientific work.

Additionally, the federal government has joined the case against Kokh. Leningrad Oblast Procurator Yurii Prokofev asked the Vyborg City Court to annul Kokh's elections citing similar violations of federal law. The procuracy's involvement in the case suggests that some parts of the federal government oppose Kokh's nomination and raises the likelihood that he will suffer the same fate as former Procurator General Yuri Skuratov, who was appointed to the Federation Council from Buryatiya, but quickly removed from the post.

The Leningrad court accepted both complaints, and sent a fax to the Federation Council ordering it to suspend all proceedings regarding Kokh's confirmation pending a ruling. The court said it would fine the upper chamber fifty minimum wages if it did not comply.

At an 11 March meeting, the Federation Council's Commission on Parliamentary Procedures declared the injunction against the consideration of Kokh's membership "unprecedented" and "outrageous." Senator Mikhail Margelov suggested that the court order could undermine the authority of the Russian judiciary because it violated the Constitution and failed to show proper respect toward the Federation Council. According to Margelov, the court could only suspend the results of Kokh's election and recommend that the Federation Council reject his membership. However, Nikolai Tulaev, the chairman of the commission, argued that Kokh had become a member of the Federation Council immediately after his election on 26 February because the confirmation procedure is a pure formality. Eventually, the Commission decided not to proceed with Kokh's confirmation and asked the General Procurator and the Supreme Court to clarify Kokh's case.

On 13 March, the Vyborg City court started its proceedings. During the session, another Leningrad Oblast deputy, Alexandr Vernikovskii, claimed that he had signed a petition in support of Kokh mistakenly after being told to sign two documents to support a different candidate. Later, it turned out that one of the papers he had signed had been in support of Kokh. He charged that the petitions were misleading.

The court is now focusing on three questions: Did the legislators know whom they were nominating? Did the people collecting signatures mislead the legislators? And, what data should Kokh have disclosed? Kokh's lawyers argued that the law does not define the procedure for collecting signatures. Therefore, it was up to the parties to determine how they would accomplish this task. Leningrad Oblast Speaker Vitalii Klimov, who appeared at the hearing on its own initiative, supported this view. He has repeatedly argued that Kokh's election was fully legal. The next court session is set for 10 April. - Alexei Troshev

## GUBERNATORIAL ELECTIONS

**TYVA'S SHERIG-OOL OORZHAK WINS ANOTHER TERM.** On 17 March, Tyva President Sherig-ool Oorzhak won a third term as the head of the republic's executive branch, taking 53 percent of the vote and avoiding a runoff. His closest opponent, parliamentary Speaker Sholban Kara-ool won about 21 percent, while Kyzyl Mayor Aleksandr Kashin placed third with 7 percent. The losers have already announced that they will protest the results. Federal Electoral Commission Chairman Aleksandr Veshnyakov said that he did not see any violations in the elections, making clear that the Kremlin is content with the outcome.

Sergei Pugachev, the banker with close ties to President Vladimir Putin whom Oorzhak appointed as his representative to the Federation Council on the eve of the election, apparently financed Oorzhak's

campaign. Some sources claim that he flew campaign advisers from the Moscow-based firm Imidzh-kontakt to the republic on his own airplane. Tyva's most prominent politician, Emergencies Minister Sergei Shoigu, did not participate actively in the elections. Last fall his candidate in a State Duma by-election lost to a candidate backed by Oorzhak and Shoigu decided to stay out of republican politics after that.

Oorazhk's advisers made sure that they controlled the republican media during the campaign. On the eve of the elections, the president's team apparently bought off the management of the only opposition-minded independent television station in the republic, Novyi vek, and the owners of two opposition newspapers, *Tsentr Azii* and *Inform-plus*. The only opposition publication in the republic that consistently criticized the president was *Slovo*, the bulletin of the local Yedinstvo party branch, which is controlled by Kara-ool, the president's top opponent. However, two days before the election, Oorzhak's campaign used a government-owned printing press to publish 80,000 copies of a false issue of *Slovo* in which the editors ostensibly apologized for their "boorish behavior" in criticizing the president.

Observers also claim that the president's campaign used republican civil servants to round up votes. These state employees allegedly used official cars to travel around the countryside agitating for the incumbent. - Maksim Shandarov in Novosibirsk

## **FISCAL FEDERALISM**

**PROCURATOR INVESTIGATES PETERSBURG BUDGET.** The St. Petersburg procurator and the local branch of the Ministry of Internal Affairs' Department for Combating Economic Crimes is investigating the city administration Finance Committee's decision to place city funds in 13 commercial banks when the Russian Budget Code requires regional administrations to keep their funds in the Central Bank or its territorial branches. According to St. Petersburg Monitoring and Accounting Chamber Chairman Dmitrii Burenin, the city is not only illegally keeping money in the commercial banks, but also taking loans from these banks. In 2000, the city borrowed more than 5 billion rubles from BALTONEKSIM Bank alone. The interest on these loans was more than 20 million rubles, he claimed. Governor Vladimir Yakovlev is widely believed to have close ties to this bank.

Additionally, the auditors determined that the Architectural Glass Factory and the new Ice Palace hockey rink received 1 billion rubles of city money, but it was not clear under what conditions they would have to return the money. The 2001 and 2002 budgets make no mention of these funds. The auditors noted that an additional 1 billion rubles disappeared from the road fund for unspecified uses and more than 265 million rubles from the same fund went for the reconstruction of the Yubileinyi Sports Palace.

Officials at BALTONEKSIM Bank confirmed that it has city money on deposit and directed all questions on the legality of its holding such money to city officials. However, the bank officials argued that transferring city funds to the Central Bank would have negative consequences for the city since it might not be able to receive commercial bank credits in the future. All banks want collateral for their loans and prefer to lend to customers who have an account in the bank, the BALTONEKSIM spokesman said. The Architectural Glass Factory is currently in bankruptcy proceedings and it is not clear when it will be able to return the borrowed city money. City officials claim that they have not broken any laws. - Marina Makova in St. Petersburg

## **INVESTMENT**

**SAKHANEFTEGAZ SEEKS TO REGAIN TALKAN DEPOSIT WITH NEW PRESIDENT.** In April 2001 Sakhaneftegaz won a tender for the Sakha Republic's Talakan deposit, with 124 tons of oil and 47 billion cubic meters of natural gas reserves, by offering to pay a \$501 million bonus to the Russian state, sending \$200.4 million to the federal government and \$300.4 to the republican government.

However, at the beginning of March 2002, after determining that the company could not pay this sum, the republic cancelled the results of the tender and declared that it would hold a new auction.

So far 2002 has been a time of enormous change for Sakhaneftegaz and Sakha. At the beginning of February, as the republic was deciding the fate of the Talakan deposit, the oil company YUKOS purchased a 42 percent stake in Sakhaneftegaz. YUKOS thus became the second largest owner in the company that former Sakha President Mikhail Nikolaev had called the republic's second Alrosa, the firm that monopolizes Russia's diamond production and generates most of the republic's revenue. Additionally, on 9 March, Sakhaneftegaz elected Ruslan Shipkov, the former chief federal inspector for Sakha, Amur, and Magadan, as its new president. Shipkov founded the company in 1993 and worked as its president for 18 months before signing on as a public servant. Shipkov said that he is returning to the company because he wants to help Sakha's newly elected president, Vyacheslav Shtyrov, develop the republic's industry outside the diamond sphere. Like Nikolaev, he sees the energy sector as one of the most promising. His connections with Putin's presidential administration from his former job should also help develop contacts for the company.

Shipkov admitted that the \$501 million bonus was unrealistic and said that he supported the republic's decision to annul the results of the tender. He said that Sakhaneftegaz now intends to participate in the new auction, which will be held by the end of 2002. YUKOS representatives hope to reduce the size of the bonus they will be required to pay. Most likely, it will be slightly larger than \$300 million. They claim that the quality of the Talakan oil is not bad, but that the main problem will be transporting it over the vast distances required to reach customers.

The Sakhaneftegaz-YUKOS team will face stiff competition in the auction since Surgutneftegaz and Rosneft are also likely to participate. Since developing the site will be such a massive project, the company that wins the tender most likely will have to split the work with other companies. YUKOS has already invested \$38 million in Sakha, demonstrating its serious intentions. It plans to triple its sales of petroleum products in the republic in 2002 to 1.5 million tons a year.

YUKOS already has an agreement to sell Siberian oil to China, which has a strong need for fuel but few domestic sources. The company is currently transporting oil south in trucks, which is very expensive, and hopes eventually to build a pipeline connecting Russia and China (*EWI Russian Regional Investor*, 21 June 2001).

The main loser from canceling the results of the previous auction and holding a new one is Sakha. With the new tax laws in place, the federal government will now take a much greater share of the proceeds from the auction. - Oleg Yemelyanov in Yakutsk

## LOBBYING THE FEDERAL GOVERNMENT

**KALMYKIYA SETS UP OFFICE TO LOBBY FEDERAL PARLIAMENT.** Kalmykiya President Kirsan Ilyumzhinov established the position of deputy republican prime minister for relations with the Federal Assembly and appointed Batr Vankaev to the position on 11 March. Vankaev said that his chief task will be to maintain ties with various committees in the State Duma and Federation Council to ensure that republican interests are represented in federal legislation (*Izvestiya Kalmykiya*, 12 March). In recent years, Vankaev has served as Kalmykiya's representative in North Ossetia, Ilyumzhinov's assistant in the Federation Council, and the head of the regional Yedinstvo party. Vankaev said that he will work with federal legislators regardless of party affiliation.

This new appointment adds to Kalmykiya's already extensive efforts to lobby the federal government. In the past, the republic sent representatives to the Russian president and government, setting up an office in Moscow. It also designated a representative to the presidential envoy in the Southern Federal district, Viktor Kazantsev.

The new lobbyist will partly compensate for Ilyumzhinov's poor relations with Kalmykiya's only State Duma member, Aleksandra Burataeva. During the 1999 State Duma campaign, Burataeva accused Ilyumzhinov of organizing a conspiracy against her. Vankaev noted that now the administration has no contact with her and does know what she is doing. Additionally, the State Duma has also initiated some unpleasant steps against Kalmykiya. For example, last year it ordered the Audit Chamber to conduct an extensive audit of the republic's use of federal funds. Although the auditors did not find any serious problems, the procedure caused the republic considerable discomfort. Part of Vankaev's job will be to take the pulse of the Duma to avoid similar incidents in the future, especially in the run up to the republic's presidential elections in October 2002.

The key targets for Kalmykiya's lobbying will be the ecology, resources, and budget committees. The region faces severe ecological problems because more than 80 percent of the republic's territory is becoming a desert. The republic does not have sufficient resources to deal with this problem on its own and will need additional federal help. Even supplying the republic's population with drinking water is difficult since the republic does not have any of its own fresh water sources and must import it. There are federal programs to deal with this problem, but financing comes only irregularly. More persistent federal lobbying should make it possible to secure the necessary funds.

Following the recent budget reforms, the federal government controls a much greater share of Russia's revenue and regions can only gain access to these funds through the lobbying process. In 2001, the republic collected 10.9 billion rubles in taxes, but 9.3 billion went to Moscow and only 800 million stayed in the republic. Moreover, the Russian government has practically annulled the agreement to divide the taxes from the Caspian Pipeline Consortium evenly between the federal government and the regional governments whose territory the pipeline crosses. - Vladimir Volgin in Kalmykiya

## PARTY BUILDING IN THE REGIONS

**COURT EXAMINES BUSINESSMAN'S POWER GRAB IN ULYANOVSK SPS.** Ulyanovsk Oblast's Lenin Raion court must decide if it has the authority to resolve an intra-party conflict on the basis of Russian legislation. Union of Right-Wing Forces (SPS) Ulyanovsk Political Council members Isaak Grinberg and Oleg Belokurov have filed suit asking the court to declare the party's 9 February meeting illegitimate because a quorum was not present. The battle involves questions of the party's leadership, its relationship with the authorities, and its future direction.

The purpose of the meeting was to register the oblast SPS organization officially as a branch of the national party, but the meeting ended in scandal. Political Council Chairman Sergei Gerasimov, a prominent Ulyanovsk businessman, registered 142 new members on the eve of the congress. By the day of the congress, the Ulyanovsk SPS had 429 members, of which 281 turned out for the meeting. Many of the new members were part of Gerasimov's security detail and wore camouflage uniforms. They voted as a bloc to elect Gerasimov as the head of the organization and to prevent the election of a large number of well-known SPS activists who were not allied with him from joining the party's Political Council. Although Gerasimov himself did not attend the congress, he had given his supporters detailed instructions on how to vote.

In filing his court case, Grinberg revealed these instructions and accused Gerasimov of trying to privatize the regional chapter of the SPS. He called on party members to fight what he described as totalitarianism in the party. A third of the participants in the congress followed his lead in storming out of the congress and informed the local branch of the Justice Ministry that, because of their walkout, the congress did not have a quorum.

This scandal is simply the latest in a series of disputes that have split Ulyanovsk liberals. The cleavage was already clear in 2000 when members of the party split over whether to support the gubernatorial candidacy of Vladimir Shamanov, who went on to win the election. Some party members welcomed the

arrival of the general as the only candidate with a realistic chance to defeat former Governor Yuri Goryachev; others opposed the election of a military man who was a political outsider in Ulyanovsk politics.

Until these events, Gerasimov had never been a public politician. However, he is very wealthy by local standards, declaring an income of 128 million rubles in 2000. He owns the Children's World department store, a chain of grocery stores, and a large stake in the Milan dairy and other enterprises. His companies employ 4,000 people. He said that so far he had worked to advance his own interests, but now was willing to work for society. He also indicated that he would consider running for governor in three years if the Ulyanovsk SPS worked well under him.

Local observers believe that under Gerasimov the local SPS will generally support Governor Shamanov, at least until the next gubernatorial elections. The people who left the congress are largely in opposition to the governor. This group has called on the SPS national party organization to send a delegation to Ulyanovsk to address the current split in the party. The national party may have trouble figuring out what to do since it itself is split among those who back President Putin and those who are more comfortable opposing him. The protesters are also seeking relief from the court. However, it remains unclear if the court has jurisdiction to resolve such a case since there are no precedents of similar decisions. - Sergei Gogin in Ulyanovsk

## NATURAL MONOPOLIES IN THE REGIONS

**CHELYABENERGO, GOVERNOR FIGHT OVER ELECTRICITY PRICES.** Russia's governors and the managers of its electricity monopoly (EES) have long had conflicting interests. The governors want to keep electricity and heating prices low to ensure that local industry remains competitive and preserve a higher standard of living for the population. The managers want to raise prices so that they can cover their costs and invest in equipment upgrades they desperately need.

This battle is now becoming acute in Chelyabinsk Oblast. On 12 March Chelyabenergo General Director Vyacheslav Seredkin denounced the Regional Energy Commission and its chairman, Vitalii Vasilev, for setting the price of electricity and heat on the basis of "political considerations." On its own, such a statement is not particularly groundbreaking because, like any administrative intervention into economic activity, setting electricity and heat prices at the federal and regional level has always been somewhat political. What is more interesting is that this statement came from the general director of Chelyabenergo, who had always been loyal to the governor. The increasingly public nature of the conflict reflects the serious difference between the energy supplier and the regional price setting body, which is controlled by the governor.

Seredkin argues that the Regional Energy Commission's (REK) prices do not take into account that Chelyabenergo's equipment is in much poorer shape than that of neighboring regions and in much greater need of investment. Additionally, the company must buy local coal, which accounts for about 30 percent of the fuel it uses, at relatively high prices in order to support local coal miners.

In Chelyabinsk the political factor in setting prices has been obvious for a long time. In the months before the region's gubernatorial elections (the second half of 1996 and the second half of 2000), the administration made sure that the REK did not raise prices. The Chelyabenergo management always took this situation into account and did not seek price increases during these periods. Of course, after the elections, the politicians neglected their promises to compensate the utility and it would have to cover its losses on its own.

Chelyabenergo's current unhappiness with the REK has a serious economic underpinning. Chelyabenergo is losing money at a much faster rate now because the price it must pay for electricity from Russia's wholesale market (FOREM) has gone up and the price of the natural gas it uses to generate electricity has also increased. Fifty-five percent of the energy Chelyabenergo sells comes from the

wholesale market, while 70 percent of the fuel the utility consumes is natural gas. The REK's Vasilev does not deny that the utility is losing money, but claims that a solution must come from the federal and oblast governments. Utility managers simply want to raise prices so that they can cover their costs. Several studies conducted in the oblast have found that Chelyabenergo's requests are reasonable.

Chelyabenergo wants to raise electricity prices 19 percent and heating prices 20 percent. On 1 March, the REK raised electricity prices on average only 11 percent to 68 kopecks per kilowatt-hour and 5 percent for heat consumed by industrial enterprises, leaving residential and government organization heat prices unchanged. The REK argued that raising the prices higher would threaten the oblast's standard of living and hurt productivity at local enterprises. In Chelyabinsk energy prices for enterprises are much higher than for residences and government offices, which have generally low prices. Such differentials exist in neighboring Sverdlovsk and Perm oblasts, but to a lesser degree than they do in Chelyabinsk. - Igor Stepanov in Chelyabinsk

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The EastWest Institute (EWI) and the editors of the Russian Regional Report are pleased to announce that the updated version of our On-line Handbook of Russia's Regions is now available. The following regions have been updated through August 2001: Primorskii Krai, Chukotka, Nizhnii Novgorod, Taimyr, Voronezh, Kaliningrad, Khabarovsk, Samara, Saratov, Novosibirsk, Perm, and Irkutsk.

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## PREPARATIONS FOR THE 2003, 2004 ELECTIONS

**MOSCOW, BASHKORTOSTAN RETURN TO POLITICAL TRADING.** Moscow and Ufa have continued to have a dialogue and to provide services for each other since the early 1990s despite their differences over Bashkortostan's declaration of sovereignty. President Boris Yeltsin used republican presidents like Tatarstan's Mintimer Shaimiev and Bashkortostan's Murtaza Rakhimov in his battle against USSR President Mikhail Gorbachev and in his 1996 presidential campaign, where the main goal was to defeat the Communists. Yeltsin then ignored the fact that Shaimiev and Rakhimov had set up authoritarian regimes in their republics.

On coming to power, President Vladimir Putin adopted a new policy toward the republican leaders, pressuring them to admit the priority of federal laws over republican legislation and rejecting republican sovereignty. However, it is possible that this was a temporary change. Having scored some successes, Putin will want to return to the use of political deal-making with republican leaders in order to win their support in the 2003 parliamentary and 2004 presidential elections. The federal government and the powerful republics still have differing interests even though the republican leaders are now aligned with the pro-Putin Yedinaya Rossiya political party. Thus the Kremlin understands that the regional leaders will try to win political concessions in exchange for their loyalty to the president.

However, in contrast to the Yeltsin era, from the start the Kremlin is trying to control the process of assuring the loyalty of the regional elite as part of its overall preparations for the elections. With this goal, Deputy Presidential Chief of Staff Vladislav Surkov came to Ufa on 21 March. Surkov has responsibility for party building, especially overseeing the creation of the regional branches of the new Yedinaya Rossiya, and said that his task in visiting Bashkortostan was to discuss the 2003 State Duma elections.

On the eve of the visit, the Bashkortostani leadership made clear that it wanted Mansur Ayupov, one of the most outspoken defenders of republican sovereignty, to head the republican branch of Yedinaya Rossiya. From 1996 to 1999, Ayupov led the republican branch of then Prime Minister Viktor Chernomyrdin's party Our Home is Russia. He ultimately turned the republican branch of that party into an organization independent of the Kremlin called "For a New Bashkortostan," which worked actively to promote republican sovereignty. It was clear that the Putin administration did not want the Kremlin to lose control over its own party again and Surkov's task was to make sure that the republican leadership understood this.

However, the republican leadership will not accede to the Kremlin's wishes easily. Two days before Surkov arrived, Rakhimov announced that he would seek a third term as Bashkortostan's president. This statement marked an about face for Rakhimov since he had earlier said that he would not seek another term (he will be 69 in 2003) and would name a successor soon. He claimed that he had to stay on to help defend Bashkortostani sovereignty at such a difficult time for the republic.

Rakhimov's statement was clearly timed to Surkov's visit and put the Kremlin on notice that the republic would demand a heavy price for the "insults" it had suffered at Putin's hands. The most important issue for discussion was the Bashkortostan Supreme Court's decision, also announced on the eve of Surkov's visit, overturning more than a third of the articles in the recently amended republican constitution. Rakhimov did not anticipate the court's decision and publicly expressed his anger about this setback.

At Deputy General Procurator Aleksandr Zvyagintsev's request, the court overturned some of the most aggressive attempts by the republic to chart its own course, including constitutional provisions requiring republican presidential candidates to know the Bashkir language and establishing republican citizenship. The court also rejected the inclusion of the 1994 power-sharing agreement between Moscow and Ufa into the preamble of the constitution. The treaty provides terms highly advantageous to the republic and Putin has made clear that he believes it has outlived its usefulness. Members of the republican legislature took the unprecedented step of setting up a committee to determine how the court could take a decision with which they did not agree.

However, the federal authorities also have something to complain about since the court left the constitution's assertion of republican sovereignty unchallenged. Zvyagintsev said that he would appeal this ruling to the Russian Supreme Court. Possibly, Surkov may try to work out a deal in which the Kremlin would not seek to overturn the republic's asserted sovereignty in exchange for the republican administration's acceptance of the rest of the court decision.

Another possible issue of compromise could be moving the Bashkortostani elections, now set for June 2003, back to December 2003 so that they could be held with the State Duma elections. Additionally, the presidential administration is actively seeking to hold the Russian presidential and parliamentary elections on the same day and Bashkortostan's

election could be held on that day as well. (Currently the presidential election will follow the parliamentary elections by three months.) The Kremlin claims that holding such elections on the same day will save money. The obvious political subtext, however, is that it will be easier to arrange deals between federal and regional leaders if the elections are all held on the same day. Thus, as the elections approach, the potential for political compromises is expanding. - Igor Rabinovich in Ufa

## PUTIN'S CRITICS

**IRKUTSK JOURNALISTS VIEW BEREZOVSII FILM.** On 25 March, Irkutsk journalists had a chance to view Boris Berezovskii's film "Attempt on Russia," which charges that Federal Security Service (FSB) agents set the apartment bombs that killed hundreds in Buinaksk, Moscow, and Volgodonsk during the summer of 1999. The government has blamed the explosions on Chechen fighters. Berezovskii first showed the film on 5 March in London, where he has lived more than a year, and then sent a thousand copies to Russia. Members of Berezovskii's Liberal Russia party Sergei Yushenkov and Yulii Rybakov brought the tapes to Moscow and St. Petersburg and some copies were sent to the regions from there.

None of the national television networks has broadcast the film and regional stations have refused to do so as well. The only place to see the film is in local chapters of the Liberal Russia organization. Irkutsk Liberal Russia leader Yurii Korenev arranged the showing for local journalists.

The general reaction to the film was that it raises more questions than it answers. The film does not include any new information that has not already been released: it simply lays out the available evidence implicating the FSB in the bombings. Most of the film focuses on the mysterious incident in Ryazan where vigilant citizens caught FSB officers unloading bags of explosives into the basement of an apartment building. The film, however, does not convincingly reject the FSB's official explanation that it was carrying out a training exercise in Ryazan, although one that was poorly conceived and implemented.

At the viewing, journalists heard rumors that the special services had put some kind of pressure on Liberal Russia members in Irkutsk to prevent the showing. Korenev said that initially he had wanted to show the film in one of Irkutsk's movie theaters. However after agreeing to a screening, theater managers cancelled the viewing after being advised against it. Korenev believes that the Irkutsk city administration, rather than the special services, pressured the theater into canceling the event. - Mikhail Mazur (Teleform) in Irkutsk

## LEGAL REFORM

**LACK OF GUARDS IN ST. PETERSBURG THREATENS CRIMINAL COURT REFORM.** So many courtroom guards are quitting the St. Petersburg police force that the city's criminal courts may have to shut down, Arkadii Kramarev, the chairman of the St. Petersburg Legislative Assembly's Commission on Legality, warned at a 21 March commission meeting. Every day twenty police officers leave this regiment, which is in charge of escorting the accused to trial and guarding them in the courthouse. Currently,

the regiment has filled fewer than half of its staff positions. This shortage of funding and manpower will make it difficult to implement further stages of legal reform, especially the adoption of a new system requiring judges to issue arrest warrants.

Officers are leaving in droves to seek better paying jobs because, starting in April, they will no longer receive a benefits package in addition to their salaries. The shortage of the court officers is so severe that there are only enough guards to protect four of the city's 20 courtrooms, according to Valentina Epifanova, the deputy chairman of the St. Petersburg City Court. Epifanova noted that lengthy trials exacerbate the problem, especially when judges are not able to finish cases within a single day. She said that all district courts in St. Petersburg face similar shortages. St. Petersburg judges sent a letter of complaint to Prime Minister Mikhail Kasyanov, Minister of Internal Affairs Boris Gryzlov and Procurator General Vladimir Ustinov, but did not receive any assurances that the federal government would alleviate the problem.

Representatives of the St. Petersburg Police Department have not offered any financial assistance either. Rather they suggested two possible ways to increase the number of officers. One idea is to treat the work as military service and draft local males into this regiment. Another option is to pay extra salary to the regiment troops from the city budget. The legislators criticized this proposal, however, noting that the federal authorities are supposed to cover the officers' salaries.

Kramarev agreed that the judges' complaints were justified, but predicted that no additional funding would become available. Moreover, he warned, that the entire court system could shut down on 1 July, because from that date on judges will have to begin to issuing arrest warrants, taking over a task currently performed by the procurators. Under the new system, the court police will have to escort and guard individuals who have just been arrested as well as those accused of committing a crime. Individuals who have been detained will be kept in special detention cells until they appear before a judge who will issue an arrest warrant, according to Alexandre Gusev, general director of the Judicial Department at the Russian Supreme Court (*Izvestia*, 22 March). Guarding individuals being held in the courthouse will require additional escort police, but the judicial reform package does not allocate any funds for such officers.

According to Kramarev, the law limits regional legislatures from doing anything but petitioning the federal government in such crisis situations. However, as a short-term solution, the commission decided to draft and sponsor a bill authorizing city funding for the police and petition the federal government to permit such payments. Putin's government is unlikely to accept this proposal because the thrust of its reforms is to assure that the police are loyal to the federal, rather than regional, governments. In the longer term, the commission began drafting a bill that would provide money to construct detention cells in St. Petersburg courts and special rooms for the judges to issue warrants in city jails. The crisis facing the St. Petersburg courts may spread to other large Russian cities where better-paying jobs are attracting guards whose salaries have been steadily declining since 2001. - Alexei Trochev

## BANKING ISSUES

**FAR EAST SEEKS BANKING TIES WITH CHINA.** The level of economic interaction between China and Russia in the Far East is small but growing. In 2001,

Khabarovsk Krai had a foreign trade turnover of \$2.22 billion, 52 percent larger than the previous year. China made up 68 percent of these imports and exports (with other partners trailing significantly: Japan, 9 percent, Singapore, 8 percent, and Switzerland, 4 percent). China also has the largest number of joint ventures in the krai, with 22 of the 48 registered there. A considerable amount of trade is likely also taking place in the shadows.

Now Russian banks in the Far East are trying to bring such exchanges into the open and expand them. To this end, the Dalnevostochoe OVK Bank recently presented a new book entitled "Prospects for Russian-Chinese Cooperation in the Banking Sphere" at conferences in Khabarovsk and Vladivostok. This is the first book to examine the current situation and future prospects for Russian-Chinese bank cooperation.

The Russian bankers ascribe the success of China's banking system to several factors. The country has the highest savings rate in the world. Depositors care little about the reserves of their banks since they fully trust the government. And, usually the only investment Chinese citizens make is purchasing their apartment. Therefore 80 percent of the population's savings are in bank accounts. By contrast, Russia's banking system is a "pygmy." Few Russians would entrust what money they have to the country's financial institutions.

The authors estimate that each month shuttle traders illegally export \$50 million to China. Even though China benefits from the influx of cash, the Chinese leadership is not happy with these illegal money flows. Already Far Eastern banks, like DalOVK, Primsotsbank, and Regiobank, are trying to capture this market by offering services in transferring money to China. DalOVK bank currently transfers about \$1 million a month to China for individuals, an amount that is considered a success by local standards. While no one thinks that it will be possible to stamp out the black market trade entirely, the shadow economy could be reduced to a minimum.

Since the Chinese banks have so many resources, the Russian bankers proposed liberalizing Russian legislation to allow Chinese financial institutions to operate in the Russian market. The authors also propose increasing the number of joint meetings, conferences, and forums with their Chinese colleagues. So far there is little common understanding between bankers working in the two countries, particularly those serving small and medium businesses. - Yurii Rozhkov in Khabarovsk

## ALTERNATIVE MILITARY SERVICE

**NIZHNII EXPERIMENT CONTINUES DESPITE CRITICISM, COURT RULING.** Since the end of 2001, the city of Nizhnii Novgorod has conducted an experiment in providing the country's young men with an alternative to military service. The Constitution (article 59, part 3) guarantees this right, but the State Duma is still discussing the necessary enabling legislation. In the absence of a federal law, the city is trying to push from the bottom up a policy that faces considerable resistance from the military at the federal level (see earlier articles on this issue in *EWI Russian Regional Report*, 13 February)

Nizhnii Novgorod Mayor Yurii Lebedev initiated the experiment, taking the decision at a meeting with human rights advocates on 10 April 2001. He signed a municipal order establishing alternative service on 27 June 2001 and launched it in the fall of 2001. Now

Nizhnii draftees who opt out of military service are working as orderlies at the city's hospital number 1, which suffers from an extreme shortage of workers.

Initially, the participants were expected to serve three years, but that term may be lengthened to four in the bill the Duma is now considering. The participants currently work eight-hour days, but that figure may also be increased. If the participants fail to perform their duties, they will be sent to military service and may even face criminal charges. Lebedev believes that the existence of alternative service may reduce the number of young men who simply fail to show up when they are drafted.

Fifty-one individuals requested alternative service in 2001 and 20 were accepted into the new program. Most of the current participants are members of the Nizhnii Novgorod Peace-Keeping Group, which has existed for five years and conducts many pacifist activities in the region.

In January 2002, the Nizhnii Novgorod Procurator took the city to court, charging that the program was illegal and that the mayor had exceeded his powers in launching it. The Nizhnii Novgorod Raion Court, however, ruled that the program had a firm legal footing because the constitution explicitly authorized it. However, the procurator then took the case to the higher Nizhnii Novgorod Oblast Court. In February, this court overturned the mayor's order establishing the program.

Despite the court ruling, the experiment is continuing based on its own momentum. Mayor Lebedev has spoken out at the local and federal level to defend the program and visitors frequently come to see how it is being implemented.

In the middle of March, President Putin commented on the experiment, charging the mayor with violating the law. Putin said he wants to introduce alternative service as quickly as possible in Russia but only on the basis of a federal law. He charged that the Nizhnii experiment had been introduced "without prior permission" and that the "procurator should take appropriate action." Putin charged that Lebedev has little chance of winning reelection in Nizhnii's upcoming mayoral elections, and therefore is trying to use the issue of alternative service to gain popularity with the voters.

A year ago Lebedev tried to hold a city-wide referendum on the issue of alternative service. However, the city Duma refused to approve the plebiscite because it determined that military service was within federal, rather than local, jurisdiction. Additionally, holding such a referendum would have given Lebedev a large amount of publicity at a time when he was running (unsuccessfully) for governor.

In response to the president's words, Lebedev said that he was prepared to be an "extremist." Media under his control in the city tried to explain Putin's statements by claiming that he had been set up by Presidential Representative to the Volga Federal District Sergei Kirienko who hates the mayor. Communist Party leader Gennadii Zyuganov also backs this version of events. Other hypotheses blame the president's comments on the influence of other Nizhnii politicians.

The young men currently participating in the alternative service program are in legal limbo and it is not clear that their current work will be counted toward their obligation to the military once a federal law is adopted. They also may not continue to receive the reasonably generous salaries they currently enjoy. Thus, it is likely that the young people could become victims of various politicians' games. - Rustam Bikhmetov in Nizhnii Novgorod

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## BUSINESS AND POLITICS IN THE REGIONS

**PUTIN CUTS TATARSTAN, BASHKORTOSTAN ACCESS TO OIL MONEY ON EVE OF ELECTIONS.** The federal government has changed the way that Tatarstan and Bashkortostan sell their oil in a manner that limits how the republican leaders can use the revenue for campaign purposes.

With continuing instability in world oil prices and a Russian agreement to extend export cuts by 150,000 thousand barrels a day for a second quarter, competition among export-oriented oil companies has intensified for access to Transneft's pipelines, which send Russian oil abroad. None of Russia's oil companies wants to cut output now and all would like to see someone else bear the brunt of the cutbacks. According to Deputy Prime Minister Viktor Khristenko, who oversees oil issues, the Russian government did not want to damage its relations with any of the oil companies and therefore did not set any quotas. Rather, it asked the companies to agree among themselves on how to cut exports (*Kommersant*, 25 March).

However because of the traditionally poor relations between Tatarstan President Mintimer Shaimiev and Bashkortostan President Murtaza Rakhimov, who practically run

the Tatneft and Bashneft oil companies, and the leaders of Russia's major oil exporters (Yukos, LUKoil, and Sibneft), the companies did not reach an agreement. The leaders of the major companies object to the flow of Tatneft's and Bashneft's oil through the common pipeline because the republics' oil has high sulfur content. The republican oil makes up 11 percent of the total flow. The other oil companies argue that exporting such oil is an unprofitable social project, which mainly serves the interests of the republican leaders, and they believe that they should not have to sponsor it (*Finansovaya Rossiya*, 21 March). Including the high sulfur oil into the common flow of Russian oil lowers the price of the higher quality Siberian oil produced by the major companies by \$1-2 a barrel.

Given the current market conditions, Russia's leading oil companies asked the Russian government to limit the flow of high-sulfur oil into the pipeline. They believe that Tatneft and Bashneft should compensate the other oil companies because the low quality of their oil brings down the price for everyone. YUKOS President Mikhail Khodorkovskii claimed that adding the Tatar and Bashkir oil to the common pipeline cost the other Russian exporters \$2.5 billion a year. Khodorkovskii also argued that the republican oil companies benefit unfairly from the current arrangement because they effectively sell their oil for more than it is really worth. Khodorkovskii suggested that it would be best to simply cut the republican companies out of the export business. The protests of the Russia's largest oil companies are understandable given the federal lobbying efforts Shaimiev and Rakhimov undertake to protect the interests of their companies.

In December 2001, Shaimiev and Rakhimov sent a letter to President Putin protesting the inclusion of such compensation in a bill on the oil pipeline. YUKOS, LUKoil, and Sibneft had long supported this measure. The republican leaders warned that Tatneft and Bashneft generated most of the tax revenues in their regions and that introducing requirements to provide such compensation would effectively bankrupt them, causing serious economic and social problems for the two republics. In March, the leadership of Tatneft and Bashneft, the republics' representatives in the Federation Council, and top republican officials joined the lobbying effort against requiring compensation.

In response to the input from the different groups, Putin ordered the government to develop a plan that would send the republican oil to refineries in Ukraine and Russia that are equipped to process high-sulfur oil. Under this plan, the republics' earnings would remain approximately the same as they are now and the republican oil companies would not have to use the Transneft pipeline.

Khristenko pointed out that Putin's plans would improve the quality of Russian oil exports and allow Russia's largest oil companies to receive hundreds of millions of dollars more for their exports. If Tatarstan and Bashkortostan want to continue exporting their lower-quality oil abroad, they will have to compensate the other companies.

This federal decision, adopted on the eve of parliamentary elections in Tatarstan and presidential elections in Bashkortostan, hits the republican leadership hard because in the past they had used the proceeds from oil exports to finance their election campaigns. Now the proceeds from these sales will be more transparent to the federal government and to the oil companies that have such unfriendly relations with Tatneft and Bashneft. Additionally, Putin's decision shows how the federal authorities are able to force such

opposition-minded leaders as Rakhimov and Shaimiev to accept an economic policy that meets federal interests. - Igor Rabinovich in Ufa

### **KALININGRAD AUTHORITIES, BUSINESSPEOPLE DISCUSS RELATIONS.**

On 25-26 March, Kaliningrad Governor Vladimir Yegorov, members of the Oblast Duma, and the regional business elite gathered in the village of Sosnovka, 60 km from Kaliningrad, for a seminar to discuss "Conceptual questions of relations between the state and business in Kaliningrad Oblast." This was the first meeting between the oblast authorities and the business community to organize their activities in developing Kaliningrad Oblast in today's unprecedented geopolitical and economic conditions in which the exclave region will likely soon be surrounded by European Union members. The seminar discussed an idea, which all oblast groups could rally around: the achievement of a European quality of life.

During the last five years, relations between business and the authorities have evolved through three stages:

-- 1997 to 2000, under Governor Leonid Gorbenko, was a period in which some businesses had close ties to the authorities and some were held aloof (described in Russian as "*rasnopriblizhennost'*). Personal connections and agreements played the main role in determining who had access and who did not.

-- In 2001, Yegorov's new oblast administration and the Duma distanced themselves from the business community to cleanse themselves of any potential conflicts of interest ("*ravnoudalennost'*).

-- 2002 marks the beginning of a new era in which the authorities are working equally closely with all businesses ("*rasnopriblizhennost'*). Businesses are starting to think more long term, with their success depending more on their assessments of the oblast's future than their relationships with the governor or Oblast Duma deputies.

State-business relations are becoming more institutionalized and the authorities are losing their business phobias. The seminar discussed the idea of creating a "Baltic Davos," which would provide a large forum for meetings between the authorities and business in which they could not only air their complaints about each other, but also examine programs of joint action, with the participation of leading liberal Russian economists such as Yegor Gaidar, Vladimir Mau, and Sergei Sinelnikov-Murylev.

The participants also supported the idea of creating an Economic Council to advise the Oblast Duma on how to take into account business interests in implementing the federal development program for Kaliningrad through 2010. The Russian government approved this program in December 2001. - Solomon Ginzburg in Kaliningrad

### **PATTERNS OF REGIONAL DEVELOPMENT**

**PRIMORSKII'S DARKIN ON KEY ISSUES.** Primorskii Krai Governor Sergei Darkin, who came to office in June 2001, recently toured his krai, conducting 50 meetings with constituents in the last 30 days. RRR Correspondent Andrei Kalachinskii attended the last one. Here are some of Darkin's statements on key issues:

Krai budget:

Our main task was to impose order on finances. The federal government quickly changed its policy toward us and now we receive our transfers, subsidies and grants on time. However, we should not take pride in such large grants. Our goal is to reduce our dependence on the center. The federal government gave us 6.5 billion rubles, which combined with our 12 billion rubles of revenue, produces an overall krai budget of 19 billion rubles. This seems like a lot, but if we divide it by the number of people in the krai, 2.1 million people, it is not that much. It is similar to the figures in China.

... When I took over the krai, there were 9 billion rubles of debt: of these 3 billion came from krai debts and 6 billion rubles from the municipalities. Wage arrears amounted to 350 million rubles. Today we have eliminated all wages arrears. I promise that there will be no debts in the future. We created a krai treasury for this purpose. The purpose of this institution is simple: we now know where every kopeck goes and we can monitor every ruble in any city budget except the city of Vladivostok.

China:

The northern provinces of China, where 130 million people live, are developing at a rate of 9.5 percent growth a year. Overall, China is growing at a rate of 7 percent a year. Last year Russia grew at a pace of 3.5 percent. What will happen in the next ten years? Simple, China will not conquer us, but simply forget about us and move on. Therefore our main task is to make sure that our economy grows at a quick pace.

Wage growth

The last two months make us happy. In January and February, Primorskii Krai's gross regional product grew 3.5 percent. During this time salaries increased 36 percent. I am paying attention to salaries for one important reason: for the first time in ten years during the last quarter of 2001 and the first quarter of 2002, the economy grew as a result of internal consumption. And that depends on rising salaries.

Although some may laugh, today the average salary in Vladivostok is 5,000 rubles a month. In the krai as a whole, it is 4,000 rubles. We met with the mayors of all cities and decided that we had to increase the pay at all enterprises by an average of 25 percent. This is important. There are many enterprises were pay is 500 rubles.

Past electricity crises

You have seen that there is no electricity crisis in Primorskii Krai. We have a surplus of generating capacity. ... Last year for the first time in 10 years we invested 500 million rubles in the housing sector. And we bought fuel on time. This allowed us to survive the winter without any big problems. This year we are setting aside 700 million rubles.

If the krai regularly invested similar sums in the housing sector, there would not be such problems. On the evidence of this winter, we demonstrated ... that managing the krai is an ordinary task, which any manager could perform.

The near future

What will I do the next six months? The top priority is cleanliness in the entire krai. We will provide additional funding for equipment and use college students, high school students, and soldiers to collect trash. We will clean up the krai.

The second task is preparing for the Asia-Pacific Economic Cooperation forum in Vladivostok in the fall. We need to maintain political peace in the krai. Money loves stability. In order to live well, we need investment. ...

The authorities should not hinder economic growth. The economy should develop by its own laws. Our task is to make sure that it helps people living in the krai. We have stopped giving benefits to enterprises. Rather we are giving benefits directly to people. ... [However in the case of Dalzavod, Darkin advocated using bankruptcy procedures against the factory because "there was no other way to remove the director." He also noted that "in my opinion, we should nationalize the factory and return it to the bosom of the state."] - Andrei Kalachinskii

## **REGIONAL ELECTIONS**

### **OMSK LOCAL ELECTIONS RETURN SPLIT DECISION FOR GOVERNOR.**

The 24 March Omsk Oblast Legislative Assembly and City Council elections returned a split decisions for Omsk Governor Leonid Polezhaev and his Communist opponents.

Almost all of the governor's allies won election to the oblast legislature and the Communists' representation dropped from 9 of 30 seats to just 5. However, the governor's team lost in the City Council elections where the Communists won 11 of the 17 seats.

The city of Omsk, with a population of more than one million, now has a Red city council. The Communists plan to use their majority to elect a speaker who will forcefully oppose Omsk Mayor Yevgenii Belov, an ally of the governor, in any initiatives that contradict Communist plans. A battle over next year's budget is a foregone conclusion.

This electoral outcome will exert a powerful influence on the region's September 2003 gubernatorial elections. At the moment it remains uncertain if the Kremlin will allow Polezhaev to seek a third term. Now the main criterion the presidential administration uses in determining whether to extend the political life of regional leaders is whether they are effectively managing their regions and if they can influence the electorate.

The election results are bad news for Polezhaev since he and the Communists evenly split the electorate. Polezhaev will have a hard time convincing the Kremlin that he is doing a good job in representing its interests. In the 1999 State Duma elections and 2000 presidential elections, Omsk voters backed the Communists and their leader Gennadii Zyuganov.

All the Communists need to do to win the next gubernatorial elections is keep criticizing the oblast authorities and increasing the level of social tension, such as they did on the eve of this election. At the end of February and in early March, workers at the Polet factory and housing sector workers in the Sovetskii District struck because of wage arrears. As a result, the Communists were able to take control of the oblast legislative seat where the Polet factory is located.

Many expect to see extensive personnel changes in the both the oblast and city administrations following the vote. Judging who the governor and mayor hire will make

it possible to determine their strategy in the upcoming elections. - Pavel Shagiakhmetov in Omsk

## **FOREIGN DIRECT INVESTMENT**

**SUN INTERBREW COMPLETES OVERHAUL OF SARANSK BREWERY.** On 26 March, the Belgian firm Sun Interbrew completed its 3.5 million euro overhaul of the Saransk brewery. The company will now produce up to 283,000 hectoliters of a new line of its popular Tolstyak beer at the plant. Sun introduced the Tolstyak brand in 1996 and now it is one of four national brands that the company owns. The new version of Tolstyak will use a better sort of barley grown locally in Mordoviya. The company plans an extensive new marketing campaign for the beer built around the slogan "Beer for Real Men." Tolstyak will also be the official beer of Russia's soccer championship.

Sun Interbrew's investment is one of the largest foreign investments in the Mordoviya economy in recent years. Over the last four years, Sun Interbrew has invested more than 18 million euros in the region, the company's Russia General Manager Louis Moren said. Sun plans to increase production at the Saransk facility over the next few years.

The republican leadership happily endorses such plans since the brewery is one of the main tax generators for the republican budget. From the mid-1990s to 2001, the plant paid \$5.9 million in taxes, with more than \$3.5 million going to the republic, making up approximately 10 percent of Mordoviya's income. Now the sale of each bottle of Tolstyak brings the republic more than one ruble.

Additionally, the Saransk brewery works closely with Mordovian agricultural farmers. Beer production is a priority for the heavily agricultural republic. The 600 factory workers create jobs for an additional 10,000 residents of the republic in supplying the factory. In contrast to many other Russian breweries, the Saransk plant does not import its malt. Rather it uses locally produced malt, creating jobs for local farmers. The brewery purchased 3,500 tons of barley on the local market in 2000 and 10,000 tons in 2001. Agricultural producers hope to increase their output as the factory's production increases. - Sergei Ogorodnikov in Saransk

## **BLACK MARKET**

### **JAPANESE AUTHORITIES BLOCK SALES BY RUSSIAN FISH POACHERS.**

Poaching is a significant problem in the fisheries off the coast of the Russian Far East. One in three fishing boats inspected gathers its catch in violation of the law, according to the Pacific Ocean Department of the Russian Federal Border Service. The recent introduction of auctions and the catastrophic depletion of fishery populations in Russian territorial waters are expected to exacerbate the situation and experts predict increased poaching in the future.

However, now the Russian authorities have a tool to use against the poachers. The participants of a Russian-Japanese meeting on poaching held in Tokyo at the end of March decided that from 1 April only Russian ships that present freight and customs declarations from the appropriate Russian authorities could enter Japanese ports. This new rule will have the greatest impact on the most flagrant violators: the so-called

"Flying Dutchmen." These Russian ships left Russia years ago and have yet to return to their native ports. They catch fish in Russian waters and then sell them beyond Russia's borders. The Russian authorities have had an extremely difficult time dealing with these outlaws.

Now the Japanese ports, the main customers for Russian seafood, are closed to the Flying Dutchmen. On 15 April, the Russian authorities intend to conduct similar negotiations with the South Koreans. - Oleg Zhunusov in Vladivostok

## **REGIONAL RESOURCES ON-LINE**

### **Studies of Seven Federal Districts Available at EWI Site**

(<http://www.iews.org/rrrabout.nsf>) - Updated reports on developments in the Seven Federal Districts (some in English, some in Russian) from a 22-23 March conference are now available at the EWI web site. The George Washington University and the EastWest Institute organized the conference with support from the Carnegie Corporation of New York.

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### Updated On-Line Handbook of Russian Regions

The EastWest Institute (EWI) and the editors of the Russian Regional Report are pleased to announce that the updated version of our On-line Handbook of Russia's Regions is now available. The following regions have been updated through August 2001: Primorskii Krai, Chukotka, Nizhnii Novgorod, Taimyr, Voronezh, Kaliningrad, Khabarovsk, Samara, Saratov, Novosibirsk, Perm, and Irkutsk.

The Handbook contains concise portraits of Russia's 89 regions that include:

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- Key policy initiatives of the governor
- Relations between Moscow and the region
- Politics in the region
- Relations with other regions
- The role of business in the region
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- Internet links in the region
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**WTO AND THE RUSSIAN REGIONS**

*President Vladimir Putin has committed Russia to entering the World Trade Organization as early as 2003. The impact this move will have on the country depends largely on what conditions Russia negotiates for its entry. Strict terms could force extensive changes in Russia's industry, but come at a high social cost, throwing many workers out of their current jobs. Lax terms would not give Russia strong incentives to implement necessary economic reforms.*

*Another complicating factor is how Russia's 89 regions react to the process of joining the treaty. Regional political and business leaders accept Russia's entry to the WTO as inevitable and are working to prepare for it. In Omsk, the governor is using the process to adopt policies that bolster his own political power and fragment Russia's market by trying to protect local agricultural interests. In Ivanovo, local political and*

*business groups are warning that they will need federal aid to meet the challenges posed by the WTO.*

**OMSK GOVERNOR USES WTO ENTRY TO EXPAND POWER.** At a recent meeting with agricultural interests in his region, Omsk Governor Leonid Polezhaev noted that Russia's political leadership had already decided to join the World Trade Organization (WTO) and that the consequences for the Siberian regions will be negative. According to Polezhaev, as soon as Russia enters the WTO, it, and particularly Siberia, will become an attractive market for imported agricultural products. The governor claimed that initially foreign countries will send humanitarian aid deliveries of food to regions with weakly developed agricultural systems or food shortages. Naturally everyone will accept such aid. However, after three-five years of such assistance, domestic agricultural production will be in ruins, he asserted.

Polezhaev proposed a program to prevent such an outcome, at least in Omsk Oblast, and increase his personal power. The first point of the program is ideological. The governor plans to "start by organizing massive daily work with the population" that will "explain what kind of changes face the economy of the oblast and country." The governor recently established the Omsk Television and Radio Company using budget funds to support "Channel 12," which can broadcast to almost every part of the oblast. Most likely, the oblast media will soon start broadcasting the governor's view of Russia's entry into the WTO.

The governor's second priority is introducing an aggressive program to sell Omsk agricultural products in other Russian regions. Most likely, the governor will soon replace many of the oblast administration officials who currently deal with agricultural issues.

Agriculture is extremely important to Omsk since it was one of Russia's leading agricultural producers in the 1990s. Last year, the region's agricultural output increased 39.8 percent, according to Goskomstat. The average for the Siberian Federal District was 8.5 percent. Anticipated profits for 2001 are greater than 1 billion rubles.

Despite these figures, one third of agricultural enterprises in the region lost money last year. These enterprises owe the budget and extra-budgetary funds 7 billion rubles. Most of these loans are unlikely to be repaid.

The governor's administration is already implementing Polezhaev's program to defend against the consequences of entering the WTO by preparing a plan to develop Omsk's food processing industry and squeeze out all products imported to the Omsk market from other regions and countries. These efforts will likely contradict the oblast authorities' stated goal of increasing the region's investment attractiveness. The authorities hope that their measures will reduce local food prices. Aleksandr Kivich, the director of Omsk Bekon, Russia's largest pork processor and a company owned by Sibneft, said that his company could meet Polozhaev's goal to be more aggressive by increasing sales from "the Urals to the Far East." - Pavel Shagiakhmetov in Omsk

**WTO ENTRY POSES CHALLENGES FOR IVANOVO INDUSTRY.** Ivanovo Governor Vladimir Tikhonov expressed concern at a 3 April conference on "Russia's Entry into the World Trade Organization and its Impact on the Ivanovo Economy" that Russia's WTO membership will have an adverse impact on local enterprises, which are mostly made up of

textile and light manufacturers and equipment makers. He argued that if Russia entered the WTO in 2005 as planned, more than 50 percent of the industry in the region would come to a standstill. Local firms cannot compete against foreign firms and are unlikely to carry out necessary renovations by that time. Ivanovo officials invited Deputy Minister of Economic Development and Trade Maksim Mevedkov, the head of Russia's delegation to the WTO talks, to the conference in the hopes that the country's top officials hear their message.

None of the conference speakers opposed Russia's efforts to join the WTO. However, they all predicted serious problems for the oblast. Zinovevskaya manufaktura General Director Yevgenii Koryagin pointed out that Russia usually produces cloth that measures between 90 cm and 1.5 meters. On the international market, the minimum acceptable width is 1.4 meters, and most material is 2-3 meters wide. In Ivanovo, machines to produce such cloth are available in just four enterprises and they make up less than 40 percent of the machines in these factories. Ivtekash, the local producer of such machines, can make the wider versions, and some of the textile makers have the resources to purchase them. However, most of the factories now in use were built in the late nineteenth to mid-twentieth century and are designed for the narrow machines. Thus, switching over to world standards in producing wider cloth requires rebuilding effectively all of the textile industry's facilities.

Despite these enormous costs, Ivanovo could benefit from WTO entry through a reduction in the speed at which electricity prices are increasing. Now Ivanovo's enterprises have to pay extremely high prices for heat and electricity, which makes the costs of their products much higher. Machine building plants in particular suffer from this problem. Avtoagregat Director Valerii Smyshlyayev cited an example in which a potential German customer refused to hire his firm to assemble motors because of high electricity and metal alloy prices. Many enterprise directors claim that the result of Russia's entry into the WTO will be the forced improvement of the quality of Russian products, including metal alloys.

Overall, the participants in the conference concluded that Russia must join the WTO. However, without fundamentally modernizing industry, strengthening the service sector and the banking system, WTO entry will force the closure of numerous domestic enterprises and create a severe social crisis. Many of the enterprises in the rural parts of the oblast are located in one-factory towns and their closure would leave 90 percent of the population without a way to make a living. Ivanovo's political and business leaders believe that only the federal government has the capacity to make large investments and provide additional support to the area, but this process will require at least 10-15 years. While the residents of Ivanovo have stated their opinion, they have yet to see evidence that such comments will have an impact on the situation. - Anna Semenova in Ivanovo

## **PUTIN AND THE REGIONAL ELITE**

**CONSTITUTIONAL COURT CONFIRMS FEDERAL AUTHORITIES' ABILITY TO FIRE GOVERNORS, DISBAND LEGISLATURES.** On 4 April the Constitutional Court confirmed that the president has the right to fire governors and the State Duma can disband regional legislatures. Nearly two years ago, on 29 July 2000, Putin signed a law giving the federal authorities these powers as one of his first moves in his drive to strengthen federal

control over the regions. At the time, the governors accused the president of violating Russian citizens' right to elect leaders and be elected and in destroying the country's federalist structure. On 2 November 2000 Chuvashiya President Nikolai Fedorov appealed to the Constitutional Court to overturn the law. The legislatures of Adygeya and Sakha eventually joined the suit. Ultimately, Fedorov dropped his name from the case, but most observers still associate it with him.

In practice, the federal government has not fired a single governor nor disbanded any regional legislatures since the adoption of the law. The procedure delineated in the law was simply too complicated to be implemented in life. Putin did secure the removal of governors in Primorskii Krai, Sakha, and Ingushtetiya, but only by offering them important jobs in Moscow and, apparently, threats of criminal investigations. Federal officials have several times threatened to disband regional legislatures, most prominently in the case of Sakha, but the threat has never been carried out. Of course, it is impossible to say how much the threat of such actions influenced the behavior of regional officials. Certainly, the regional elite is more compliant under Putin than it was during the 1990s.

Although the court ruled that the law was in conformity with the Russian constitution, it further complicated the procedure the federal government must use to disband regional legislatures and fire governors. For the removal process to begin, the laws requires that the action of the governor or regional legislature "caused massive and serious violations of individual and civil rights and freedoms, threatened the unity and territorial integrity or national security of the Russian Federation and its ability to defend itself, or the unity of the country's legal and economic space." The first step in the procedure the court adopted is that a court of common jurisdiction must rule that a governor or regional legislature is not implementing federal law. Second, the Constitutional Court must determine that the action violates the constitution. Finally, another court must confirm that the governor or regional legislature did not implement the original court decision and that the violation is "constitutionally significant." After obtaining these three court rulings, the president can issue a warning to the governor or legislature. This warning is the last attempt by the federal government to resolve the matter peacefully. If the warning is not heeded, the State Duma must consider a bill to disband the regional legislature or the president must prepare a decree firing a governor.

In practice, it will only be possible to use this procedure in cases when the regional authorities adamantly refuse to obey the constitution or the laws of the Russian Federation. The law seeks to serve as an "inoculation" against misbehavior by the regional elite and as a means of exerting pressure on them. Moreover, this law is intended to provide a stimulus for the process of unifying federal and local legislation. So far, more than 5,800 laws have been cancelled or amended, but much work remains to be done. Most visible is the reluctance of the Tatarstan State Council to give up clauses in the republican constitution declaring Tatarstani sovereignty. The next session of Tatarstan's parliament will be 19 April and the Constitutional Court's decision is intended to nudge the legislators into adopting a decision in line with federal preferences.

Although the law gives the regional leaders extensive abilities to defend themselves and opportunities to reach agreements with the federal government, the most consistent defenders of governors' rights consider it unnecessary. Novgorod Governor Mikhail Prusak announced that

he was deeply angered by the Constitutional Court's decision and called on Putin to publicly renounce his right to fire governors, even if the law itself remains on the books. On the other hand, Deputy Presidential Chief of Staff Dmitrii Kozak said that the court's decision confirms the correctness of the presidential administration's position taken more than 18 months ago. He claimed (incorrectly) that the right of federal authorities to fire regional officials existed in all countries. - Svetlana Mikhailova in Moscow

## REGIONAL ELECTIONS

**BUSINESS GROUPS DOMINATE NIZHNII ELECTIONS.** The 31 March elections to the Nizhnii Novgorod Legislative Assembly produced a regional legislature that includes strong representations from Nizhnii Novgorod's largest companies, which have recently been purchased by federal financial industrial groups. As a result, big business will have much greater lobbying opportunities in the oblast since many of the new members are among the top leaders of the industrial groups.

In particular, the Gorkii Automobile Factory, which is owned by Siberian Aluminum, did particularly well. Among the new legislators are GAZ President Nikolai Pugin and GAZ Homebuilding Combine Director Yevgenii Berezin. Aleksandr Tsapin, a popular local politician who has ties to GAZ, is seeking to become the new speaker. Representatives of LUKoil, which recently bought a controlling stake in the local Norsi-Oil, also did well by electing two representatives to the body.

Other winners included Nizhnoenergo General Director Aleksei Sannikov and Gorkii Railroad Director Khasyan Zyabirov. Holdovers from the previous group of legislators include Deputy Chairman of the Volgo-Vyatetskii Sberbank Viktor Lunin, NBD Bank Chairman Aleksandr Sharonov, and the head of the large regional grain company Lindek, Lyubomir Tyan.

The majority of these big business representatives ran for seats in rural agricultural districts and defeated their opponents by wide margins. Voters in these depressed areas believe that electing a businessman to the regional legislature will lift local economic fortunes.

The second largest lobby group in the legislature comes from the large number of raion mayors who were reelected to the legislature, including the leaders of Bogorod, Bor, and Kstov raions. They will work with a smaller agricultural lobby.

The new political realities in the country led to the election of a large new political faction of Yedinstvo and the Union of Right-wing Forces (SPS). Observers believe that about half of the legislators won office with the support of Presidential Representative to the Volga Federal District Sergei Kirienko, who is a member of SPS. The SPS doubled its membership to 7 members and claims several fellow travelers. Yedinstvo claims 16 members among the newly elected deputies. Overall, of the 41 deputies elected, 30 are members of the centrist-right bloc. Four additional seats remain vacant because of low turnout in those constituencies. The Communists and Yabloko did not elect any of their members to office. In general, however, most of the new legislators do not make a big deal of their party membership.

Observers point out that Communist Governor Gennadii Khodyrev did not play an active role in the election. Most significantly, he did not use the powers of his office to try to elect

Communist candidates, effectively giving Kirienko a free hand and supporting the SPS group himself.

Nevertheless, the new legislature is likely to work effectively with the governor. The big business interests, rural raion mayors, and agricultural interests likely will not oppose the governor's efforts to improve the economy, especially given the oblast's extremely difficult financial situation. - Viktor Pershin in Nizhnii Novgorod

## INTERNATIONAL STEEL MARKET

**URAL METALLURGISTS SEEK STATE SUPPORT TO PROMOTE STEEL EXPORTS.** The falling world prices for metals and recent US, European, and Chinese decisions to impose steel tariffs are forcing Russian steel producers to seek out profitable new markets, according to the Magnitogorsk Metallurgical Combine Press Service on 3 April. On that day Presidential Representative to the Ural Federal District Petr Latyshev met with Magnitogorsk General Director Viktor Rashnikov.

Metallurgy is a major concern for the president's representative in the Urals because it is the basis of the economies in Sverdlovsk and Chelyabinsk oblasts, the largest industrial regions in the Urals Federal District. Latyshev called for a conference on the steel industry to discuss the situation facing Russia's key producers. The main theme of the conference will be demands by Russia's three largest steel concerns, Magnitogorsk, Severstal, and Novolipetsk, for additional federal support. Such support could take a variety of forms, including: canceling the five percent duty on ferrous metal exports and imported equipment, reducing energy and transportation prices charged by Russia's natural monopolies, more quickly returning the value-added taxes that the federal government overcharges steel producers, and introducing sanctions against imported steel from Ukraine and Kazakhstan.

Today, Russia's domestic market consumes just half of the 50 million tons of metal products the country produces, according to Mechel General Director Aleksei Ivanushkin. Mechel is Chelyabinsk Oblast's second largest steel producer. The rest of the output must be exported or slowing sales will cause the producers numerous technical and social problems.

Export taxes on metal products began in 1999 when the industry's profit rate ranged from 40 to 100 percent. However, since then, the ruble has become stronger and steel company debts to energy providers have grown. Today, practically all steel producers are incurring losses in their exports. Instead of making money, the main goal in such exports is simply to keep the factories working. Despite the losses, output is actually growing.

Because of price increases for railroad transportation and electricity supplies, Russia's steel is now significantly more expensive to produce and profits have plunged. The more expensive metal is less competitive on world markets. Mechel pays a high price for railroad transportation to export its metal through Far Eastern seaports and may have to cut such exports in the future in favor of exports through the closer Black Sea in the west. Currently, the Regional Energy Commission forces the plant to buy expensive local electricity. The plant is trying to change the law that gives the commission this authority so that it will be able to buy cheaper electricity on the wholesale market.

Securing the return of value-added tax overpayments is also an important issue. At various times the government owed Mechel 800 million rubles and the company had to win it back through a variety of court battles. Today the amount of unreturned money is 120 million rubles.

Without federal aid, the steel plants will have to cut their investment programs for 2002. Mechel is already planning to cut its 900 million ruble investment plan in half this year. It will also have less money to repair its equipment, increasing the chance of accidents.

Additionally, tax payments to federal and regional budgets will drop. In 2000, Mechel paid 2.4 billion rubles in taxes at all levels of government; in 2001, the figure was 1.5 billion. In 2002, the company expects to pay 1.4 billion. Plant managers are now considering eliminating jobs in order to deal with the worsening conditions.

The metal companies hope that Latyshev's involvement in their problems will encourage Putin to take measures to increase Russian exports and put the companies on a firmer financial footing. - Igor Stapanov in Chelyabinsk

## **FOREIGN TIES**

**NORTH KOREANS INCREASE LINKS WITH THE FAR EAST.** From 4 to 12 April a North Korean government delegation is visiting the Russian Far East at the invitation of Presidential Representative to the Far East Konstantin Pulikovskii. The group includes diplomats and representatives for the North Korean ministries of foreign trade, forestry, mining, automobiles, and energy. In addition to seeking out new business partnerships, the group is studying the Russian experience in setting up a market economy.

At a 4 April meeting acting Primorskii Krai Governor Aleksandr Kostenko noted that after Moscow and Pyongyang restored their dialogue, there are small, but growing ties between Primorskii Krai and North Korea. Trade in 2001 grew to \$2.59 million. North Korea buys locomotives, railroad cars, trucks, cars, tires, cement, oil, petrochemicals, refrigerators, freezers and foodstuff in Primorskii Krai. During their trip, the North Koreans proposed 135 joint investment projects.

The Koreans want to start helicopter service from their country to Vladivostok. They believe that ultimately Chinese, Japanese, and West European business people could use this route to visit what is now one of the world's most secretive states. The Koreans also seek to increase traffic at the Radzhin port and expand joint forestry ventures using Korean workers. They are ready to import electricity and coal for processing. In the future it may be possible to send natural gas and oil from Siberia and Sakha through Primorskii Krai to North Korea.

The North Koreans are also ready to produce clothing from Far Eastern material for almost symbolic prices: 7 cents for a man's shirt to \$15 for a suit. North Korean clothing factories currently work for companies in Germany, Japan, France, China, the USA, and other countries, but not for Russian firms.

The North Koreans are also proposing a variety of projects involving tourism, automobile production, exploiting local natural resources, reconstructing factories built with Soviet aid, and building new factories to produce such products as air conditioners, liquid crystal displays, cars, refrigerators, mobile phones, and medical equipment. Additionally, the North Koreans want to

send their construction workers to sites in Primorskii Krai, Khabarovsk, and Sakhalin. - Irina Drobysheva in Vladivostok

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### Updated On-Line Handbook of Russian Regions

The EastWest Institute (EWI) and the editors of the Russian Regional Report are pleased to announce that the updated version of our On-line Handbook of Russia's Regions is now available. The following regions have been updated through August 2001: Primorskii Krai, Chukotka, Nizhnii Novgorod, Taimyr, Voronezh, Kaliningrad, Khabarovsk, Samara, Saratov, Novosibirsk, Perm, and Irkutsk.

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EastWest Institute Russian Regional Report  
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**RUSSIA AND THE WORLD**

**IN ANNUAL ADDRESS, PRESIDENT RENEWS FOCUS ON STATE REFORM.**

President Vladimir Putin's 18 April annual address to the Russian parliament provided further evidence that a radical change has taken place in what drives Russian politics. In the late Soviet and early post-Soviet era (1985-2000), the main determinant driving Russian politics was domestic factors: an attempt to reform socialism, which failed, and its consequences. Today, the need to join the international economic system drives everything. Putin's contribution to the process is that, unlike Soviet leaders, he accepts reality and generally is trying to help Russia do what it must do, at least in terms of his policy pronouncements. To achieve his global goals, Putin focused his remarks almost exclusively on domestic reforms.

Putin stated his main priority as "substantially changing the way state institutions work." Above all, the president defined the federal government and the bureaucracy as the main obstacle to progress. Putin charged that the federal government behaves as if Russia had a centralized economy and that it retained control of its companies. "Ministries continue to devote

their efforts to subordinating, financially and administratively, enterprises and organizations," he complained. The result is that it is "extremely difficult to conduct civilized business in the country."

Putin has a different vision for the Russia state. It should create the conditions for the development of economic freedoms, set strategic goals, provide quality public services, and efficiently manage state property.

Putin viciously attacked the current system, which he asserted "facilitates corruption." He stressed that corruption is the "direct result of limits on economic freedom." Bribes, he declared, can overcome any administrative barrier. "The higher the barrier, the larger the bribe and number of bureaucrats who take them." Putin declared that there is no time to lose, urgently stating "we can't wait." However, these calls are not new and it remains an open question if Putin has the political will or strength to pursue such policies.

Unfortunately, Putin is much better at defining the problems Russia faces than actually solving them. In dealing with the government, Putin's main solution seems to be strengthening the presidential administration, and particularly the seven federal districts that he established in the first days after his presidential election. Putin announced that "the time has come" to transfer several federal functions to the federal district level. He named two such functions: the ability to monitor financial flows and approve personnel appointments in the regional offices of the federal ministries. This announcement signals a major victory for Putin's seven presidential representatives, who have unsuccessfully sought such powers since their establishment nearly two years ago. With the power of the governors now apparently weakened at the federal level, Putin seems ready to deploy his seven regional envoys against the government ministries, which are currently the most powerful obstacles to his plans for liberal economic reforms. However, the role of the federal districts within the Russian state remains poorly defined and it is unclear how they can improve the functioning of the government. In fact, giving more power to the federal district level of government may simply create more opportunities for the kind of corruption Putin says that he wants to stamp out.

While taking on the government ministries, Putin seeks to continue his attack on the privileges of the governors, especially those republican presidents who gained the most benefits during the 1990s. Putin reiterated his position that the power-sharing treaties signed between the federal government and the regions between 1994 and 1998 have outlived their usefulness, noting that 28 of the 42 treaties have been annulled. Putin declared that the very existence of the treaties creates "defacto inequality" between the regions and "between citizens who live in different regions." However, Putin admitted the potential need for treaties, noting that they are legitimate, but declared that they cannot be signed "behind the back" of the other regions. Rather the federal legislature should ratify treaties so that "everyone knows who has what preferences and why."

With Deputy Presidential Chief of Staff Dmitrii Kozak's commission on dividing powers between federal, regional, and local governments expected to present its findings by 1 July, Putin stressed his strong support for local government. In Russian conditions, calling for strong local government necessarily means weakening the power of the governors who currently exercise extensive influence over it. Putin made clear that the federal authorities were going to support local government by clearly defining what powers should lie at the local level and giving

local governments the ability to raise their own revenues. Existing local governments are weak because they rely on regional budgets for most of their funding. If Putin follows through on these statements, it will be a step away from his current policies, which focus exclusively on centralization.

In his speech, Putin made it clear that he wants to create a middle-class based on a society of entrepreneurs who own their own homes. Although Putin did not mention the oligarchs in his speech (with the exception of the natural monopolies), he did stress the importance of small business. Putin singled out the predatory actions of bureaucrats against small businessmen as one of the greatest obstacles to developing this sector, which has been stagnant since the mid-1990s. He called for a moratorium on inspection visits during the first three years of a business' operation. Such visits provide numerous opportunities for inspectors to solicit bribes.

Here, Putin admitted the limits of his powers. Putin beseeched regional leaders for their support in helping small business and implementing federal policy in this regard: "Your support for small business today is absolutely necessary. Federal decisions will only be implemented through real actions in the regions." Putin almost seemed to be admitting that he could do little to force governors to stop treating small businesses as yet another means for lining their pockets.

In his efforts to build a middle class, however, Putin did find at least one thing to praise in the regions. Some regions, he pointed out, had successfully made a limited number of mortgages available to home-buyers. Putin said that developing this system should be a priority for federal and regional leaders.

Putin's internationalist vision was most clear in his discussion of the World Trade Organization, which he hopes to join in the near future. The president warned that if Russia does not seek to work with the WTO it would be "doomed." To achieve Russia's entry to the global trade group, Putin called for a serious analysis of "federal and regional economic regimes." He warned that many federal and regional laws limit Russia's international competitiveness, suggesting that the federal government will seek to play a greater role in regional economic life.

What Putin hopes for Russia and what he can accomplish may be two different things. His speech declared that in Chechnya "the military stage of the conflict is over," a statement that does not reflect reality. His remarks elided his relationship with the oligarchs, a group of powerful entrenched interests, some of whom do not want to join the WTO because of the likely dire consequences for their businesses. He also did not discuss media freedom and the broader questions of civil society, other prerequisites for becoming a full-fledged member of the international community. - Robert Ortung

## FISCAL FEDERALISM

**KOMI FACES SEVERE BUDGET PROBLEMS AFTER FEDERAL REFORM.** As part of his campaign to strengthen the federal government and weaken regional leaders, President Vladimir Putin has radically changed the way money is distributed between the federal and regional governments. This change has drastically reduced financial flows to the Komi Republic. The result is growing wage arrears, which will increase social tensions and possibly stoke greater political opposition to federal policies.

In 1998, Komi sent 23.2 percent of the taxes that it collects to the federal budget, while 76.8 percent of these funds remained in the republic. That year marked a high point for Komi's finances.

In 2000, Putin began introducing several changes that favored the federal government over the regional governments. In 2000, the federal government began taking all of the proceeds from the value-added tax, costing the republic 1.3 billion rubles in revenue. In 2001, the federal government cancelled housing and social fund taxes, costing the republican budget another 1.54 billion rubles in income. In 2002, the system for taxing the use of natural resources was overhauled. In Komi, this change mostly affects income the republic derives from oil companies. The result is that in the past, the republic kept 60 percent of the income from these companies. Now the republic receives only 20 percent, with 80 percent going to the federal government. According to republican Ministry of Finance estimates, this change will cost the republic about 820 million rubles this year. Additionally, the republican and local budgets will lose another 590 million rubles due to the lower profit tax rate (which dropped from 35 to 24 percent at the beginning of 2002).

As a result of these changes, the republic began to receive a smaller share of the money collected on its territory. In 2000, the republic kept 57.7 percent of its tax revenue, in 2001, the figure fell to 48.3 percent, and in 2002 some analysts expect it will go as low as 37 percent. According to the Russian Budget Code, the regions should keep 50 percent of tax revenues. However, the federal government suspends the implementation of this provision each year.

At the same time that the federal government is diverting funds away from regional governments, it is pushing almost all significant social expenses onto the regions. In December 2001, the federal government nearly doubled salaries for public service workers. Now, according to Komi Finance Minister Aleksandr Zakharov, these salary payments take up 50 percent of the republic's income. In the past the republic spent 3 billion rubles on such payments and now it must spend 6 billion. The federal budget only provides 183 million rubles in compensation.

These changes have an especially important impact on local governments. Thus, the city of Vorkuta adopted a budget with a deficit (1.3 billion rubles) more than twice as large as expected revenue. Subsidies from the republican budget will only be 200 million rubles. In 2002, even the republic's oil capital of Usinsk will be transformed from an overall donor to the republican budget to a recipient (*Molodozh severa*, 11 April). The situation in the rural areas, where most of the ethnic Komi population lives, is simply catastrophic.

As a consequence of these changes, the republic will have considerably fewer resources to invest in its development. Investment in the economy and the social sphere from all sources during the first two months of the year dropped to 1.2 billion rubles, 8 percent less than in the same period for 2001, according to the Komi branch of Goskomstat. A lack of investment means slower growth rates. Indeed, figures show that growth in industrial output in the first two months of 2002 was half the growth registered in 2001 (*Moskovskii komsomolets v Komi*, 11-18 April). Local observers believe that the federal government's current policies are reducing the pace of economic growth in the country's most dynamic regions and in the country as a whole. Such policies, these observers claim, are violating Russia's national interests.

The result of these policies is pushing the regions further into debt. Komi faces 31.4 billion rubles in overdue debts and nearly 1 billion rubles in unpaid wages (*Krasnoe znamya*, 12 April). Most likely this year the amount of unpaid wages will increase dramatically, a situation that is already causing increased social tensions. Neither the federal nor regional leadership will benefit from such increased tensions.

Problems caused by Putin's tax reform could have real political consequences as it pushes regional leaders to oppose federal policies. In the past, some observers have detected separatist tendencies among republics with eastern-Finnish ethnic populations (Komi, Kareliya, Udmurtiya, Marii El, and Mordoviya) (see *Vek*, 8-11 November 1999, and *Etnopanorama*, no. 2, 2001). Until now, there has been no basis for such separatism. However, the federal government's new tax policies may create such dissatisfaction among the ethnic elites of the republics and the republics' political leadership. Ultimately, the federal government may be forced to rethink its budgetary policies toward the regions. - Yurii Shabaev in Syktyvkar

## PATTERNS OF REGIONAL DEVELOPMENT

**VLADIVOSTOK DISCUSSES REVOLUTIONARY DEVELOPMENT PLAN.** Pacific Geography Institute Director Petr Baklanov has presented a new concept for the development of Vladivostok, which many consider revolutionary. Baklanov claims that the importance of the countries around Vladivostok, namely Japan, China, and both Koreas, is growing while Russia's international weight is declining. The current equilibrium is threatened, Baklanov fears, potentially leading to future conflicts.

Vladivostok has the potential to develop into a powerful industrial and strategic center for Russia and the region. In the international context, Vladivostok occupies the most advantageous economic and geographic position of all the cities in the Far East. Vladivostok produces 40 percent of the output of Primorskii Krai and 10 percent of the Far East, therefore, the city's development will affect the krai and the entire region.

Nevertheless, during the 15 years between 1985 and 2000, Vladivostok's gross product dropped to about 15 percent of what it had been in dollar terms. The population shrunk by 24,000 people.

Vladivostok must radically change its current status if it wants to be a major foreign economic and cultural center in the Asian Pacific region. The scholars suggest first of all expanding the physical borders of the city. There is almost no room for development on the peninsula that Vladivostok currently occupies. Growth advocates propose annexing the city of Artem and the Nadezhdin Raion, an idea that was discussed ten years ago but has become timely again.

The planners want to turn the old, southern part of the city into a "business center with a developed port and transportation system." This area would also be the locus for corporate headquarters, trading outposts, banks, and foreign representations. High-rise buildings would be concentrated here. The northern part of the city would house high tech industries and technology parks. It would be connected by extensive transportation links, including railroad, airports, and highways. This area would also include numerous residences, consisting of low-rise buildings and single-family homes.

The plans also seek to return equipment manufacturing to Vladivostok. Such work currently makes Chinese and Korean cities leaders in the region. Vladivostok already has the fundamental scientific base to support the development of high tech industry and especially biotechnology, the planners argue. The city houses 50 percent of the Far East's scientific potential. The planners also seek to maintain Vladivostok as the base of Russia's Pacific fleet, which should grow to protect Russia's national interests in the area. - Andrei Kalachinskii in Vladivostok

**KOKOV LACKS IDEAS ON FIXING KABARDINO-BALKARIYA ECONOMY.** At a recent meeting with industrial workers, Kabardino-Balkariya President Valerii Kokov, elected to a third term in January, was forced to admit that the region's growth rates were far from reflecting its true potential. With the end of the Cold War, local defense plants now stand idle. Most large and medium-sized enterprises in the region are unprofitable and many have had to lay off significant numbers of employees. Kokov noted that 40,000 families in the region did not make enough money to survive. The average wage in the republic is 1,600 rubles a month, half the national average. Workers often receive this money with significant delays.

Many local enterprises remain unprofitable even though they have received millions of dollars in investments. The non-alcoholic beverage plant Mineralnyie vody is a case in point. This plant was once the flagship of the republic's post-Soviet economy and generated a large share of the republican budget. It was expected to produce 1.5 billion bottles a year and command a leading place in the national market. Today, however, court bailiffs have seized the plant and are preparing to auction its assets.

Debilitating debts forced the beverage producer out of business. Several years ago the enterprise won a \$75 million credit, backed by a Russian government guarantee, to renovate its production facilities. Specialists believe that it would have been possible to build two new plants with such funds. Little work was accomplished, however, and the quality of the water at the plant continued to deteriorate. Ultimately, the factory could not pay back its loan and the Russian government, which had to cover the debt, took over 68 percent of the factory's stock.

The factory had managerial problems as well. The republican leadership had invited the president of the American company Infotron, a former resident of Kabardino-Balkariya, to manage the plant. Now, the federal authorities are seeking to arrest him on charges of swindling.

In another case, the republic invested heavily in the construction of a pharmaceutical plant, El-Farmi. However, the firm was never able to produce at the expected level and Kokov finally had to admit that it no longer made sense to invest in it.

Other reform efforts have proven equally unsuccessful. In order to improve the overall economic situation in the republic, the leadership recently set up "industrial groups," in which successful enterprises were partnered with failing ones in order to improve the performance of the less successful plants. However, this effort did not produce any results.

Kokov's latest idea is to set up a special committee that would professionally manage enterprise debt. However, this idea does not elicit much optimism. Neither the president nor his advisors have any ideas on how to eliminate such debts. - Lyudmila Maratova in Nalchik

## GUBERNATORIAL ELECTIONS

### **INCUMBENT WINS IN LIPETSK AFTER LOCAL OLIGARCH DROPS OUT.**

Incumbent Lipetsk Governor Oleg Korolev won reelection in Lipetsk Oblast on 14 April with 73 percent of the vote, and turnout of 42.88 percent ([www.fci.ru](http://www.fci.ru)). Korolev's task became much easier when the only credible opponent, Novolipetsk Metallurgical Plant Director Vladimir Lisin, dropped out of the race two months before balloting began. Korolev and Lisin came into conflict in the fall of 2000 when both the oblast administration and the metal factory sought to elect their representatives to the Lipetsk City Council. Then the governor warned the representatives of the firm not to interfere in politics. However, Lisin was victorious as representatives of his factory won 28 of the 30 seats in the city council. The factory is extremely important to the local economy since it generates 60 percent of the oblast's budget and employs one third of the families in the area (*Kommersant Daily*, 19 February).

Although Lisin had planned to run in the gubernatorial election, the Kremlin refused to give him the green light because it is perfectly happy with the current governor. In the months leading up to the election, Presidential Representative to the Central Federal District Georgii Poltavchenko signaled the Kremlin's support for Korolev by visiting the region twice and holding round table talks that gave Korolev a prominent role (*Kommersant Daily*, 19 February). Korolev said that he had come to an agreement with Lisin after the federal intervention. Lisin said that he was happy to drop out of the election in exchange for Korolev's pledge to end the "information war" he had conducted against the factory. Moscow wanted peace in the region to avoid scaring investors, according to *Kommersant Daily*.

**BOCHKAREV HOLDS ON IN PENZA.** Penza Governor Vasilii Bochkarev defeated a challenge from Communist State Duma Deputy Viktor Ilyukhin to hang on to his seat in 14 April elections, winning 45.5 percent of the vote with 53.44 percent turnout. Ilyukhin won almost 41 percent of the vote. Bochkarev's victory was important for Moscow, which sought to block the Communist Ilyukhin from winning and handing the opposition another gubernatorial victory. Before the election, there had been talk of revoking Ilyukhin's registration, but this did not happen. As a result, Presidential Representative to the Volga Federal District Sergei Kirienko's office said that now the federal district authorities had learned how to win elections in open battles (*Izvestiya*, 15 April). Last year, Kirienko's team lost the Nizhnii Novgorod gubernatorial elections to a Communist opponent.

## REGIONAL ELITE

Nataliya Lapina and Alla Chirikova are two of the most prominent Russian scholars of the regional elite. In earlier work they laid out the evolution of the Russian regional elite in the 1990s, detailing how regional executives set up their authority, established control over regional policies, and gained ways to exert influence on the federal government. Although regional elites won considerable power in the 1990's, they were not able to block Putin's 2000 program of reforming Russia's federal relations. As the authors point out, the regional elite had no "political resources comparable to the political resources of the center." In particular, they had no party

or other form of movement that could unite them. (See Chirikova and Lapina, "Regional Elite: A Quite Revolution on a Russian Scale," published by the Center for Security Studies and Conflict Research, Zurich, <http://www.isn.ethz.ch/russia/>)

In the article presented here, Lapina and Chirikova examine the process of creating a federal "party of power" in the regions at a time when the federal government has strengthened its position vis-a-vis the regional elite and significantly reduced the standing of the governors. This article reports the results of research conducted in Samara and Yaroslavl during July-November 2001 (before Yedinstvo merged with Otechestvo to create Yedinaya Rossiya) with support from the Friedrich Ebert Foundation. During their research, Lapina and Chirikova interviewed more than 70 representatives of various elite groups in the two regions. Their interlocutors included political party leaders, public officials in the executive and legislative branches, businessmen, enterprise directors, analysts, political consultants, and journalists.

### **AUTHORITIES SEEK TO BUILD NEW PARTY OF POWER IN REGIONS.**

Yaroslavl and Samara are distinguished among Russian regions by a high level of support for the party of power. During the 1990s, these regions set up active branches of the various incarnations this party took: starting with Russia's Choice, then Our Home is Russia (NDR), and later Otechestvo. At the end of 1999, both regions began to set up branches of the new party of power, Yedinstvo.

The method for establishing the parties differed in the two regions. In Yaroslavl, Yedinstvo was the direct descendant of Otechestvo. According to one Yaroslavl Oblast mayor, 80 percent of the members of Yedinstvo came from Otechestvo and Otechestvo has practically collapsed. The new party has the support of Governor Anatolii Lisitsyn and is led by one of the region's leading businessmen, Yaroslavl Tire Factory General Director Nikolai Tonkov.

The Yaroslavl branch of Yedinstvo is growing quickly and has good prospects in the region, according to the people we interviewed. Yedinstvo branches exist in all cities of the oblast, including Rybinsk, where a branch is being established; but it is weakly represented in rural areas. The party organizers are noted for their high level of professionalism.

One of the main difficulties in establishing Yedinstvo is the negative legacies inherited from previous attempts to set up parties of power. One party organizer complained that first "we had NDR, then Otechestvo appeared. The governor joined the leadership of that party. Now Yedinstvo. It is not so simple to change tack from right to left. ... You also need to take into account that people are psychologically tired. We have to pay for changing course too often." Taking this situation into account, the Yedinstvo leadership decided not to force events and is setting up the regional organization gradually. They are less concerned about the number of members in the organization than the final results.

In Samara, Yedinstvo organizers work in a complicated political environment in which there have been a number of scandals. For a long time, elite clans in the oblast fought over who would be leader. Initially, in January-February 2000, Samara Mayor Grigorii Limanskii sought to lead the party. However, he was not acceptable to the Samara elite or the Moscow party leadership. After a long battle, Limanskii was pushed out of the leadership.

From the moment it appeared in Samara, Yedinstvo worked as a competitor to Governor Konstantin Titov and his local party of power, the Russian Party of Social Democracy. "Our

relations with the authorities are very difficult," one local party leader said. "For a long time, Titov forbid everyone to join the party. Of course, those who had something to lose were afraid to join. He dragged many to his side, but we are competing with him." However, in joining the federal party of power, most local elites do not want to sever their ties with the governor. This is the situation in Togliatti, which is home to the giant AvtoVAZ automobile factory. In Togliatti, the party has some support, but according to one of the party leaders, the general population of the city does not back any opposition to the governor. This unwillingness to cross Titov creates considerable problems for the oblast party leadership.

On top of its other problems, there is no unity among the leadership of the Samara party. In the fall of 2001, on the eve of elections to the Samara Oblast Legislative Assembly, there were rumors about a conflict between the leader of the oblast organization, Yurii Sevostyanov, and Gennadii Zvyagin, a prominent politician in the region who is a member of the Yedinstvo federal-level political council.

Despite the different local situations, there was much in common in the establishment of Yedinstvo in Yaroslavl and Samara. In the first step of party formation, the regional business and political elite took the initiative. Today, when such elite reserves have been used up, the regional parties are trying to increase their numbers among the masses. According to the Samara oblast party, membership is 1,800 in Samara, 400 in Volzhskii Raion, and 350 in Syzran. Each week, Yedinstvo claims that it adds 100 members. The local party leader sees its main potential for growth in Titov's shrinking political status. Yedinstvo plans to attract as new members people who today support the local authorities. However, the party leaders also admit that many people began to join the party only after Titov announced that he might form an alliance with it.

Most people we talked to defined the social base of Yedinstvo as the nomenklatura. However, there are other views. The Samara Oblast administration official responsible for contacts with parties said that "sober-minded people who support the idea of order and stability" (teachers, doctors, professors, researchers) are also attracted to the party. The party's willingness to discuss people's personal problems with them makes it popular among a wide group of the population. Earlier, only the Communist Party was willing to do such things.

The main strength of the Yedinstvo organization in Yaroslavl is the professionalism of its members, according to the party leader. He notes that many parties are well financed, but managerial ability is often in short supply. "This is more important than money today in Russia," he claimed. The Yaroslavl chapter has many prominent politicians and businessmen among its ranks. It also has many members in the regional legislature and oblast and city administrations.

The Yaroslavl and Samara Yedinstvo chapters occupy different niches in their regions. In Yaroslavl, Yedinstvo is a traditional party of power with close ties to the ruling elite and governor. In Samara, Yedinstvo is the "party of power without power," according to Samara Sociologist E. Molevich.

Future perspectives for the party branches depend on four factors. First is the party leadership's choice of tactics. In Yaroslavl, the party must widen its social base. In Samara, it must seriously think about its relationship with the governor because the current policy of fighting the governor hurts the party. Only by rejecting confrontation and forming a union with the oblast

authorities will Yedinstvo be successful. Second is the ability of the organizers to evolve from the initial nomenklatura stage of party building to developing a mass party.

Third is the success with which regional party leaders balance the party's orientation toward the federal government with regional interests. Fourth is the policy of the federal authorities and Putin personally. The main resource for the party could become Putin's direct support, which would make it the most important party in Russia. However, there are no signs that the Kremlin political advisors want to identify Putin so closely to the party.

During the last two-three years, the political space of the Russian regions has been modernized and the federal government has taken the initiative in party-building from the regional elite. The federal government has defined Russia's course of political development and has given the party of power a central role. Yedinstvo is not Moscow's first attempt to set up a political party. But, in contrast to previous years, the federal government has strengthened its position by bolstering state power and reducing the political status of the regional elite. During the last two to three years, the stronger federal government has become a serious actor on the political stage and this redistribution of power has not provoked serious opposition in the regions. - Nataliya Lapina and Alla Chirikova in Moscow

## **BUSINESS AND POLITICS**

### **BUSINESSES PRIVATIZE RUSSIA'S SPECIAL SERVICES**

It has become so difficult to steal money that it almost seems as if you are earning it. - popular Russian joke

Aleksei Mukhin's short book, *The Business Elite and State Power: Who owns Russia at the turn of the century? [Biznes-Elita i gosudarstvennaya vlast: Kto vlaedeet Rossiei na rubezhe vekov?]* (2001), provides an overview of the relationship between the Putin administration and Russia's leading business groups, paying special attention to the role of the secret services. The book focuses largely on the events of 2000, but its analysis remains relevant today.

Mukhin sees little real change between the relationship that Yeltsin built with the oligarchs and the one that Putin has developed since his election. As under Yeltsin, Putin keeps Russia's magnates at some distance from the Kremlin, but from time to time, one or another of these groups draws closer to Putin's team if it can be useful for the short or long term. The only difference from the earlier system is that Putin has declared the principle of keeping the oligarchs at "equal distance [ravnoudalennost]," though in practice this principle has little practical application.

The law enforcement agencies that Putin could use as a weapon against Russia's top businessmen in fact often work in the interests of those very businessmen. The ties are so close, that Mukhin speaks of them as "financial-force groups" [finansovo-silovye gruppy]. Such alliances between businessmen and law enforcement agents are highly unstable and continue only as long as they are lucrative for the agents.

Since 1998, the Federal Security Service (FSB) has placed a large number of its people in the security services that each of the oligarchs set up, according to Mukhin. Business groups that refused such cooperation soon suffered the consequences. The Most group was one such company and its refusal was one of the reasons leading to an investigation of its activities that culminated in the arrest of group leader Vladimir Gusinskii and his subsequent exile.

During the course of 2000, the role of the special services in business increased. Mukhin claims that businessmen can pay members of the general procurator's office to arrest their business rivals. He also notes the existence of a FSB consultative council that meets once a month. Its members include the heads of the largest private security organizations in Russia. To become a member, the private security firm must have representatives in at least 20 Russian cities. The heads of the security firms lobby their interests through the FSB leadership and receive certain benefits and the opportunity to expand their business. The most active lobbyists include LUKoil, Sibneft, Gazprom and Alfa-Group, according to Mukhin.

Mukhin claims that the establishment of the seven federal districts will only further the process by which Russia's largest companies are privatizing the law enforcement agencies. In each of the seven federal districts, there are district level branches of the Ministry of Internal Affairs, procurator, and federal tax police, creating new opportunities for state-business collusion.

In the conclusion, Mukhin warns that the special services have not taken to heart Putin's command to obey the law in their own activities. For example, the Procurator General's letter to Sergei Potanin's Interros group seeking payment of \$140 million in unpaid taxes was riddled with legal errors. Mukhin also claims that the heads of Russia's law enforcement agencies illegally damage the business reputations of firms by announcing that they are under investigation for a crime before those investigations are complete. Of course, such things do not happen to companies that have bought off the appropriate bureaucrats.

Mukhin argues that public perceptions of the oligarchs have started to evolve in a positive direction, away from the initial general sense that they were parasites on society. Over the decade of the 1990s, private firms demonstrated that they could work more effectively than the state in many cases. This ability to get things done could pave the way for a close business-state partnership in areas of social support, Mukhin writes.

Mukhin's book stresses that the oligarchs are not limited to a handful of individuals, as some accounts have it, but more like 150-200, as in the formulation proposed by Solzhenitsyn, who apparently was the first to use the term "oligarch" in November 1996. With the exception of Boris Berezovskii, Vladimir Gusinskii, and Rem Vyakhirev, many of the first wave oligarchs are still in place and have been joined by a new group. The original oligarchs made their money in banks and oil, while the second wave moved up by establishing transregional companies that produced aluminum and other metals. Much of this book is devoted to listing the various business groups that have relationships with Putin and then tracing the evolution of the new oligarchs who rose through the metal industry. Mukhin sprinkled his text with profiles of the key players.

Like many books on business-state relations in Russia, this one is better at raising questions than answering them. However, it helps to define the issues in this increasingly important area of research. Mukhin is an analyst at the Center for Political Information

([www.spic-centre.ru](http://www.spic-centre.ru)) and the author of numerous books on Russia's special services, the country's information war, President Putin, the oligarchs, organized crime, Yeltsin's family and the natural monopolies. In the past, he has worked with the Moscow Carnegie Center and the Panorama research group. - Robert Orttung.

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## BOOKS WORTH READING

### GOVERNORS AND BUSINESS IN PUTIN'S RUSSIA

Tsentr politicheskikh tekhnologii, *Politics in the regions: Governors and influence groups*, [Politika v regionakh: gubernatory i gruppy vliyaniya], Moscow, 2002.

After gaining enormous power and privilege during the Yeltsin era, Russia's governors have suffered a considerable loss of prestige and influence under Putin. They no longer enjoy the same important positions on the national level that they once held, but they remain extremely important players at the regional level. As the insightful and extraordinarily useful essays gathered in *Politics in the regions: Governors and influence groups* make clear, the governors retain extensive powers in their home territories and gubernatorial elections are increasingly competitive and costly. The key to the governors' power is their ability to draw up regional budgets, set prices for key commodities such as electricity, raise regional taxes, and issue licenses. In many regions, the governors maintain considerable influence over federal law enforcement agencies, procurators, and tax collectors. Many of Russia's largest businessmen are interested in affecting how the governors set policies in these areas because such policies have a direct impact on company profits. Thus, this book addresses one of the central issues in Russian politics today: how big business is setting up relationships with the regional elite as it extends its reach throughout Russia's regions.

It is still too soon to speak of a Putin generation within the regional elite as only 21 percent of today's governors were elected for the first time since Putin came to power. In the recent round of gubernatorial elections, incumbents won in 65 percent of the cases, demonstrating that most of the governors who originally came to power in the 1990s were able to hold on to their positions. Most of these governors, of course, formed their worldview during the Soviet era. Through out the country there is no organized opposition to gubernatorial power. Business is too atomized to play this role and the security services have only been able to run competitively in a few regions. While Putin was able to strengthen federal authority, the governors were simultaneously able to beef up their own power bases in the regions, Rostislav Turovskii argues in an analysis of the October 2000 - January 2002 gubernatorial elections. Rather than replace the Yeltsin-era regional elite, Putin and his team often supported the incumbent in exchange for an agreeable senatorial appointment to the reformed Federation Council, where regionally-appointed delegates have replaced the governors and legislative speakers who once sat there.

The main common trend that Turovskii noted in the recent gubernatorial elections was the increased role of federal and regional businesses. Moscow-based big businesses, including those associated with Yeltsin's Family, which tried to enter regions and defeat a sitting governor generally failed. Such firms were much more effective, however, when they formed an alliance with the incumbent. Thus, in almost every case, regional resources were able to trump federal money and power when the two came into conflict. Regional business groups also took a large interest in the elections, with local businessmen becoming governors in such regions as Primorskii Krai, Adygeya, and the Koryak Autonomous Okrug. Regional businessmen came close to winning in many other elections.

Just as this second round of gubernatorial elections was taking place, Russia's big businesses began to go through an evolution. Large Moscow-based companies began to focus more on the regions, looking for new markets for their activities and products. Thus, the process of establishing ties between the governors and oligarchs is just beginning.

In most cases, the governors view the arrival of Moscow's big business extremely warily and are proceeding only with great caution. While the Moscow magnates can deliver much needed investment capital, this money comes with considerable risks for the governors. The governors have long-standing ties with local business and are very careful about giving up these connections in favor of ties to the Moscow-based companies. In many areas, regional voters view the oligarchs with distrust, or even hatred, and the governor has to avoid being labeled as a puppet of the outsiders. For their part, the companies do not want to be too closely identified with an individual governor because they want to be sure that their business will thrive no matter who is in power. Nevertheless, Putin's policies aimed at strengthening the federal government have effectively pushed the oligarchs to work in the regions and inclined the governors to embrace them.

The main business groups active in the regions are: the Family (Sibneft, Russian Aluminum, the Ural Mining and Metal Company, Evrazkholding, and the MDM group), Alfa, Sergei Potanin's Norilsk Nikel and Interros, Unified Energy System, Gazprom, LUKoil, YUKOS, and Severstal. These companies work with the governors in a variety of ways. In the political sphere, oligarchs contribute significantly to gubernatorial campaigns. Once the elections are over, governors often include representatives of various friendly companies on their staff. Samara Governor Konstantin Titov, for example, made a YUKOS first vice president his deputy governor, while Irkutsk Governor Boris Govorin included representatives from both Russian Aluminum and Alfa on his staff. The governors'

relatives often take important positions in various powerful companies, cementing personnel links in another way. Governors and big business have also worked together, usually coordinating with the Kremlin, in appointing representatives to the Federation Council. Aleksei Makarikin's chapter provides an impressive list of Federation Council-business ties.

In the economic sphere, there are several methods of cooperation. Companies and regions have signed numerous bilateral cooperation agreements. They also develop joint projects such as the deal between Sverdlovsk Oblast Governor Eduard Rossel and the Tyumen Oil Company to set up the Urals Oil Company. In some cases, the governors sit on the board of directors of important companies. The governors can also serve as arbiters in disputes between big companies working in their regions.

In a small number of cases, magnates have themselves become governors (Chukotka, Taimir, and Evenkia). However, these cases are more likely to be the exception rather than the rule. Chukotka Governor Roman Abramovich has already announced that he will not seek a second term.

Despite the expansion of the oligarchs into several regions, most governors and particularly the republican presidents, work to maintain the dominance of the local business elite. This situation holds in particular in Tatarstan and Bashkortostan, where the republican presidents have extensive control over local business. In some cases, governors have tried to keep the oligarchs out but failed. Komi leader Yurii Spiridonov worked to block the entry of LUKoil into his republic, but subsequently lost his reelection bid as LUKoil became increasingly powerful. In Rostov Oblast the local company Doninvest owned most of the major companies in the region with the support of Governor Vladimir Chub. However, the firm made a number of poor investments and had to sell off some of its major assets to Moscow-based firms.

In his comprehensive essay on the relations between governors and oligarchs, Turovskii concludes that the ties between the oligarchs and governors have strengthened the position of the governors. The result is that Putin's federal reforms have managed to "put the regions in their place" but did not change the development of internal political processes" at the regional level. However, Turovskii warns that the conflict of economic interests is starting to have an increasingly large impact on political developments in the regions. If the federal government does not learn to regulate the situation in key regions, Turovskii fears that the country could turn into a "field for 'oligarchic wars.'" The upcoming gubernatorial election in Krasnoyarsk, where many of Russia's key big businesses are represented, will test this thesis.

The Center for Political Technologies maintains a web site at [www.politcom.ru](http://www.politcom.ru) that has numerous interesting analyses of current events. The Center has been around for ten years and provides political consulting services to a wide range of Russian and Western corporations and financial institutions. - Robert Orttung

## REGIONAL ELECTIONS

**STATE DUMA MAKES PROGRESS ON ELECTION LAW.** On 26 April, the State Duma adopted the new version of Russia's basic electoral rights law in its second of three readings. In general, the additions to the law reflect the positions of Central Electoral Commission Chairman Aleksandr Veshnyakov. If adopted, the bill could strengthen the hand of the federal government in regional elections. It could also prevent some of the abuses that now take place.

One of the most radical changes the bill will introduce if enacted as law is the election of no less than half of the members of regional legislatures on the basis of party-list voting. The Communist Party

of the Russian Federation, the Union of Right-wing Forces, and Yabloko strongly backed this innovation. The State Duma had introduced a similar provision to the federal law defining regional political institutions on 10 April, but the Federation Council vetoed that bill on 24 April. One of the main reasons the Federation Council rejected the change was because the amendment called for a two-month deadline in bringing regional legislation into line with the new federal provisions.

In drafting the electoral law, the main dispute was over how quickly party-list voting would be introduced into the regional legislatures. Ultimately, the date of 14 July 2003, the end of the transitional period set by the new law on political parties, won out with the support of the centrist factions in the Duma and the Central Electoral Commission.

If regional legislatures are elected on the basis of party-list voting and the new law on political parties succeeds in reducing the number of parties to three or four, it would be easier for Moscow-based officials to control regional legislation and budgets. Moscow-based parties would gain political influence that they do not presently wield because deputies elected on the basis of party lists would give the regional legislatures much greater party structure. Additionally, since party leaders are based in the capital, even if they are not loyal to the Kremlin, the president might be able to exert more influence over them than he currently does over the regional legislatures. The Kremlin currently has little influence in regional legislatures because there are simply too many deputies and no real parties to work with. Governors are generally wary of the adoption of party-list voting for regional legislatures because it would weaken their influence over the legislatures and strengthen the hand of the federal government. However, in the case of Pskov, the governor actively pushed such an innovation because he thought that it would help him gain greater control over the legislature (*Nezavisimaya gazeta*, March 6, 2002).

A second innovation is the requirement that governors' elections take place in two rounds. This provision is aimed at unpopular governors who try to improve their chances of winning a second term by limiting the elections to one round in the hopes that their opponents will split the anti-governor vote, allowing the incumbent to stay on with relatively little popular support (as in the case of Pskov Oblast). According to Rostislav Turovskii, the power of the protest vote was more pronounced in the first round of gubernatorial elections that took place in 1996-1997, than in the elections that occurred in 2000-2002, though in some cases it still worked (see review of Turovskii's book elsewhere in this issue).

Third, the bill sets a "framework" for minimal turnout at 20 percent, down from the usual 25 percent now. Repeat and additional elections will be valid no matter how many people actually participate in them. The regions can even abolish all minimal turnout requirements for local elections. The Duma working group led by Communist Deputy Aleksandr Salii wanted to limit the ability to raise the minimum turnout threshold to the federal government, but the Central Electoral Commission changed the text so that regional legislatures can increase the minimal required turnout if they so desire. Regions like Primorskii Krai have had trouble electing regional and local legislatures due to low turnout.

Fourth, the Central Electoral Commission resisted pressure from the working group and stood by its insistence on allowing itself the right to nominate chairmen of the regional electoral commissions. The only concession the Commission made was that it gave up the right to appoint the chairman if its choice had been rejected twice by the regional commissioners.

The purpose of this reform was to make the regional electoral commission less dependent on the regional authorities. However, the lawmakers kept basically intact the 1994 system by which the regional executive and legislative branches each nominate half of the regional electoral commission members. Because of this system, the electoral commissions are dependent on the governors in most

regions. The Central Electoral Commission blocked a proposal from Yabloko to give the regional legislatures the sole right to name the members of the commissions. Veshnyakov warned that the Federation Council would veto the law if the governors' position in the regional electoral commissions were thus weakened. Earlier proposals had suggested giving the Central Electoral Commission the ability to appoint one third of the members of the regional electoral commissions. This idea was dropped, however.

Fifth, the bill shortens the list of reasons for which a candidate can be refused registration or have his registration withdrawn. This provision would have had an important impact on the recent elections in Ingushetiya, where the leading candidate was removed from the race two days before the first round of voting (see article elsewhere in this issue). According to the bill, violating general campaign procedures and presenting incomplete information about the candidates' income and property will no longer be grounds for removal from the race. If the bill were adopted, the electoral commission would simply publicize the fact that the candidate presented incorrect information about his income rather than disqualifying him. Prohibitions on propaganda using social, racial, national, or religious differences would remain intact and could be grounds for removal. According to the bill, only the court, not the regional or central electoral commissions, could cancel a candidate's registration even if it can be demonstrated that the candidate was registered by mistake or in violation of the law. Only electoral commissions and candidates could appeal to the court to have a candidate's registration canceled. According to the bill, an appeal to remove a candidate could be made no later than eight days before an election and the court would have to rule no later than five days before the election. Changes in the Civil Code would be required to ensure that the court acts so quickly.

The State Duma expects to approve the bill in its third reading in May. Then it will go to the Federation Council and president before becoming a law. - Arkadii Lyubarev in Moscow

## **POLITICAL PARTIES IN THE REGIONS**

This week we continue the analysis of party building in Samara and Yaroslavl oblasts by Natalya Lapina and Alla Chirikova. The first part, published in the *EWI Russian Regional Report* for 24 April, examined the evolution of Yedinstvo in the two regions. In this article, the authors examine the prospects for the Communist Party.

**COMMUNIST PARTY REMAINS A FORCE, THOUGH WITH LESS INFLUENCE.** In Samara Oblast, which is considered a stronghold of democratic reform, the Communist Party of the Russian Federation (KPRF) maintains a stable electorate. During the 1999 State Duma elections, 26.1 percent of the Samara voters supported the Communists, compared to 24.3 percent for Russia as a whole. The Communists led in party-list voting that year and even increased their showing in Togliatti, the home of the giant AvtoVAZ car factory, where they are traditionally weak. The KPRF has 3,500 members in Samara Oblast. One party leader claimed that in addition to senior citizens, the party included people around 40 years old, economically active members of the population who are not happy with their situation and are dissatisfied with the reforms in the country. Recently, the Communists have increased the level of their support in the oil cities of Neftegorsk and Sergeevsk, where YUKOS is

strong. The Communists seek to expand their ranks by including members of the intelligentsia and public sector workers, who have benefited least from the recent reforms.

Among the Samara Communists' strengths are a stable, organized, and disciplined electorate and a long-standing ability to attract mass support. In recent years, the Samara Communists have been able to significantly increase their ratings thanks to the tactic of establishing political alliances. In 1999, the Samara Communists formed an alliance with Businessman Viktor Tarkhov, a former Soviet era Ispolkom leader who is an opponent of Governor Konstantin Titov. This alliance convinced the party that it is useful to have access to administrative resources. In 2001, the Communists formed an additional alliance with another Titov foe, Samara Mayor Grigorii Limanskii, who has access to such resources. The Communists and mayor shared a distaste for the governor, liberal reforms, and the oligarchs, who had "bought" Samara. They both supported the federal government and the effort to strengthen the state.

The people we interviewed made widely diverging comments on the alliance between the Communists and the Samara mayor. Supporters of the mayor claimed that the basis of the alliance was a common "concern for simple people." The mayor's critics claimed that the alliance was purely opportunistic and short-term. Without delving into these debates, the example of the alliance with the Samara mayor shows how much the KPRF has evolved in recent years, turning into a party of realists. One oblast official noted that the KPRF no longer attracts hard-line politicians. Rather the KPRF is cultivating a new generation of leaders who understand that a return to the past is impossible and that it is time to deal with current problems. In effect, this observer argued that the KPRF is becoming a "constructive opposition." The party's line is becoming more pragmatic and its new alliances are bringing it financial and other benefits.

In trying to evaluate the Communists' potential development in the regions, we ran into a divergence of opinions based on whether we were talking to someone within the party or on the outside. The Communists themselves claim that their membership is growing and that they continue to have influence. Observers outside the party claim that its power is waning and it has little opportunity to expand its membership ranks. Members of the administration and business elite in particular argue that "people understand that there will not be a return to the past." Most of the elite have little interest in discussing a standoff between the Communists and reformers.

In Yaroslavl Oblast, the Communists have not attracted large-scale popular support and their influence has shrunk even in the city Rybinsk, where many enterprises are still in crisis. In explaining the Communists' weakness, many observers point to the region's history, citing the white rebellion, the first anti-Communist meetings and the activity of the National Front in the 1990s, supporting democratic candidates throughout the decade.

Other reasons cited for the Communists' lack of popularity are general distaste for the various internal conflicts that have divided the regional party and the lack of a real leader. Until the fall of 2000, the head of the regional party was Marxism-Leninism Instructor Vladimir Kornilov. His excessive radicalism and constant disputes with the authorities made him unpopular. He also had poor relations with KPRF leader Gennadii Zyuganov. As a result, in the fall of 2000 the KPRF Central Committee won his removal as head of the oblast party, replacing him with the more pragmatic State Duma Deputy S. Smirnov. After this change in leadership, the party organization split, with part of the membership refusing to recognize the new leader.

The most recent polls show that the Communists have a stable 30-35 percent rate of support among voters overall in Russia. A new tendency is the growing support for the Communists in the big cities and also the increasing numbers of socially active people who are critical of the reforms and willing to join the Communists. Regional branches of the party are learning how to survive in the new conditions.

Despite these general tendencies, there are differences across regions. In Yaroslavl, the Communists have few prospects since the population and elite do not support the opposition party. In Samara, the Communists' new coalition-building tactics are bearing fruit and, in the future, such political alliances could produce a Communist governor. Surprisingly, however, Samara's regional elite believe this outcome to be impossible.

## BUSINESS AND POLITICS

### **UNDER SOBYANIN, TYUMEN AUTHORITIES PLAY FAVORITES AMONG**

**BUSINESSES.** Governor Sergei Sobyanin's administration has changed the climate for business in Tyumen Oblast, helping favored firms and making conditions more difficult for others. First, there has been a melding of Sobyanin's staff with the management of various financial organizations, especially Zapsibkombank, the largest bank in the oblast. Deputy Governor Vladimir Yakushev was the president of this bank until Sobyanin's election. The current president, Dmitrii Goritskii, worked in the past as Sobyanin's deputy. Recently, the head of the bank's legal department was named the chairman of the Oblast Electoral Commission.

This merger of a financial institution and the gubernatorial office alarms businesspeople who do not have direct support in the administration, where most of the current office holders made their careers in Tyumen's northern autonomous okrugs. Zapsibkombank has already gained control of the well-known BKK Corporation, a regional firm, through bankruptcy procedures and other enterprises fear they will face a similar fate.

The bank is not the only company seeking to acquire new property. Some of the most powerful energy companies in the oblast are buying up firms in southern Tyumen Oblast. Most likely LUKoil will soon acquire Tyumen airlines. In each case there are a variety of reasons for the take over, but business observers believe that the changes are largely connected to the election of Sobyanin as governor.

Second, business people who fear that structures close to the oblast administration will make aggressive moves against their firms have formed an alliance through the regional branch of the Association of Russian Entrepreneurial Organizations (OPORA -- [www.opora.ru](http://www.opora.ru)). The organization has tense relations with the oblast administration. It is based on an alliance of existing business organizations, including the Association of Light Industry, the regional Trade Union of Entrepreneurs, the Trade and Industry Chamber, the Association of Food Processing Industries, the Tyumen Fuel Union, and others. The chairman is Aleksandr Yuffa, the president of the NIKKA firm.

On OPORA, Deputy Governor Pavel Mitrofanov commented that there are 72 such organizations on paper, but only a third exist in reality. The creation of yet another organization is nothing if it does not actually function, he noted skeptically.

The media, which is largely financed by the regional budget, largely ignored the creation of OPORA or gave a negative review along the lines Mitrofanov laid out. Since most of the electronic and

print media are dependent on the governor for financing, the views expressed in the media are a good indication of the authorities' attitude toward the new organization.

Third, the oblast administration has been providing aid to favored firms. In April 2001, the administration set up the Tyumen Oblast Fund to Develop and Support Entrepreneurship as an allegedly independent, non-profit organization. During the last year, the fund has provided about 327 million rubles to more than 40 firms. According to Deputy Governor Pavel Mitrofanov, these outlays have generated some successes. Four of the recipient companies have now become profitable. Overall in 2001 the companies that received aid gave 153 million rubles in tax payments back to the oblast (less than half of what the oblast spent), with much of the flow coming from companies that produce alcoholic beverages. The fund plans to substantially increase its activities in the coming year.

The administration is supporting its favored firms in a variety of other ways as well. It seeks to ensure the sale of goods produced in the southern part of the oblast in the relatively rich north, where oil and natural gas production are concentrated. The administration is also trying to support the sale of local goods by privatizing municipal stores on the condition that they sell only local goods or imported goods that are not produced locally.

The oblast administration is also buying shares of firms based in the southern part of the oblast, setting aside 65 million rubles for this purpose in the oblast's 2002 budget. The oblast is particularly interested in purchasing firms working in the railroad and bus industries. - Elena Arbatskaya in Tyumen

## GOVERNORS' ELECTIONS

**KREMLIN'S CANDIDATE REPLACES AUSHEV IN INGUSHETIYA.** Deputy Presidential Representative to the Southern Federal District Murat Zyazikov won election as Ingushetiya's president on 28 April, taking 53 percent of the vote in the runoff, with 65.59 percent turnout. Zyazikov's success was a major victory for the Kremlin, which had long chafed under the criticism of former President Ruslan Aushev, who strongly rebuked the federal authorities for their conduct of the war in Chechnya, Ingushetiya's immediate neighbor. State Duma member Alikhan Amirkhanov, an Aushev ally, won 42 percent of the vote in the runoff. Amirkhanov's supporters charged that the election results were falsified. However, the federal authorities claimed that there were no serious violations.

Aushev set up the elections by unexpectedly resigning on 28 December 2001, clearly under pressure from the Kremlin and Presidential Representative to the Southern Federal District Viktor Kazantsev to leave office. After stepping down, Aushev accepted an appointment in the Federation Council, assuming then that one of his allies would succeed him. As president, Aushev conducted a bifurcated policy in regard to Moscow. His republic is heavily dependent on financial support from the capital so he had to be careful not to anger the capital too much. Nevertheless, he was one of the few governors to openly criticize Putin's government. His frequent denunciations of the military's conduct of the war in Chechnya won him the particular enmity of Russia's generals, including Kazantsev, who made his reputation fighting in Chechnya. Ultimately, the targets of Aushev's criticism likely won enough bureaucratic support to exert so much pressure on him that he stepped down.

The federal authorities intervened heavily in the race to assure that a pro-Kremlin candidate would win. On 3 April a group of armed men who claimed to be part of Kazantsev's staff forced their way into the Ingush Supreme Court as it was considering an appeal to remove Aushev's favored candidate, former Ingushetiya Interior Minister Khamzad Gutseriev, from the race and demanded that all the

relevant papers be handed over to the Russian Supreme Court, according to Radio Liberty. On 5 April, two days before the first round of voting, the Russian Supreme Court disqualified Gutseriev for failing to take a leave of absence before the campaign started.

Gutsiriev was the most popular candidate and had been expected to win. Also on 5 April, the Russian cabinet sacked Mikhail Gutseriev, the elder brother of Khamzad, as the president of the Slavneft oil company, accusing him of financing his brother's campaign with the company's resources. The State Duma is currently considering legislation that would ban such last minute candidate removals for this type of violation (see related article in this issue).

In the first round voting, Zyazikov won only 19 percent, trailing State Duma Deputy Alikhan Amirkhanov, who scored 32 percent. Aushev backed Amirkhanov in the second round and he was initially expected to win, despite the fate of Gutseriev. However, the authorities put extensive pressure on Amirkhanov between the first and second rounds of voting, searching his campaign headquarters and accusing him of bribing voters, but ultimately they did not disqualify him from the race. On 24 April, Aushev resigned from the Federation Council, a clear signal that he expected Zyazikov to win the election and quickly remove him from the upper chamber of the national parliament. Aushev charged that the Federation Council refused to take up Ingushetiya's most serious problem -- dealing with the refugees from the Chechen and North Osetian conflicts -- and failed to block the interference of Kazantsev's staff in the presidential campaign (*Kommersant Daily*, 24 April).

Aushev initially believed that Zyazikov had no chance of winning. But that was before what Aushev described as the "blatant interference" of Kazantsev's staff in the campaign. Zyazikov is a Federal Security Service (FSB) general and this institution is widely hated in Ingushetiya. The FSB is the successor to the NKVD, which deported the Ingush people to Kazakhstan in 1944. "How will the people who were deported by these agencies vote for them," Aushev asked incredulously in February (*Kommersant Vlast*, 19 February).

Zyazikov said that his first task as the republican president would be to deal with the refugees from Chechnya and North Osetia who are now living in Ingushetiya. Before the beginning of the second Chechen war in 1999 about 160,000 people fled Chechnya for Ingushetiya. Thousands more fled the violence in North Osetia a decade ago. Zyazikov's actions will be a test of how well the federal government, through the offices of the presidential representative to the Southern Federal District, can implement its policies in this strategic North Caucasus region.

**KATANANDOV WINS ANOTHER TERM IN KARELIYA.** Governor Sergei Katanandov won a second term in Kareliya on 28 April, taking more than 53 percent of the vote with about 50 percent participation. Katanandov's victory was widely anticipated. He eliminated his most likely opponent, former Governor Viktor Stepanov, by appointing him to the Federation Council in December 2001. Katanandov had defeated Stepanov in the republic's 1998 gubernatorial election in a closely fought race (see *EWI Russian Regional Report*, 21 May 1998).

Katanandov won that election with the backing of Businessman Leonid Beluga, who owns a large chain of grocery stores in Petrozavodsk, and the St. Petersburg concern Orimi, which owns the Belomor-Onega shipping line (*Kommersant Vlast*, 23 April). Beluga is now a major industrialist in the region and Orimi recently gained control of the Ilin Forestry Factory. Katanandov, who was once a strong backer of Yurii Luzhkov's Otechestvo-Vsya Rossiya party, has since established close contacts with the pro-Kremlin Yedinstvo. Katanandov has close relations with Putin, who vacationed in the

region, and met with the governor in the Kremlin during the campaign. Katanandov controls the two largest television broadcasters in the republic and most newspaper and radio stations.

## NATURAL MONOPOLIES IN THE REGIONS

**OMSK RAISES ENERGY, HEAT PRICES, PLEASING NO ONE.** After six months of intensive debate, the Omsk Regional Energy Commission (REK) raised prices for electricity and heat in the region (for an earlier discussion of this issue, see *EWI Russian Regional Report*, 27 February). However, no one is happy about the price increases. The increase is too small to meet the needs of the local utility. The governor is dissatisfied because the price increases are sure to be unpopular. The population is worried about paying bigger bills.

The REK raised electricity prices to 56 kopecks a kilowatt-hour from 46 kopecks for residential users (a 22 percent increase) and to 72 kopecks for enterprises instead of 62 kopecks (16 percent). Rural residents will pay 39 kopecks instead of 32, an increase of 22 percent, and rural firms will pay 59 kopecks.

The battle over energy prices, pitting the governor and REK, which is allied with the governor, against Omskenergo, began in October 2001. Then the utility sought a 30 percent price increase. The governor strongly opposed such an increase and the regionally-controlled media launched into a vicious campaign against Omskenergo.

According to Omskenergo General Director Aleksandr Antropenko, the price increases will only meet two-thirds of the utility's needs. He warned that the increase did not take into account expenditures the utility will make to prepare for next winter and to carry out necessary reconstruction work.

Omskenergo estimated that it would spend 9.4 billion rubles in 2002. However the REK decided that 6.9 billion was a more realistic figure and set the prices accordingly. The company estimated that it would earn 1 billion rubles in profits, but the REK reduced this number to 451 million rubles.

Raising energy prices in April, just as summer is coming, does not help the utility because it generates most of its income during the winter months. In 2001, it ended the year with 201 million rubles in debt and 1.5 billion rubles in fines. It paid only 74 percent of its salaries in 2001 and wage arrears were approximately 60 million rubles for the month of January.

The price increase will hurt the image of Governor Leonid Polezhaev, whom the regionally-controlled media has hailed in recent months as the main opponent of increased energy prices. The increases also raise social tensions in the oblast. Employees of the Polet firm, recently striking because their salaries have been delayed, warned that they would have no money to pay the higher utility prices.

The Omsk utility hopes that the federal government will step in to solve the problem. According to informal reports, the government is planning to abolish the regional electoral commissions and transfer the authority to set prices to the federal district level. Such a move may make it possible to raise prices more quickly. Additionally, transferring decision-making authority in this way would dramatically reduce the power of most governors. - Pavel Shagiakhmetov in Omsk

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## THE ALASKA SOLUTION

**US STATE OFFERS MODEL FOR RESOURCE DEVELOPMENT.** Two term Alaska Governor and former US Interior Secretary Walter J. (Wally) Hickel believes that Alaska's experience in developing its oil and gas wealth provides a good model for the development of resources around the world, including Russia's regions. His book *Crisis in the Commons: The Alaska Solution* (2002) lays out his ideas in vigorous and entertaining prose. Hickel visited EWI's New York offices on 13 May to spread the word.

One of Hickel's chief accomplishments in Alaska was opening the oil and natural gas fields in Prudhoe Bay to development under state control with the participation of the private sector. According to Hickel, the Alaska experience proves that "a local, democratic government can harness the natural resources it owns and the efficiency of the private sector to provide its citizens opportunity and an enviable quality of life." The gist of the approach is what the governor calls an "Owner State." First, local people must gain control of their resources through the agent of their regional government because "resources managed from afar, by a colonial or distant master, are usually mismanaged and exploited for the interests of those far away." A second requisite is that the owner state be a constitutional democracy. Additionally, the private sector must play a large role. "The role of the state [here meaning regional government] is to decide resource policies, to provide access and infrastructure, and to get things started. On a competitive basis, private industry leases the right to extract the common resources and employs the citizens to do the work. The state then uses the revenues it receives from the development of its resources, instead of taxation, to meet common needs and enhance the lives of the people it serves. In fact, most taxes can be eliminated."

Ultimately, it may be possible to apply this sort of approach in Russia. Certainly such a large country needs to have a federal system with key powers devolved to the regional level since it is impossible to manage everything effectively from Moscow. One could even make the argument that today's regional elections in Russia are democratic, or at least no less democratic than elections in the West. However, it is hard to say that the current Russian state uses its resources to meet the common needs of its people. Since the collapse of the USSR, rapacious politicians, bureaucratic clans, and business interests have captured the Russian state at both the federal and regional level to promote their particular interests rather than the common good. As Russian society becomes stronger and more assertive, it may be able to force the state to work in the public interest, but this will be a long process. However, the fact that many of Russia's governors are corrupt should not stop reform advocates from working at the regional level to promote social change. Centralizing power in the federal government is not a long-term solution.

Although critics could say that he is relentlessly optimistic, Hickel's ideas may prove useful to the Russians, particularly if he could help them develop effective legislation to reduce conflicts of interest among Russian public officials. It is easy to see why his straightforward talk and rough charm would appeal to them. He is the secretary general of the Northern Forum, which brings together governors from northern regions to share experiences in addressing common problems (<http://www.northernforum.org>).

Federal officials and irresponsible corporations are often the villains in Hickel's stories. FBI Director J. Edgar Hoover shut down the Alaska-Russia border in 1950, "creating an Ice

Curtain that proved more impenetrable than the Iron Curtain." In the case of the gigantic 1994 Komi oil spill, then Vice President Al Gore, who was in charge of the US response to the crisis, told Hickel over the phone not to visit the region, believing reports from Moscow that the situation was not as bad as the media portrayed it. After a heated debate, the take-no-prisoners Hickel ended the conversation saying "Mr. Vice President, I am going. I'll call you when I get back."

Hickel is equally critical of Russia's government. He reports that Moscow's main priority in Komi was "to extract the resources of this far-away region as cheaply as possible" meaning that it cared little about the ecological consequences even as black sludge tarred the landscape. According to Hickel, the US government played a role in the Komi disaster as it pushed Russia to increase oil production without understanding local conditions or the environmental impact of such policies. Multinational corporations and their Russian partners were also to blame because they determined that it was cheaper to continue pumping oil through pipelines they knew had holes in them rather than to repair them. The local people, powerless to prevent the spill and lacking the resources to clean it up, were the victims.

Hickel's insistent demand that the governors, not federal bureaucrats or corporate interests, should control natural resources in the name of the people, naturally strikes a sympathetic chord with Russian governors, who spent the 1990s seeking much the same thing from Moscow. Hickel has, in particular, developed a close relationship with former Sakha President Mikhail Nikolaev, who successfully gained control of much of his republic's diamond supply while Yeltsin was in office. One would expect Hickel to have a rather critical view of Putin, whose policies are aimed at asserting federal ownership over Russia's natural resources. However, the governor is optimistic about Putin's efforts, arguing that Putin is centralizing power initially so that he can ultimately decentralize it in a more rational way than Yeltsin did. In fact, in Hickel's view, a new decentralization of power is inevitable for Russia to function as an effective country and he claims that Putin ultimately understands this. Hickel criticized Yeltsin for not having a plan or system for the decentralization of power that took place under his leadership. He also criticized the policies of privatization that Russia pursued in the early 1990's, partly at US insistence. Hickel charged that simply handing resources to corporations was not the best way to insure that they are ultimately used in the public interest.

Hickel argues that the federal government is actually better off if regional governments control natural resource development. Since the regional authorities have a better sense of how to manage the resources, they ultimately generate more taxes for the federal treasury than if ignorant federal bureaucrats ran the show.

Chukotka is Alaska's closest neighbor and the governor sees considerable possibilities for its development, especially with the arrival of magnate Roman Abramovich as governor. The Alaskans had little good to say about former Chukotka Governor Aleksandr Nazarov, who is now one of the region's representatives in the Federation Council. Nazarov closed his region off to foreigners during the 1990's and sought personal gain from its resources.

Hickel has met with Abramovich twice, including a few months ago on Maui, where Abramovich flew two planes for a short meeting. Abramovich is one of Russia's most reclusive oligarchs and a continuing source of interest for Russia watchers. Many in the Moscow elite like to say that they are close to him, but few have actually met him. Hickel believes that

Abramovich and Putin work well together based on their conversations. Nazarov was the one who first enticed Abramovich to Chukotka, and the oligarch was shocked at the poverty he saw there. State Duma member Vladimir Etylin played a role in convincing Abramovich to run for governor as a way of getting Nazarov out of power. Etylin could very well succeed Abramovich, who has already announced that he will not seek a second term.

Chukotka has a bifurcated economy. On one hand, many residents eke out a living through such traditional occupations as reindeer herding. On the other, the local economy could be competitive in many aspects of the global economy. The Bering Sea is one of the wealthiest fisheries in the world. Currently, the southern regions of the Far East control these activities. However, Chukotka could benefit by more aggressively asserting its interests. Chukotka is Russia's fourth largest gold-producing region and now Abramovich is trying to rationalize the local mining industry so that it pays larger dividends for the region. Chukotka also has potentially large off-shore oil and gas deposits that could be developed in the future. Currently, Anchorage is a major transportation hub for freight flying between Europe, Asia, and North America. Fed Ex has one of its largest bases in the city and scores of 747s fly through every day. If Anadyr, Chukotka's capital, developed its airport, it might be able to attract some of this business from Alaska. The city also boasts the best deep-water port in Russia. Chukotka could also develop its tourist potential, something that Alaska has been very successful in doing.

Governor Hickel is a strong supporter of building an underwater railroad tunnel that would connect Alaska to Chukotka and make it possible to take a train from New York to Paris. He says "we should never stop talking about the idea of a Bering Strait tunnel, both for what it can do to tie the world together, and for helping the world understand how close America and Russia are. We are an eyesight away -- not halfway around the world." The Northern Forum and the Institute of the North (<http://www.institutenorth.org>), which Hickel founded at Alaska Pacific University, as well as the Arctic Council, which bring together eight Arctic nations, have been supporting studies of ways to expand circumpolar infrastructure, including air and sea links and the land link. In that way, Hickel may be just the man to make it happen. - Robert Orttung

## **REGIONAL ELECTIONS AND ORGANIZED CRIME**

**FSB CHIEF DEFEATS SMOLENSK GOVERNOR IN ELECTION OVER CRIME.** Federal Security Service (FSB) Smolensk Chief Viktor Maslov defeated Governor Aleksandr Prokhorov in Smolensk's 19 May gubernatorial elections, 41 percent - 35 percent, according to preliminary figures (polit.ru, 20 May). The difference between the two candidates was about 21,000 votes.

Following Putin's election, Maslov is the most recent FSB official to become governor. Recently, FSB officers won gubernatorial elections in Ingushetia and Voronezh. However, these victories do not reflect a national trend. FSB candidates have failed in such places as Kursk, Chelyabinsk and Chuvashia. The victories of FSB officers are rather functions of the specifics of local politics.

The elections will have a major impact on the distribution of political forces in Russia's western regions. Traditionally, the Communists were strong in Smolensk, influencing who won

regional elections and determining social policies. During the last four years under Prokhorov, who initially became governor with the Communists' support, the Communists lost popularity following widely publicized criminal scandals, which reduced public confidence in the governor.

Crime was the major issue in the campaign. Putin's Kremlin and the largest tax payers in the oblast, the Kristall diamond factory and the Smolensk nuclear power plant, supported Maslov. In his campaign speeches, Maslov focused heavily on the crime angle, charging that Prokhorov was associated with criminal groups. He said that his first task would be to clean up the region's image, ending the criminal battles and the perception among federal authorities and outside investors that the regional authorities were controlled by organized crime. On the eve of the election, Maslov also made clear that Russian procurator general was on the verge of charging Prokhorov with misusing 274 million rubles provided by the federal government for the construction of regional roads (*Kommersant Daily*, 17 May). The case has been under investigation for two years and Prokhorov had been listed only as a witness earlier.

Communist Party of the Russian Federation leader Gennadii Zyuganov visited the region on the eve of the election to support Prokhorov, even though some of the local party organizations refused to back him, claiming that as governor he was responsible for the growth of crime in the region (see *EWI Russian Regional Report*, 13 March 2002). Zyuganov was willing to look past his local comrades' complaints because he wanted to prevent the Kremlin from scoring another regional victory in the election. To counter Maslov's accusations, Prokhorov argued that Maslov and the regional law enforcement authorities were too involved in politics to fight crime effectively.

The regional scandals continued until the eve of the elections. On 16 May, an unidentified gunman tried to assassinate Deputy Governor Anatolii Makarenko, killing his bodyguard, but only slightly wounding Makarenko himself. After the shooting, Makarenko charged that Maslov had ordered the hit, seeking to use his FSB connections to convince voters that the current administration is stained by criminal ties. Maslov responded by describing Makarenko as "a semi-criminal businessman who provided equipment for a liquor factory owned by Smolensk crime bosses" and argued that the attack "had no relation to the elections or politics in general." Makarenko took over as deputy governor after charges were filed against former Deputy Governor Yurii Balbyshkin and handled some of the most lucrative aspects of business relations for the Smolensk administration (On Balbyshkin, see *EWI Russian Regional Report*, 14 November 2001). Maslov charged that Makarenko used his public office to expand his own business empire and suggested that the perpetrators of the attack were Makarenko's competitors or business partners who were unhappy with the way the "businessman-bureaucrat" had used his power. - Arsentii Ledovskoi in Smolensk with contributions from Robert Orttung

**PRIMORSKII REGIONAL ELECTIONS THREATEN DARKIN, RISE OF CRIME GROUPS.** Many groups, including some with alleged criminal links, are pouring large amounts of money into Primorskii Krai's legislative elections next month for a vote that threatens the krai's stability and the tenure of Governor Sergei Darkin. Primorskii Krai will hold repeat elections to the regional legislature on 9 June after many races in the first round of elections on 9 December 2001 were declared invalid due to low voter turnout.

In the 9 December elections, only residents of the krai's rural areas voted in sufficient numbers to elect deputies. In the three major cities, Vladivostok, Nakhodka, and Ussuriisk, turnout did not pass the required 25 percent, so none of the urban precincts elected legislators. Thus, of the 39 seats in the legislature only 16 are currently occupied.

The new legislature can complicate Darkin's life in many ways. With a two-thirds majority vote (26 of the 39 votes), the Legislative Assembly can force Darkin out of office, making the upcoming elections particularly significant.

The elections are relatively competitive, with 5-6 candidates running for each seat. In this election, however, there is no requirement for minimum turnout since the krai legislature voted to suspend this clause from the electoral law. Accordingly, the elections will bring new deputies to office regardless of how many people vote.

Participants in the elections say that the candidates are spending unprecedented sums to win. Darkin's election as governor last year demonstrated that local businessmen with alleged connections to organized crime could win public office. In the December elections, one crime boss nicknamed Winnie-the-Pooh became a regional legislator. According to common perceptions now, you can become a legislator if you are willing to pay large sums of money. One candidate who wished to remain anonymous estimated that a seat in the legislature costs \$1 million. Controlling 5-6 seats would create a relatively strong power base for moving a major deal through the body. In Primorskii Krai, the most profitable businesses are forestry and fishing, both of which are heavily regulated by the authorities, and therefore susceptible to political manipulation.

Former Vladivostok Mayor Viktor Cherepkov, now a State Duma deputy, is seeking to repeat his past success in which his allies won 8 seats from the capital city's districts. Cherepkov predicts that the next governor of the region will be the criminal "avtoritet" Alekseenko. Cherepkov claimed that Alekseenko is much richer than Darkin and better organized. Cherepkov said that he was willing to work with his former enemy Nazdratenko so that their allies in the regional legislature could join forces to remove Darkin from the krai administration. Cherepkov said that he would be happy if he won a third of the seats.

Of the 16 legislators elected in December, 12 are allies of former Governor Yevgenii Nazdratenko. Once considered an ally of Darkin, Nazdratenko is now widely noted as a Darkin opponent. Nazdratenko, the chairman of the federal state fisheries committee, has been in the region since the end of April meeting with his allies. According to his associates, he recently spent three hours in the sauna with Krai Procurator Valerii Vasilenko. These people say that his power in Moscow has been significantly curtailed and is continuing to shrink. He has little chance of finding a more powerful position in the capital. Thus, his best option is to return to Primorskii Krai, where his sons control a considerable amount of business.

In the legislative elections, Nazdratenko will back a slate of 14 candidates made up of local officials who came to power with his aid and are dissatisfied with Darkin's leadership, according to Legislative Assembly Member Yurii Rybalkin. The managers of the region's local television stations provide Nazdratenko with frequent air-time to publicize his opinion on a variety of topics. The mayors of Vladivostok, Nakhodka, and Ussuriisk all came to power with Nazdratenko's support and the first two openly oppose Darkin.

Darkin's position seems to be deteriorating as the krai procurator recently raised questions about several of his deputy governors. The procurator filed a case against Igor Ivanov for allegedly using falsified documents claiming he had academic degrees, which he never earned. Additionally, the procurator noted that the governor never should have appointed Vladimir Vedernikov as deputy governor because he is past mandatory retirement age. Serge Peredrii apparently has to leave because he also does not have the higher education required to work for the state. In addition, Aleksandr Linetskii is planning to return to Darkin's Roliz company. Thus, the governor could lose four of his eight deputy governors and some of his closest associates. - Oleg Zhunusov in Vladivostok

## **CENTER - PERIPHERY RELATIONS**

**FEDERAL AUTHORITIES SATISFIED WITH KURSK STABILITY.** In recent years, the relationship between the federal government and the Kursk Oblast government has been one of the most difficult in the country. Initially, these problems grew from President Boris Yeltsin's displeasure at the election of his erstwhile vice president, Aleksandr Rutskoi, as governor. Rutskoi and the regional legislature adopted numerous laws that violated federal legislation, redirected federal money sent to the region for purposes not intended by Moscow, illegally used oblast property, came into conflict with the federally-controlled police and procurator, and caused many other problems for Moscow. With Rutskoi's removal from power, when the court declared that he was not able to participate in gubernatorial elections to secure another term, the number of public scandals in the region dropped considerably. The region welcomed the end of such dictatorial and tempestuous rule in favor of the more steady hand of the current administration.

The Communist team of Governor Aleksandr Mikhailov proved to be more compliant in establishing relations with the federal authorities than Rutskoi had been. This cooperative approach brought concrete results, including a meeting for Mikhailov with Putin, a visit to Kursk by State Duma Speaker Gennadii Seleznev, increased visits to the region by federal ministers, and numerous agreements signed between federal agencies and the region. Increased transfers from the federal budget complement these political achievements.

Judging by the Kursk example, difficulties between the federal government and Communist dominated regions are becoming a thing of the past. According to Kursk Oblast Chief Federal Inspector Viktor Surzhikov, "the governor's party membership no longer plays a significant role. (*Kurskaya pravda*, 8 May)" He cited three reasons for this change. First is the overall strengthening and consolidation of the federal authorities. Second, governors of regions like Kursk that lack oil and gas have a very narrow set of choices in how they conduct their relations with the federal government. A lack of such resources means that the governor must maintain relatively friendly ties with the federal authorities. Third is the personal disposition of the governor. Mikhailov made clear from the beginning that he supported Putin and wanted to be a member of his team.

Currently, the economic situation in Kursk Oblast is tense, but not hopeless. The main problems are the recent drop in steel prices, which has a major impact on the local Mikhailov Mining and Processing Combine, and a planned reconstruction of the Kursk nuclear power

plant, causing a temporary 20 percent cut in electricity output. The other sectors of the economy, including agriculture, are developing in a stable manner and the region has attracted two billion rubles of investment in the last two years. Regional politics are far from stable now, but the situation is much better than it was under Rutskoi.

Thus, within its "limited corridor of possibilities," the Kursk oblast administration is conducting itself in a manner the federal government approves of. Mikhailov was happy to receive a warm reception in the Kremlin and publicly claims establishing relations with the federal governments as one of the key accomplishments of his administration (Kursk Television Company, 30 April). - Sergei Sarychev in Kursk

## **PARTY BUILDING IN THE REGIONS**

*This week we continue the discussion of party building in Yaroslavl and Samara oblasts by Natalya Lapina and Alla Chirikova. The previous two issues of the RRR included articles examining the pro-Kremlin Yedinstvo and the Communists. This week we turn to the right-wing of the political spectrum.*

**RIGHT-WING PARTIES FACE CHALLENGES IN THE REGIONS.** Yaroslavl and Samara oblasts traditionally lend strong support to parties that favor market reforms and democracy. During the 1990s, they consistently voted along these lines. But in Russian political life, party-list voting results often have little relation to how well organized a party is or the size of its membership.

During the 1990s, Yabloko was a player in Yaroslavl politics, albeit one with little actual influence. Grigorii Yavlinskii defined the party at the national level and Yelena Mizulina set the tone at the regional level. The situation changed at the beginning of 2001, however, when Mizulina quit Yabloko and instead joined the Union of Rightwing Forces (SPS). The decline in Yabloko's national rating, the inability of the party to set up a strong organizational structure, and Mizulina's exit left Yaroslavl's Yabloko in crisis. Many rank-and-file members followed Mizulina out of the party and, today, Yabloko is no longer a player in Yaroslavl. A similar situation prevails in Samara, where all of Yabloko's efforts to influence the situation failed.

In recent years, the SPS has begun asserting itself more in Yaroslavl, making it "a rising star," according to one of the leaders of the local Yedinstvo. "In our city with high levels of trade and industry, small business is very important and likely to continue growing. Our people are educated and there is a large share of forward-thinking, independent young people, just getting on their feet," this observer claimed

However, most of the people we interviewed agreed that SPS currently does not have much of a regional organizational structure and is not making a serious effort to build one. The lack of a professional party leadership contributes heavily to this oversight. The respondents also criticized the tactics chosen by the party's federal leadership. SPS top leaders court support among the region's large enterprises and incumbent authorities, who wield powerful administrative resources. As one expert explained, SPS chief Boris Nemtsov presents himself as a popular tribune, thinking that large enterprise directors will find this approach attractive. But

the observer described this approach as "naive and unprofessional," arguing that Nemtsov's real base is small business and that he should concentrate his efforts on it.

This observation rings true: except for the Communist Party, Russian parties do a poor job of attracting popular support. However, the SPS has scored some successes with the elite. Among the local businessmen in its regional leadership council are Rybinskie motory General Director Yurii Lastochkin, the head of Svyaz Bank, and the deputy general director of Yarenergo, the local electricity utility. SPS is gaining strength in Yaroslavl Oblast and could potentially become an influential party there.

Samara Oblast was one of SPS's biggest supporters in the 1999 State Duma elections. There 22.1 percent of the voters supported the party compared to an average of 8.52 percent in all Russian regions. A major part of this success comes from voters' perceptions that the SPS is the party of power in the region and has the support of Governor Konstantin Titov. The SPS's Samara organization is relatively small and its leadership does not play much of a role in public life. However, the party's position in the region significantly improved thanks to the support the party recently received in Togliatti.

There are three types of members in the party. The first group is the democrats who originally entered politics in the late 1980s. The second is people who support the right in parliamentary elections. The third is young people who recently joined the party. These younger members are pragmatic and independent thinkers, though they know little about the past. Of course, many continue to view the SPS as the party of power and think of membership as giving them important social status.

A peculiarity of Samara is that there is an additional party on the right-wing of the spectrum: the Russian Party of Social Democracy created by Governor Titov. In December 2001, this party joined former USSR President Mikhail Gorbachev's Russian Social-Democratic Party. Titov calls his party a "typical social democratic party," which supports a liberal economy, numerous forms of ownership, and fostering conditions so that each person can realize his initiatives. At the same time, however, the party seeks a stronger role for the state in ensuring the population's social security (*Selskaya zhizn*, 25 October 2001). While Titov claims that this party has a brilliant future, today the Samara organization does not have a strong leadership and does a poor job of courting the masses. Few notice its activities in the region. The party's main resource is the support of the governor and his access to administrative and financial resources.

These right-wing parties face problems that are typical across Russia: the lack of a mass base, little popular interest in setting up and working through political party institutions, the absence of professional managers with the skills required to build parties; and the excessive orientation toward the elite, which gives the party access to administrative and financial resources. The Communists are the only exception. Thus, non-Communist party leaders try to compensate for their parties' organizational weaknesses and small memberships by forming coalitions with various elite groups, which they hope will improve their political ratings. We will explore these connections in a future article. - Natalya Lapina and Alla Chirikova in Moscow

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## RUSSIA'S SOUTHERN BORDER

### FRONTIER REGIONS BALANCE THREATS AND OPPORTUNITIES

by Robert Orttung

**BELOKURIKHA (ALTAI KRAI)** - Analyses of Russia's southern border usually focus on the many threats that China, Central Asia, and the Caucasus present to the Russia. But these threats are only half the story. There are also plenty of opportunities for mutually beneficial economic cooperation.

The border that simultaneously divides and connects Siberia and Central Asia is a good example of this duality. A 24-25 May conference entitled "Russian West Siberia - Central Asia: A New Regional Identity, Economy, and Security" held in Altai Krai examined these issues. Most of the participants were from Siberia and the Central Asian countries.

#### THREATS: Terrorism

In the wake of September 11, the topic at the top of everybody's agenda was terrorism. However, the need to talk about "terrorism" was the only point of agreement as there was little consensus on what terrorism is and how to respond to it. In trying to come up with a definition, the UN Commission on Afghanistan, for example, concentrated on acts against civilians for political purposes, but the US sees attacks on its military bases in places like Saudi Arabia as terrorism as well. There is little agreement over whether efforts should be focused against specific individuals and groups or on developing a broader conception of what to do. Everyone talks about cooperation, but disagreements quickly emerge when it comes to defining what the substance of this coordination should be.

In practice, national and regional governments define "terrorism" as something that affects their own interests. Thus, the battle against terrorism can never be a unifying platform, because these interests do not always overlap and often come into conflict.

To better understand the nexus of threats and opportunities then, the best approach is to look at the interests of the different players. Along the Siberian-Central Asia border, the numerous actors make for a complicated picture. Key players include Russia, Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, Turkmenistan, China, Mongolia, and regions within these countries, whose interests do not always coincide with those of their national governments. After September 11, the US role in the region has increased with the deployment of American troops and everyone else has to take US interests into account as well.

In spite of all the changes, Russia continues to play an important role. Russia has five goals in Central Asia, according to Dmitrii Trofimov, an advisor to the Department of Foreign Policy Planning in the Russian Foreign Ministry:

- promoting stability so that Russia is not threatened from the south
- fully developing the transit potential of the region to expand Russia's potentially lucrative trade with China, India, and Iran
- preserving the unified economic space in Central Asia
- using the geostrategic potential of the region to promote Russia as an international and regional great power (*derzhava*).
- securing recognition by the international community of Russia's special role in Central Asia.

To achieve these goals, Trofimov stated that Russia must:

- more effectively use multi-lateral organizations like the Commonwealth of Independent States, Shanghai Cooperation Organization, etc.
- upgrade the equipment protecting the 7,500 km border at a cost of over \$1 billion
- develop the hydroelectric potential in Tajikistan and Kyrgyzstan, combining foreign investment with Russian technology and workers
- maximize the role of Russian companies in the development of the Caspian Sea
- protect the interests of ethnic Russians living in Central Asia
- promote Russian interests by providing humanitarian aid to the region, including the possibility for free education at Russian universities, and
- work with the opposition in the Central Asia countries to develop an effective counterweight to the current rulers.

With the arrival of the United States in the region, the Central Asian states can play Russia and the US against each other to secure the best deal for themselves. But the arrival of the US is not a blow to Russian interests since the US campaign in Afghanistan essentially solved one of Russia's most pressing security threats by essentially eliminating the Taliban. The influx of US money into Central Asia could also have positive benefits for Russia by accelerating regional development.

The failure of multilateral solutions to address terrorism puts in the sharpest relief the differing interests of the countries in the region. The joint attempts of the Central Asian states, NATO's Partnership for Peace, and the Shanghai Cooperation Organization have not been very effective, according to Roy Allison, Director of the Russia and Eurasia Program at the Royal Institute of International Affairs (Chatham House) and a

fellow at Oxford University. In Central Asia, there is a clear difference between the interests of Uzbekistan and Kazakhstan. Uzbekistan wants to define terrorism in a way that includes its internal opposition, while Kazakhstan is leery of this approach and would prefer to focus on ways to promote economic development.

The particularly repressive nature of the regime in Uzbekistan makes it difficult for citizens of that country to discuss its problems openly. The current government exaggerates the threat from radical Islam for its own purposes, while actually exacerbating it by cracking down on all forms of dissent.

### Narcotics Trade

The extensive heroin and opium trade presents another major threat to the region. These drugs originate in Afghanistan and make their way through Central Asia to Russia and Western Europe. The United Nations Office of Drug Control and Crime Prevention is providing millions of dollars of assistance to the Russian government to deal with this problem, both in reducing consumption and the actual drug trafficking. Nevertheless, the UN expects the amount of drugs flowing through the region to increase this year as the US presence in Afghanistan has yet to destroy the drug production facilities there.

As much as 70 percent of these drugs currently flow along highways leading into Russia, passing checkpoints manned by Russia's border guard forces, according to A. A. Filipenko, a representative of the border guards service based in Barnaul. Drug use in Russia's border regions continues to rise substantially. In this sense, these roads symbolize the nature of the risks and opportunities in Russia's south. Such roads are necessary for increased trade, but they also expand the number of problems Russia must deal with.

### Immigration

The main causes of immigration into Russia are employment and a desire to return to one's homeland. Another major factor driving immigration processes is the yawning economic gap between Russia and its neighboring countries. This difference is particularly clear in the case of Tajikistan, which has been wracked with civil war and faces a reconstruction comparable to the one under way in Afghanistan.

The question of Chinese immigration is especially politicized. Despite claims of millions of Chinese in Russia, Moscow State University Professor Vil Gelbras claimed that serious researchers estimated that there are no more than 500,000 Chinese in Russia illegally. Gelbras called for a cultural shift among Russians, urging them to pay greater attention to the benefits immigrants can provide to the country. He noted that Russians treat ethnic Russian immigrants badly, much the same way as they treat other groups of immigrants. However, he also warned that large numbers of unemployed Chinese could potentially turn to Russia in search of jobs in the future, putting great pressure on the Russian economy and displacing higher paid Russian workers.

### Little International Cooperation

V. A. Mishkin, a representative of the Altai Krai branch of the Ministry of Internal Affairs, complained bitterly that Russia and Kazakhstan had signed numerous treaties on cooperating to combat these problems, but that the Kazakh side had never implemented them. He blamed Kazakh shuttle traders for most of the violations in which traders illegally bring Chinese goods into Russia. This black market trade reduces the ability of Russian factories to compete and costs Russian jobs. Conference participants looking at economic issues also noted that neighboring regions such as Omsk and Pavlodar (Kazakhstan) had signed numerous bilateral treaties, which had produced no real effect. Some suggested that multi-lateral treaties might be more effective, but such results are certainly not assured. In local situations, where there are good ties between officials, problems are often resolved more effectively.

Another problem is the perceptions held by ethnic Russians and Kazakhs who live in Russia near the Kazakh border. While the Kazakhs have a neutral view of the Russians, the Russians are more likely to have a negative view of the Kazakhs. The Russians see the Kazakhs as dishonest and the source of many problems. The level of intolerance tends to increase in rural areas where members of one ethnic group live alone.

#### OPPORTUNITIES: Cross Border Trade

Despite the threats that Russia faces along its southern border, there are plenty of opportunities for mutually enriching trade. The ties that existed in the Soviet era with China, Mongolia, and Central Asia were severed with the collapse of the Soviet Union and have yet to be replaced. The current level of trade between Russia and its southern neighbors is much less than the potential for such trade and far below historical levels. Today Russia has considerably reduced trade with China, almost no exchange with Mongolia, and catastrophically few links with the countries of Central Asia (*Sibir v strukture transaziatskikh svyazei: problemy prigranichnoi torgovli i mezhregionalnogo vzaimodeistviya*, Barnaul, 2000). Siberia is the main region in Russia to benefit from trade with Central Asia and the loss of this trade has hurt the regional economy.

Siberians are slowly coming to the realization that they must make efforts to expand this trade. Early draft versions of the Siberian Strategic Development Plan call for expanded trade with Central Asia (particularly trading farming equipment for cotton), Mongolia (meat, leather, wool, and energy), and China (especially expanding cross border trade between neighboring regions and developing energy infrastructure projects). Russians view the hydro-electric potential of Tajikistan and Kyrgyzstan as potentially benefiting both Russia and Central Asia. Several Russian speakers suggested developing these resources by using foreign capital in combination with Russian technology and workers.

Some Russian representatives at the conference observed that countries like Uzbekistan are beginning to appreciate the need to work with Russia. One official claimed that Uzbekistan has decided that American tractors are not appropriate for its soil and that they are better off buying less sophisticated, but more reliable ones from Russian producers, such as the Barnaul tractor factory.

However, there are still many obstacles to the development of flourishing trade. This part of the world faces many problems that are familiar on all borders, including complicated visa and customs regimes and transportation bottlenecks. There are also

problems associated with this period in history. Leonid Vardomskii, from Moscow's Institute of International Economic and Political Research, argued that Russia's planned entry into the World Trade Organization would freeze any developments on the regional level until the accession process is complete. Signing new agreements in Siberia and Central Asia before this larger issue is resolved does not make sense. The different level of development between Russia and its Central Asian neighbors presents a structural barrier to increased trade.

The lack of sufficient transportation links is another complicated problem that must be addressed. Building good roads often requires overcoming a variety of political obstacles. The regional authorities in the Uigur Autonomous Region of China wanted to build a road to the Altai border, but officials in Peking were not interested in this project and blocked its implementation. There are fewer flights between these countries than there had been in the Soviet era. Another problem is that many of the Chinese goods bound for the Russian market are shipped to Yekaterinburg by train. As a result, Siberia does not get the benefits (taxes, customs fees, bribes) of being a border region. In a reverse confirmation of this problem, Omsk has relatively good roads and therefore benefits from more trade with eastern Kazakhstan.

The imposition of new borders over old train routes also creates problems. Kazakhstan's Pavlodar province used to be able to deliver goods to other parts of the country without crossing any borders. Now, however, its main line partly goes through Russia and there is no agreement on railroad usage along the Russian-Kazakh border, which has yet to be demarcated. Because of these difficulties, Pavlodar firms must use a longer route that is more expensive.

In some ways, Siberia's interest in developing ties with China could come into conflict with Russia's national interests. While Russia has signed a friendship treaty with China, it is possible that China will dramatically increase its nuclear capability in the next few years. Such an increase in its power would have strategic implications for Russia.

#### Attempts to Set Up an Asian "Euroregion"

Altai Krai officials are working to set up an "Asia region," following the precedent of the successful Euroregions that have promoted inter-regional trade farther west, according to Oleg Barabanov, who represents the Russian Institute of Strategic Studies and MGIMO and is involved in the project. The so-called "Bolshoi Altai" initiative seeks to improve trade between neighboring regions in Russia, Kazakhstan, Mongolia, and China. The Russian Ministry of Foreign Affairs has given its blessing to this project. However, these efforts have yet to produce any results on the ground because so far they have been unable to attract investment and Russia and China lack the political will to reconcile the various interests involved, according to Barabanov. In the discussion period, critics pointed out that there have been lots of similar proposals, but none have ever led anywhere.

#### Building Trust between Potential Partners

There are few functioning Russian-Chinese joint ventures in Tomsk because of a lack of trust between the two sides, according to Anton Khovanskii of the Tomsk Trade and

Industrial Chamber. Many Chinese businessmen visit the region, but such exchanges rarely culminate in signed contracts. Beyond issues of trust, the two sides have a poor understanding of each other's markets. The Tomsk Chamber is trying to expand border trade by holding 20 trade expositions a year, where buyers and sellers can sign contracts. The group also organizes delegations of businessmen to visit key partner countries like Kazakhstan, China, and South Korea. The Tomsk officials stressed that it helps to mix local officials with the business delegates because these officials can then provide quick approval for the deals that are made.

Many analyses point to local officials as one of the key obstacles to business development in Russia's regions. But local officials can be facilitators as well. After the conference, over beer and nuts in the sauna, a local businessman complained about his problems with the tax inspectorate to a local official and sought help in resolving the problem in my presence. Among other things, he had not filed a tax declaration and the tax officials were seeking a bribe to take care of the matter. The official promised to intercede with some friends on behalf of the businessman.

This conference brought together many Russian and Central Asian counterparts for the first time to survey the problems on the border between Russia and Central Asia. The next step is to hold a series of more specific meetings that can address the problems identified here in greater detail.

The conference organizers were: Altai State University, The Altai Center for Eastern Research, The International Institute for Strategic Studies (London), and the Scientific Educational Forum on International Relations. The conference sponsors were: Carnegie Corporation of New York, the Open Society Institute, Eurasia Foundation, and the MacArthur Foundation. Funding from the Carnegie Corporation of New York made it possible for Robert Orttung to attend.

## PATTERNS OF REGIONAL DEVELOPMENT

**ALTAI KRAI: POOR REGION BENEFITS FROM FEDERAL REFORMS.** One of Putin's goals in launching his reform program was to bring federal power to the regional level. In Altai Krai, a region in south west Siberia that is one of Russia's poorest, Presidential Representative Leonid Drachevskii works closely with Communist Governor Aleksandr Surikov to bring more federal money to the region. Altai Krai receives the largest amount of federal transfers among Russia's 89 regions, following only Dagestan.

Despite Drachevskii's willingness to help lobby Altai's interests in Moscow, krai officials do not see him as a powerful figure because he does not manage money flows. They say that they mostly rely on their own resources to lobby Moscow and that Drachevskii's aid is of limited and occasional value.

In addition to maintaining good ties with Drachevskii, Surikov has impeccable contacts in Moscow, particularly in the powerful Finance Ministry, which distributes the federal aid. The former head of the krai Finance Ministry now holds an important position in ministry's Moscow office.

The situation in the krai is unlikely to change soon. Surikov is now serving his second term and plans to seek a third. His victory is essentially assured since there is no effective opposition in the krai.

Another way that krai officials lobby Moscow is through the Siberian Agreement Interregional Association. Deputy Chairman of the association's executive body Sergei Tikhomirov said that the group works to promote the interests of Siberia's regions abroad. He stressed that the organization works within the framework of Russian foreign policy, but emphasized that the group played a role in shaping this policy at the federal level to ensure that it took into account the interests of the Siberian regions.

**SIBERIAN SPA TOWN ON VERGE OF BOOMING GROWTH.** The Belokurikha spa resort, about a four-hour bus ride from Barnaul in Altai Krai near the border with Kazakhstan, is quickly becoming a Siberian version of the Czech Republic's Karlovy Vary. The Czech resort attracts an international clientele who come to relax, drink the waters, and seek cures for their aches and pains. Belokurikha has a long way to go before it reaches Karlovy Vary's sophistication, but the parallels are already obvious. According to the locals, Putin has promised to vacation at the resort in the fall.

Nestled in the foothills of the Altai Mountains, Belokurikha is too remote for most tourists from Moscow, but it seems to be thriving serving a local audience. The main attractions are the peaceful mountain setting, nearby ski facilities, and radon water treatments. Customers generally fly in to the nearby airport at Biisk from Tyumen oil cities, Krasnoyarsk, and Kemerovo's coal mining regions. The winner of the recent gubernatorial elections in nearby Gorno Altai Republic, Agrarian Party leader Mikhail Lapshin, made developing the Biisk airport (a gateway to the republic) one of his key campaign promises. Novosibirsk is about eight hours by bus and the resort is also close enough to Kazakhstan to attract customers from there.

Soviet-era trade unions, including those associated with the Siberian branch of the Russian railroad and the Atomic Energy Ministry, built most of the old hotels and spas and continue to distribute many vacation packages to their employees through the old system. As Russia builds a market economy, however, that system is slowly disappearing and the spas must advertise to find customers who can pay themselves.

Belokurikha's old spas will soon face increased competition for elite customers because workers are building several new sanatoria along the river that runs through the resort town. Local and Barnaul businessmen are financing the construction and expect to run the new spas as normal commercial ventures that attract clients willing to pay for their services. The new sanatoria stand out in their innovative design.

The evolution of the architecture in the hotels marks the significant changes that took place in Russia during the 1990s. The older sanatoria are rectangular cement slab affairs, where workers relax in box-shaped rooms. The new buildings are a rebellion against the rigid perpendicular lines of the past. Turrets, irregular windows, asymmetrical designs, and fanciful animal decorations make the new sanitaria much more inviting, even though their grandiose style often trespasses into the realm of the gaudy and garish. Nevertheless, these new buildings make perfect sense as an antidote to the parallelograms of the past and point to the possibility of a new Russian architecture that could challenge the observer with its imagination and style.

Perhaps the new buildings will quickly put the old ones out of business, leading to their removal. Another possibility is that the new spas will be able to attract an upscale crowd, while their older cousins continue to draw those with fewer rubles to spare.

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### NOVOSIBIRSK, 27-29 MAY 2002

*I visited Novosibirsk 27-29 May to study the work of Leonid Drachevskii, the presidential representative in Siberia, the relations between business and the authorities, and the impact of the border with Kazakhstan on the region. Here are my impressions. - Robert Orttung*

## PRESIDENTIAL REPRESENTATIVE

### FEDERAL DISTRICT SEEKS NEW BANKING SYSTEM, RELIES ON

**REGIONAL ASSOCIATION STAFF...** One of the key questions facing Siberia now is how tax revenue from the development of the region's rich natural resources (oil, gas, coal, minerals) will be divided between the federal and regional governments. According to Deputy Presidential Representative to the Siberian Federal District Igor Prostyakov, who handles economic issues, the question remains unresolved because both the federal and regional governments need more resources. Because of the on-going struggle over these funds, Prime Minister Mikhail Kasyanov has yet to sign off on Siberia's strategic development plan. On the crucial question of rent payments, Presidential Representative Leonid Drachevskii advocates dividing the funds equally between the federal and regional governments. However, the federal government is seeking a larger share.

Many oligarchs are active in Siberia, including Sergei Potanin in Taimyr, Mikhail Khodorkovskii in Evenkia, Oleg Deripaska in several regions, and Roman Abramovich in Omsk. Prostyakov said that his office takes a pragmatic approach to them. Since they work actively in the region, the presidential representative encourages them to invest in the social sphere and infrastructure. He claimed that the relations between the presidential representative and oligarchs in Siberia were no worse than the relations that Sergei Kirienko had set up in the Volga Federal District.

Deripaska sees the lack of developed banking system as one of the key deficiencies facing Siberia. Most transactions take place through Moscow banks, which are from three to five time zones away from Siberian cities. The need to work through Moscow wastes a considerable amount of time for Siberian businessmen. Over the next two-three years, the presidential representative hopes to help develop a reliable Siberian banking system that will operate on the basis of some existing banks and potential new banks. Sberbank, which controls the vast majority of deposits in Russia, has promised to contribute to the development of the new system. A key element of the new project is securing deposits from the Siberian population by encouraging them to trust the banks. Currently, the presidential representative's staff is discussing the provision of deposit guarantees to speed this process.

Siberia is the only one of the seven federal districts that has good working relations with the previously existing interregional association, in this case the Siberian Accord. In the six other federal districts, the regional associations still formally exist, but they are largely inactive. Prostyakov noted that cooperation is essential because the association has a better-informed and more experienced staff than the federal district. Prostyakov often relies on the association's staff for key support functions in carrying out his duties. For example, in the last two months, the federal district and Siberian Agreement staff worked together on questions in the areas of agriculture, the defense industry, and coal prices. Prostyakov noted that the six other federal district staffs had not properly evaluated the potential of working with the interregional associations in their areas because of their ambitions to exert power for themselves. However, Siberia is unique in that its interregional association was relatively more effective in creating ties among regions and lobbying Siberian interests with the federal government during the 1990s than the other associations had been. (For a more critical evaluation of the relationship between the okrug and the association, see the next article).

After two years in office, the presidential representative is now starting to develop a system for increasing the profits the federal government derives from its property holdings. Most likely, this system will focus on appointing better qualified people to the boards of directors of companies in which the federal government holds shares and making sure that these people give their representational duties constant attention.

The existing system is not effective because often the federal representatives are bureaucrats who do not understand the business they are supposed to monitor and because they usually only participate in the annual board meetings, which discuss a narrow set of questions, while otherwise not paying attention to the companies. In the future, the presidential representative is thinking of setting up a new system where a small team of 2-3 people would work together to monitor a group of several companies. Ending the principle of one observer-one firm would theoretically improve the quality and timeliness of federal oversight.

The presidential representative is also considering the possibility of setting up a management company that would have the task of generating more profits from federal property holdings. This company might be state owned or private, though a decision has not been made yet. Such a firm would be able to maintain constant and professional supervision over state holdings, replacing the sporadic oversight federal officials now provide.

Drachevskii and his team are preparing to play a greater role in coordinating regional foreign economic policies. Drachevskii's office is planning to invite businessmen from the neighboring countries (Mongolia, China, Central Asia) to a presentation of investment opportunities in the federal district in June. Prostyakov stressed that this meeting would focus on concrete projects, unlike the recent Urals presentation in Germany, which Prostyakov characterized as too vague. Also in June, Drachevskii's office will host a meeting of CIS ambassadors that will focus primarily on dealing with the consequences of nuclear waste in the area and developing ways to better develop the local forestry industry. Currently, Siberia exports most of its products as round logs and is seeking a way to build processing mills in the region so that Siberians can add value to their resources rather than simply exporting raw materials.

Prostyakov was confident that the institution of the presidential representative would continue to develop, but stressed that it would not try to evolve into a new form of okrug-level government. Instead it would focus on monitoring financial flows and ensuring that high quality officials are appointed to federal positions in the regions.

**...WHILE CRITICS SEE ATTEMPT TO REDUCE REGIONAL COORDINATION.** Putin's intention in creating the seven federal districts was to reduce the ability of the regions to work together in cooperation against Moscow, according to critical observers in Novosibirsk. These observers believe that the Siberian Federal District has reduced the ability of the Siberian Accord Interregional Association to represent regional interests in Moscow, despite statements from both Drachevskii and the association's executives that they are working together well. While officials like Prostyakov claim that they have made great progress in promoting Siberia as a unified market by bringing regional laws into line with federal norms, critics assert that the federal districts' only concrete result is destroying the regions' already small potential for cooperation.

The federal government has a relatively easy job in suppressing regional cooperation because the competing individual interests of the regions make it hard for them to cooperate in the first place. For example, several regions (Novosibirsk, Krasnayarsk, Altai) want to upgrade their airports to international standards to benefit from new flights that will connect North America and Asia over the North Pole. Such airport improvements would create billions of rubles in new cash flows for the region that ultimately secures the contract. Large credits would flow through local banks stimulating the economy far beyond the airport itself.

Another area of competition among regions is the production and sale of alcoholic beverages. All regions want to have large distilleries and breweries because they receive taxes from the plants' production, even if the resulting vodka and beer is sold in different regions. As a result, governors do not like outside producers selling spirits in their district because they derive far less tax revenue from these "invaders" and often try to limit sales of products imported from other regions.

Another key problem for cooperation between the okrug and the association is that the wealthy Tyumen Oblast, which is home to most of Russia's oil and natural gas reserves, is a member of the association, but not the okrug. In a decision that makes little geographical sense, Tyumen was included in the Urals Federal District rather than the Siberian Federal District. This region is crucial for Siberia's development because of its

vast natural resource wealth. Despite its exclusion from the Siberian okrug, however, Tyumen maintains an active Siberian presence.

The use of the federal districts to reduce the regions' ability to cooperate with each other is part of Putin's larger agenda of centralizing power. One of the key components of this campaign was Putin's December 2001 decision to increase the salaries of civil servants by 89 percent. This move forced regional governments to spend a greater share of their budgets on salaries, reducing their ability to spend money on other projects. The effect of the decision to raise public sector salaries is to reduce regional autonomy and give the federal government stronger levers of control over regional governments.

## BUSINESS AND POLITICS

**BUSINESS CONFLICTS MAKE LOBBYING PUBLIC.** Among Russia's regions, Novosibirsk is relatively poor and therefore attracts little attention in the business press. The Moscow-based oligarchs do not operate here and even the Unified Energy System electricity monopoly only owns a small share of the local utility. No giant factory dominates the local scene, so many business groups have influence, but no one group has a decisive voice. In the oblast legislature, about 30 of the 49 deputies represent various business interests. Most of the influence these businessmen exert on politics and oblast policy is hidden from view. However, occasionally conflicts between competing interests become public battles, making it possible to see how the lobbying process works.

The longest running battle is the seven-year conflict over the Novosibirsk Electrode Factory, an important contributor to the regional economy that employs 10,000 people. The plant is now under external management and the state owns a 62.3 percent packet of shares. Communist former Governor Vitalii Mukha brought in SUAL, Russia's second largest aluminum company, to run the factory. However, when Mukha lost the most recent gubernatorial elections to Viktor Tolokonskii, the new governor transferred management of the plant to his sponsors, Energoprom, a company that manages several similar factories. Now the Communists control 14 of the seats in the regional legislature and make up one of the most powerful lobbying groups there. Thanks to their party's connection to SUAL, they are actively fighting for the company's return to the plant. This struggle remains unresolved.

Another interesting battle is taking place between the local beverage producer VINAP, which essentially monopolizes the local market for alcoholic and non-alcoholic beverages, and Krasnii Vostok, a brewery from Tatarstan, owned by President Mintimer Shaimiev's children, that is planning to build a plant in Novosibirsk. Like any company seeking to work in a new region in Russia, Krasnii Vostok first approached the governor for support. With the governor's backing, the Tatarstanis were able to secure a piece of land (though a 49-year lease with option to purchase) and signed an agreement to build the brewery in September 2001. The Tatarstanis agreed to invest \$60 million in the factory.

The arrival of a new brewery naturally threatened the interests of VINAP, which produces beer, vodka, champagne, non-alcoholic beverages, and bottles. VINAP had been planning to build a new bottle factory, but when it discovered a competitor setting up shop in its backyard, it decided to build a brewery instead. Now the two firms are laying plans to build breweries right across the street from each other.

With the battle lines drawn, the two sides began seeking tax breaks from the authorities. As with the case of the electrode factory, one side is working with the governor's administration and one is working through the oblast legislature. Krasnii Vostok has asked the oblast administration for a 50 million ruble loan over three years in order to pay for various infrastructure improvements such as sewer hook-ups. The Tatarstani businessmen argued that the regional legislature was required to give them such a loan by federal law.

However, the local VINAP has its own lobby in the legislature since its financial director, Aleksei Glazkov, is a member of the body. He has so far been able to block the legislature from providing the benefits that Krasnii Vostok sought (*Novaya Sibir*, 24 May, [www.newsib.cis.ru](http://www.newsib.cis.ru)). Both the committees on industry and agriculture refused to bring the bill to the floor. Only the committee on economics agreed to move ahead, but the Industry Committee was ultimately put in charge of the bill, so it is now bottled up in committee. In response to Krasnii Vostok's proposal, VINAP introduced a request that the oblast give its project benefits worth 100 million rubles, twice as much as Krasnii Vostok sought. Today the situation has reached a stalemate.

This case shows that the governor is not necessarily beholden to the local business elite and may be willing to work with outsiders to increase the level of competition in the region. VINAP had traditionally contributed about 10 percent of the oblast's overall tax revenues, giving its managers a degree of self-assurance that made them seem arrogant. VINAP officials assumed that they would continue to operate as a monopoly in the region. However, due to the low quality of its products, the company has faced tough times in recent years and its tax payments dropped 23 percent in 2001 in comparison with 2000.

By working with the outsiders, the governor is increasing the level of competition in the region and forcing the local producer to improve the quality of its output. The governor may have learned from past mistakes. In the summer of 2001, the St. Petersburg-based brewery Baltika approached the oblast about building a new plant in Novosibirsk, but the governor refused to support them. As a result, Baltika decided to locate its brewery in Krasnoyarsk Krai, bringing considerable new investment to that region and bypassing Novosibirsk. Coca Cola had built a bottling plant in Novosibirsk a few years earlier, but VINAP did not see the American company as a major competitor since its products would be more expensive and aimed at a more elite market.

While this direct form of lobbying continues, a new breed of companies appeared about two years ago seeking to institutionalize the relationship between business and the authorities to make it more predictable and stable. These companies built new businesses rather than simply taking over assets from the Soviet era. Examples are F1, which produces computer programs, several new advertising companies, and Fruktus, which controls about 25 percent of the fruit market in the city. The companies all complain that oblast and city officials take bribes and would like to put a stop to this practice. These firms would prefer that business disputes were resolved in the courts rather than behind closed doors in bureaucrats' offices. They argue that the judicial branch should be made completely independent of the executive and legislative branches. Now, even the Russian Constitutional Court relies on the good graces of the executive branch for things like cars and buildings.

Despite the hopeful signs evidenced by these trends, there is a real danger that some negative tendencies in Russian society may overtake the positive developments. First, many observers in Novosibirsk believe that large segments of the population are becoming unhappy with their current poverty and see no hope to improve their situation. In the city of Linova, where the Novosibirsk Electrode Factory is located, 52 percent of the voters chose "against all" in the December 2001 elections for the oblast legislature. In the repeat elections held on 12 May, they elected Sergei Kokhanovskii, an advisor to the president of SUAL, despite the governor's extensive efforts to block his victory. Protesters are currently expressing their dissatisfaction through legal means, but they may turn to more violent solutions in the future.

A second problem is Russia's bureaucracy, which is constantly growing. Observers in Novosibirsk argue that it is impossible to slow this process from above. More likely, powerful political parties would be able to reduce the level of bureaucracy. However, Kremlin efforts to promote party development have yet to produce the desired effect. Finally, the vast amount of money being spent on the war in Chechnya is draining resources that might otherwise go to the regions.

## **RUSSIA'S SOUTHERN BORDER**

**NOVOSIBIRSK SHOEMAKERS BLAME OFFICIALS FOR SMUGGLED CHINESE PRODUCTS.** Consumer product manufacturers in Novosibirsk face intense competition from low-priced smuggled goods, mostly of Chinese origin. Observers believe that up to 90 percent of the imported shoes in the region come across the border illegally, allowing distributors to keep prices low by not paying customs fees. Novosibirsk shoemakers are among those who suffer the most. Up to 60 percent of the population in the region is at or near the poverty line, so most people have little choice but to buy the smuggled goods regardless of their quality. Such purchases, however, threaten the jobs of Russian workers.

The Novosibirsk businesses place much of the blame for their problems on the federal government for allowing the Chinese shoes to come into the country. The leader of the charge against the federal government is the Communist director of the Vestfalika Shoe Factory. The local Communist Party, a relatively powerful political force in the region, has made the cause of protecting Russian producers one of its priorities.

In a case that has received wide attention, a company called Siberskii Region allegedly signed an agreement with the Chinese firm China Manufacturing and Trade Co. Ltd. for the delivery of more than \$9 billion worth of goods (this figure is much too large to be realistic and casts doubt on the veracity of the charges). The prices in the contract were fixed absurdly low (\$3 for coats, shoes for less than 10 cents) to avoid paying legally mandated customs fees.

A scandal ensued because Siberskii Region was the subsidiary of another company (the Put Rossii Publishing House) that was owned by the presidential administration. The Communists charged that the presidential administration was seeking to benefit from the illegal trade. Later disclosures showed that the presidential administration had ended its relationship with this company two years ago. Nevertheless, the firm apparently still had good access to highly placed officials because the head of the State Customs Committee, Mikhail Vanin, sent a letter to the head of the Siberian Customs Department, Grigorii

Shapovalov, asking him to provide all possible help in realizing the contract (*Kontinent Sibir*, 24 May, com.sibpress.ru).

Whatever the facts of this case turn out to be, the perception remains that powerful Moscow officials sanction smuggling for personal gain and at the cost of jobs inside Russia. The shoemakers are deeply skeptical that the customs agents do their job and instead charge them with cooperating with the smugglers. The widespread poverty in the region means that most members of the population essentially support smuggling so that they will have access to cheap goods. Politicians thus have no incentive to crack down on smuggling since it would likely diminish their chances for reelection.

## THE THIRD SECTOR

**FEDERAL INITIATIVES HAVE LITTLE IMPACT ON SIBERIAN NGOs.** The initiatives and statements of federal officials regarding civil society have had little impact in Siberia. The federal government has focused on state building and has not established a coherent set of policies in regard to society. Rather federal action is characterized by ad hoc pronouncements and events that have no lasting consequences.

President Putin's comment last year expressing concern that many Russian NGOs derive their financing from foreign sponsors has not had an impact on non-governmental organizations (NGOs) working in Siberia. The groups that received such foreign aid continue to do so without any official consequences.

Additionally, the Civil Forum, held in November 2001 as an effort to create greater dialogue between the authorities and NGOs was another federal initiative that did not seem to go anywhere, at least as far as Siberian activists are concerned (see *EWI Russian Regional Report*, 28 November 2001).

They see the Siberian Federal District office as extremely conservative, which is basically a plus because the okrug officials do not really bother anyone. Rather, Presidential Representative Leonid Drachevskii and his staff are mainly focused on gathering information about various social organizations operating in Siberia. The okrug office has worked with the Siberian Civic Initiatives Support Center (SCISC) to put together handbooks listing all of the active NGOs in the region and analyses of what steps should be taken to develop the sector. In the future, the okrug wants to gather similar information on political parties, religious organizations, and the media. Beyond reporting what is going on to presidential administration officials in Moscow, the purpose for which the okrug staff is gathering this information remains unclear.

Local activists note that Drachevskii has developed a Siberian economic development strategy but has not focused on policies in the social sphere. In general, the NGO activists have the impression that the okrug staff only take action when the presidential administration orders it.

One example is Putin's call earlier this year to increase efforts to deal with the increasing number of cases in which parents simply abandon their children to the street because they have no way to care for them. In this case, federal officials tried to set up their own solutions without relying on established networks of social groups that are already addressing the problem. Recent reports of federal "successes" in this area are highly suspicious (polit.ru, 31 May). NGO activists claimed that the okrug is only concerned about holding events, not the actual impact of these events or following up to

ensure that its actions actually address real problems in society. Groups like the SCISC have better relations with Siberian governors and mayors, who see the direct social benefit of NGO programs for their regions or cities.

Like everything else in Russia, there is a great divide between the NGOs located in Moscow and those working in the regions. The regional NGO leaders feel that they are cut off from the capital, where Moscow-based NGOs apparently try to keep all resources for themselves. As a result, regional NGOs have little ability to affect federal legislation or seek potential funding from large companies with headquarters in Moscow. However, in places like Tyumen, where there are many rich local businesses, the situation is better. Generating contributions from small and medium-sized business is difficult for NGOs like SCISC because these firms would rather give directly to the people who need the aid than to supporting NGOs that provide such aid on a regular basis.

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## PUTIN'S GOVERNOR-GENERALS

### CONFERENCE ANALYSES IMPACT OF FEDERAL REFORMS

*On 7-9 June The George Washington University and the EastWest Institute, with financial support from the Carnegie Corporation of New York, held a conference just outside Moscow to examine the impact of federal reform in Putin's Russia. Here is a summary of the main findings.*

#### Where did the reforms come from?

More than two years ago, President Putin overhauled Russia's federal structure by creating seven federal districts, reforming the Federation Council, and giving the federal government the right to fire governors and disband regional legislatures. One of the most enduring questions

about these reforms is their origin. No one has identified the individual or individuals who first put together this set of innovations.

George Washington University Professor Peter Reddaway suggested that while there were discussions of bits and pieces of this reform in the 1990s, it essentially appeared out of the blue. Reddaway argued that most likely a research institute working for the special services, probably the Federal Security Service (FSB), drew up the plan. According to his analysis, the three groups that put Putin in power (the Family/oligarchs, St. Petersburg economic liberals, and siloviki) all had a common interest in reducing the power of the governors.

If the FSB originated the idea for creating seven federal okrugs, then it saw the system as good for everyone else, but not itself. While the Ministry of Internal Affairs and procuracy have reorganized themselves to include okrug level offices, the FSB has not. Its structure remains purely hierarchical, with no okrug-based link.

Rossiiskii Regionalnyi Byulleten Editor Petr Kozma rejected this kind of analysis by arguing that Kremlin spin-doctor Gleb Pavlovskii invented the idea of the battle between the "siloviki" and the "family" in order to explain why Putin's policies do not always work out. Kozma argued that the Family does not really exist as a coherent unit. The people usually identified as "the Family" are really a group of opportunists, who will serve any leader in order to advance their own personal interests.

The real battle is over who will control the bureaucracy. There is a significant danger to the Russian state if the oligarchs form an alliance with the bureaucracy at the national level. Kozma suggested that the growing alliance between the oligarchs and governors meant that this trend was already evident at the regional level.

The logic of Putin's federal reform is to create a new structure that is completely subordinate to the president next to the old one and transfer power to it over time, according to Nikolai Petrov. This process is very different from what happened in the 1990s, when Yeltsin simply destroyed the Communist system and try to establish a new one in its place.

## **How Effective Are the Reforms?**

Another question of enduring interest is the actual impact of the federal reforms on Russian politics. Evidence collected across the seven federal districts suggests that the answer changes from place to place and from subject to subject. Below is a preliminary analysis of this impact.

### **Definition of the Job**

The original presidential decree establishing the seven envoys defined their responsibilities in very vague terms, leaving the envoys themselves free to organize their jobs as they see appropriate. Some observers have suggested that Putin purposely left the definition vague so that he could use the envoys to address whatever problems arose.

In practice, the envoys have tackled a wide range of activities, often tailored to the needs of their particular okrug. In the south, Presidential Representative Viktor Kazantsev sees his administration as a place for federal and regional officials to meet. In the past, the interregional association had played this role, but now is largely inactive. Kazantsev is trying to

unite the regions of his okrug and become their representative in Moscow, effectively functioning as the governor of the entire region. In the Urals, by contrast, Petr Latyshev has devoted a considerable amount of time to promoting foreign investment in local firms.

The responsibilities of the presidential representatives are changing over time. Until recently, Kazantsev had played an important role in Chechnya. Now, however, some key functions are going to Chechen administration head Akhmed Kadyrov, while others are flowing up to federal officials in Moscow.

Many observers suggested that the Kozak commission's forthcoming report and the legislation resulting from it on defining the powers and responsibilities of each level of government would ultimately provide an enormous amount of work for the envoys and that these issues would occupy their attention for the next two years.

## **Staffing**

Reports from the Far East to the Southern Federal Okrug suggest that the presidential envoys have had difficulty hiring professional and well-trained staff members. In many regions, the best people are not interested in working for the presidential representatives because of the low pay (compared to the private sector) and difficult working conditions. Volga Presidential Representative Sergei Kirienko is seen as an exception in this regard because he used competitions to find staff members. Many of his staff come from the business community and are well educated and energetic.

In looking at the Southern Federal District, Moscow State University Professor of Geography Natalya Zubarevich noted that Kazantsev's staff is not from the FSB, but the military, and includes numerous colonels and major generals. As a matter of course, the team does not tend to take any initiatives, preferring to wait for orders from above. Zubarevich also noted that many of the staff are nationalists and that the vast majority of them are ethnic Slavs. Many of them (perhaps too many) are from Moscow, reflecting the fact that Kazantsev is very loyal to the Moscow leadership.

In the Central Federal District, many staffers are FSB agents from St. Petersburg and associates of Aleksandr Kazakov, former first deputy chief of staff in the presidential administration who is now a member of the Federation Council representing Rostov (see *EWI Russian Regional Report*, 18 December 1997). Presidential Representative to the Central Federal Okrug Georgii Poltavchenko did not have any Moscow apartments to give out, so he could only select his staff from among locals who did not need housing. When Kazakov was in the presidential administration, he assembled a strong team who have maintained ties and have found positions under Poltavchenko. Kazakov is an ally of Unified Energy System electricity monopoly head Anatolii Chubais and his team seems to be carrying out the plans Chubais laid to reduce the power of the governors when he was the presidential chief of staff in 1996-1997.

The presidential envoys obtain analytical support from a variety of sources. The Center for Strategic Research's Petr Shchedrovitskii supplies strategic analysis in the Volga and Northwest okrugs. Additionally, in the NorthWest, Cherkesov obtains a considerable about of information from his wife and her associates. She is the editor of one of the city's leading newspapers and runs a respected news agency (<http://www.rosbalt.ru/>). In the South, analysts

who have long worked in the region continue to supply information. In Siberia, a former FSB agent is the head of the okrug analytical department.

Often the analysis produced by the envoys' staff is of low quality. In the Far East, for example, Khabarovsk Governor Viktor Ishaev has already hired most of the best local people to work for him, so Far Eastern Presidential Representative Konstantin Pulikovskii can often only get good information by holding meetings and inviting these analysts to present their views.

## **Relations with Governors**

Currently, it is hard for the governors to meet directly with Putin. In fact, he seems to have a rule of meeting with two governors a month, according to University of South Florida Professor Darrell Slider. Interestingly, Putin has favored certain governors with more meetings, particularly the powerful and frequently rebellious Moscow Mayor Yurii Luzhkov, Tatarstan President Mintimer Shaimiev, and Bashkortostan President Murtaza Rakhimov.

The Far East represents one extreme in the relationship between the envoys and governors. One of Pulikovskii's first tasks was to get rid of the disloyal governors in the okrug. None of the governors in the region welcomed Pulikovskii's arrival, according to Andrei Kalachinskii, a correspondent for *Novyi izvestiya* and a professor of journalism at Far Eastern State University. Pulikovskii proved to be wildly unsuccessful in the okrug's electoral politics and his candidates lost all of the gubernatorial elections held in the first two years.

Over time Pulikovskii has failed to improve his relationship with the governors. His main power over them is his ability to conduct investigations of their work. In May, for example, Pulikovskii gave Kamchatka Governor Mikhail Mashkovtsev a "D" for his management skills and charged that he is unqualified to run the oblast. Only the weak governors who are heavily dependent on federal subsidies work with Pulikovskii, while others try to keep their distance.

Siberia presents the other extreme. There Drachevskii has consistently sought to avoid confrontation with the governors. However, he may have to change his approach as the battle to succeed the late Krasnoyarsk Governor Aleksandr Lebed heats up, with elections scheduled for September. This race pits Taimyr Governor Aleksandr Khloponin, backed by Interros chief Vladimir Potanin, against Krasnoyarsk legislature Speaker Alekssandr Uss, who is allied with Oleg Deripaska, the aluminum magnate. Most likely, Drachevskii will have to moderate this conflict and he has already sent one of his deputies to the region to monitor the situation.

Another potential battle may be brewing in Omsk, where there are rumors that Sibneft's Roman Abramovich, representing by far the most important corporation in the region, has grown tired of Governor Leonid Polezhaev and may seek to replace him in upcoming elections. It is not clear what role the envoy would play in such a conflict. In contrast to other presidential envoys, Drachevskii has never participated in gubernatorial elections.

In the Volga, Kirienko organized a successful campaign to defeat the former governor of Marii El. He also fought the Udmurtiya President Aleksandr Volkov by proxy in the Izhevsk mayoral race, but was not able to secure the election of his candidate. Kirienko failed in his attempt to win a second term for Nizhnii Novgorod Governor Ivan Shklyarov. In the Urals, Latyshev continues to battle Rossel, but has good relations with other governors, including Tyumen Governor Sergei Sobyanin, a former member of his staff.

In the south, Kazantsev won his first intervention into regional electoral politics with a victorious campaign in Ingushetiya. But this success is likely to be a one-time affair because, in other regions of the Southern Okrug, the opposition is not nearly as divided as it was in Ingushetiya. However, not recognizing such political nuances, Kazantsev and the generals on his staff likely will attempt to use the tactics they employed in Ingushetiya again.

In the Central Federal District, Poltavchenko has generally maintained good ties with the governors, but the federal government recently supported the candidacy of an FSB general against the incumbent governor of Smolensk, successfully removing him from office.

## **Federation Council and State Duma**

About 35 percent of the members of the Federation Council have no connection to the regions they represent, and are either Muscovites and/or representatives of big business. The public often perceives this number to be much larger because of the media's focus on some of the most egregious cases, such as Kalmykiya's Federation Council appointments.

In fact, though, regional representatives in the upper chamber outweigh those with no connection to their regions. The typical senator appointed by governors is a deputy governor, while the regional legislatures tend to appoint deputy speakers. Many of these people have legislative experience, including in the State Duma, and may be able to produce good laws.

Nevertheless, in many cases, the senators are ignoring the regions' interests. The most recent example is the new federal law on regional elections requiring that they be conducted partly on the basis of party lists. During the debate Senator Dmitrii Bednyakov suggested putting off the vote so that the senators could consult with the regions, but Federation Council Chairman Sergei Mironov pushed through the legislation in one day, rejecting the need for such consultations. Accordingly, the link between the Federation Council and the regions could become tenuous.

A question of particular interest is what role the presidential administration and the seven envoys played in choosing the members of the Federation Council. Formally, the senators represent the regional executive and legislative branches, but in practice they come under pressure from a variety of groups. They balance regional interests with those of the presidential administration, big business, political parties and other potential sources of influence. In the Urals, Latyshev basically had no impact on the various appointments to the Federation Council. The situation was similar in the south. In contrast, Kirienko was very successful in getting his choices into the upper chamber. Many of the senators from the Volga okrug are either from his staff or big businesses, with which Kirienko has particularly close relations.

The regional lobby is especially strong in the State Duma. The lower house substantially amended nearly all the federal reform laws that Putin introduced into it in 2000. For example, the law on firing governors is nearly impossible to implement in practice. Additionally, the Unity party basically caved in to the governors in allowing them to run for third and fourth terms.

## **Relations with the Federal Ministries**

There are 450,000 federal employees in Russia and only 30,000 of them work in Moscow. About 40 federal ministries work in each region. Although the envoys are supposed to coordinate the actions of these workers, many ministerial employees in the regions see the appearance of the envoys as an encroachment on their territory. In every okrug, the envoys have set up numerous councils to coordinate with the representatives of federal agencies working locally. However, these councils seem to have little impact on what the ministries actually do. In the Far East, for example, many citizens sent letters of complaint to the envoy's office during its first year of existence. Since such appeals proved unsuccessful, those with complaints began addressing Moscow instead.

Many of the presidential representatives seem to be in conflict with Minister for Economic Development and Trade German Gref. Siberia's Drachevskii fought with Gref in drafting the strategic development plan for Siberia. Drachevskii sought to defend regional interests by giving them a greater share of the taxes earned in developing natural resources and providing various benefits to the regions, such as lower energy prices. The government finally signed off on the plan on 10 June, apparently favoring Gref over Drachevskii. Gref has also played a major role in defining the economic development strategy of the south.

The Central Federal District has not adopted a strategic plan yet. Nikolai Petrov described these plans as a way for the presidential representatives to gain control over state financial flows in the area they oversee. If that is the case, it is easy to see why powerful ministers like Gref would fight the envoys to determine the kind of plan that ultimately is adopted.

The envoys have also failed to address many problems that require extensive government coordination. For example, in the Far East, Pulikovskii has said that he supports the construction of a new hydroelectric dam to overcome some of the region's energy problems. These plans have not been realized. Of course, it would be unfair to blame this problem entirely on Pulikovskii since such construction would require major investments for which the government simply does not have the resources.

## **Relations with the Law Enforcement Agencies**

The reforms have had some important successes in reasserting federal control over law enforcement agencies, according to Oklahoma University Professor Brian Taylor. However, he warns that these successes may be temporary without increased bottom-up control.

Putin's reforms do not create a law-based state in which the police simply enforce the law. In the past, the governors used the police for political purposes. Now, the presidential representatives are using the police for a different political purpose. Taylor argued that there should be more local control over the police. People need to feel that the police work for them, not the politicians, criminals, or corporations. By using the police as political instruments rather than as a legal tool to assure the implementation of the law, Putin is leaving the door open for resource-rich business and crime groups to assert their own control over law enforcement agencies. Thus, we cannot expect a cleansing of the law enforcement agencies soon.

The Ministry of Internal Affairs (MVD) opened its seven okrug-level offices in July 2001, more than a year after the reform began. Although in theory these offices were set up to

work with presidential envoys, in practice, they seem to function independently of them, according to Nikolai Petrov. He said that there seems to be little coordination beyond exchanging information.

There have been other changes in the MVD as well. After the Stalinist era, police chiefs often spent their career working in one region. In May, Minister of Internal Affairs Boris Gryzlov issued instructions calling for the rotation of police chiefs among regions. Breaking their ties with the local elite will make the chiefs more loyal to the center and less likely to look the other way when local leaders break the law. Of course, it remains unclear if this rotation will actually be carried out.

One of the subgroups of the Kozak Commission is working on law enforcement issues and its goal is to connect budget resources with functions, thereby eliminating the need for federal police to rely on financial support from the governors. If successful, this work could be the commission's most important contribution to the federal reform.

So far, the impact of the reform on the situation on the ground has been meager. In the Urals okrug, federal officials have initiated many corruption cases against Ministry of Internal Affairs officials. However, little has changed as a result of these cases.

The Federal Security Service (FSB) was the only law enforcement agency that remained under effective federal control during the 1990s. Yeltsin often turned to this structure to solve his problems. Explaining the FSB's independence from regional influences remains controversial. The FSB may have maintained its independence because it was better funded and therefore did not require support from the governors. It is also possible that a special organizational culture within the FSB, whose members are supposedly dedicated to serving the fatherland, helped maintain its integrity. Another possibility for explaining the FSB's independence from local officials and the police's dependence on local officials is the Soviet legacy. Under the Soviet system the police were doubly subordinated, while the FSB was not.

While some assume that the FSB has excellent cadres and analytical capacities, many observers pointed out that such notions are largely myths. Many of the best FSB members left the service during the 1990s to go into private business. Those who stayed in the system often devote much of their time to helping their former colleagues now in the private sector. The police force, in contrast, never suffered such mass defections.

Putin's behavior is partly a reflection of the mentality he developed serving the KGB. He and some of the people around him do not like to work with others because they view the KGB as an elite that is best served by maintaining its independence.

## **Fiscal Federalism**

The level of inequality among Russian regions is much greater than it is among similar sized EU regions, according to University of Birmingham Professor Philip Hanson. The income of the average Muscovite is ten times that of the average resident of Ingushetiya. The federal government is the main actor that can address this inequality, primarily by taxing rich regions and transferring money to poorer regions.

Over the last three years, the federal authorities have gained a much greater share of the country's tax revenue. In 2000, the split was 50:50 between the federal government and

regional shares. In 2001, it widened to 56:44 and in 2002 the numbers are expected to be 62:38. The federal government is also increasing the amount of money spent on federal purposes as opposed to regional matters. The split between federal and regional expenditures was 43:57 in 2000, but then shifted to 45:55 in 2001. Federal-regional budget transfers jumped from 1.5 percent of GDP in 1999 to 2.5 percent in 2001. In the mid-1990s, comparable figures for the USA and Canada were 3.0 percent and 4.0 percent.

Since many regions are not able to develop sufficient tax bases to support themselves, it makes sense to centralize revenues and then redistribute them. Rich regions naturally complain about the money they lose, but there are no good alternatives to this policy.

While many parts of the Russian budget remain opaque, most observers believe that the federal government generally reallocates money to help poor regions. However, as in any budgetary process, political factors play a role and it is possible that Putin is using financial flows partly as a way of punishing uppity regions.

## **Role of Business**

Big business is a relatively new player in regional politics. Thanks to Russia's recent economic growth, it has the resources to expand into the regions. Additionally, Putin's policy of "equidistancing" himself from the oligarchs has further pushed them in this direction. Generally in Russia, businesses cannot operate without political cover. Therefore they have had to expand ties with the regional elite, according to Natalia Zubarevich. In several regions, such as Chukotka, Taimyr, and Evenkia where one company controls the local economy, big business took complete control and inserted its representatives as governors. In other regions that are more complicated, the governor can balance between big businessmen operating in the region without becoming dependent on just one of them.

During the first two years of this process, the seven presidential envoys played no role. Generally, business lobbied the president and ministries to gain access to regions. Now they can also work with the presidential representatives.

This new relationship between business and the seven envoys raises a number of questions. First, who will the envoys help -- Deputy Presidential Chief of Staff Aleksandr Surikov and the Alfa group that backs him or other groups? Second, what interests will the presidential envoys pursue? Maximizing investment in their regions or maximizing attempts to build a unified economic space, perhaps by offering monopolies to companies like LUKoil? Third, what are the personal interests of the envoys? Will they take money and resources from the businesses they work with?

The relationship between business and the presidential envoys is closed from public scrutiny and it is very difficult to tell who is working with whom. In the Southern Federal Okrug, LUKoil works hard to lobby the presidential envoy, but there are different relationships with Gazprom and Unified Energy System. It is very hard to determine the relationship with the Alfa group and MDM.

In the Urals, Latyshev constantly meets with important businessmen, but has little influence over business practices. A noticeable trend now is that many Sverdlovsk businesses are expanding into Chelyabinsk, but Latyshev does not have any influence over this process.

In the Far East, Pulikovskii has very little contact with Roman Abramovich, the magnate who is governor of Chukotka. Pulikovskii also plays little role in the development of Sakhalin oil. Here Governor Igor Farkhutdinov is the one most concerned about accomplishing this job. However, Pulikovskii has stepped into other battles. For example, he has publicly advocated connecting the Trans-Siberian railroad to the Korean train system. However, Khabarovsk Governor Isaev is against this idea because he fears that it will kill the business of the ports in his region.

## Courts

Putin's reforms have reduced the power of the regions over the courts, according to University of Toronto Professor Peter Solomon. Until recently, the regions have had extensive control over the courts since the 1996 federal law on the courts gave the regions an effective veto over judicial appointments. During the 1990s, the courts were always underfunded, and the situation deteriorated even further in 1996-97. Regional governments and businesses gained leverage over the courts by providing some of the necessary financing to support their operations.

The Kozak commission on judicial reform (not to be confused with the Kozak commission working on dividing responsibilities between different levels of government) sought to make judges less corrupt. In December 2001, the regions lost their veto power over judges. The reform also gave the judges salary increases, and added money for things like repairing buildings, providing staff, and acquiring new computers. The changes also eliminated the system of perks under which judges could accept apartments from regional authorities. Now the idea is to give the judges interest-free loans, which are forgivable if the judge stays on the bench for 10 years. In this way, the judge gains access to comfortable housing without becoming dependent on regional authorities.

In 2000, there was broad discussion of the idea of creating administrative courts in which citizens could bring regional officials, including governors, to account for specific failures. This plan was never enacted, however. Many jurists thought that the draft law on the administrative courts was of very poor quality. Also it was clear that the numerous provisions of the judicial reform would be expensive, so it was deemed better to hold off on establishing the administrative courts until more resources were available. Such ideas are still floating around, but it will be three years at the earliest before they are implemented.

Administrative courts would operate in 21 okrugs covering Russia's 89 regions so they would not be dependent on any one region or governor. The arbitration courts, where business disputes are resolved, already function with such a system where the lowest standing court has responsibility for several regions.

Solomon described the court reform as being well balanced. Many judges are unhappy with the reforms and those who displease local authorities may still be vulnerable to substantial pressure. But the courts are getting better. Now it is important to improve public opinion about them. The public is poorly informed about how far the courts have come, so it would be useful to spread the word about these changes.

## **Local Government**

So far, Putin has generally been willing to sacrifice the powers of local governments to regional governments in order to win the passage of his overall federal reforms. The Kozak Commission, which was supposed to issue its report on 1 June but is running far behind schedule, may make considerable changes in the status quo and greatly strengthen the power of local government. Such a plan could start a pendulum swing away from the current policies of centralization in favor of decentralization. However, such hopes are nothing more than speculation at the moment and the real impact of Putin's reforms on local government to date has been negative.

Putin's federal reforms have undercut local government institutionally by giving governors the power to fire most mayors. Moreover, the Kozak Commission is expected to end the practice of unfunded mandates, trying to match the responsibilities of different levels of government with the amount of funding they actually receive. In practice, as a result of this reform, local government will have fewer responsibilities and fewer resources. Saratov Governor Dmitrii Ayatskov seemed to sum up the main thrust of the reform when he suggested that mayors should serve as janitors and garbage collectors, according to Tomila Lankina, a researcher at Humboldt University in Berlin.

During the last two years, municipalities have lost an estimated 15-20 percent of their revenues. Control over financial flows now sits at the regional, rather than local, level. Such a transfer of responsibility makes the governor much more powerful in his region.

## **Political Parties**

A strong party system will form in Russia when candidates find it useful to join parties, according to Indiana University Professor Henry Hale. With party list voting, candidates have an obvious reason to join a party, but in single-member district elections, they can choose between joining a party or going it alone. Parties provide candidates with numerous services: organization, material resources, reputation, connections, campaign know-how, recourse (for example, protesting decisions in court), media exposure, and "focal status" (attracting people who want to be associated with a winner). In the regions, there are currently other political organizations that can provide these services better than parties: governors' political machines and financial-industrial groups (or PFIGs -- politicized financial-industrial groups, as Hale dubbed them).

During the first half of the 1990s, parties had bad reputations and few resources. In the 1995 State Duma elections, parties were better organized and were able to provide real help to candidates. However in the 1999 parliamentary elections, party influence actually declined from the level it had reached in 1995. Two things changed during this period. Between 1995 and 1999, governors were elected for the first time, giving them more political experience and making them better able to compete with party organizations. The FIGs also became politicized. These party substitutes became much more powerful than the parties.

The seven presidential envoys have formed another form of party substitute and now the Kremlin has a stronger mechanism for intervening in elections. The envoys will further reduce the demand for parties because they can provide focal status and attract FIG money, Hale argued.

The new law on voter rights will introduce the use of party lists to elect half of all seats in regional legislatures. It is not a foregone conclusion that this change will strengthen the center's hand over regional politics, as many analysts have asserted. While the Kremlin may be able to use the parties to secure more support for its policies in regional legislatures, the new legislation may also force the governors into national parties, giving them the potential to start coordinating their activities. The governors could even use new parties to start working together on federal issues in opposition to the Kremlin. Currently, there is little coordination among governors.

Hale argued that Russian society is OVER-institutionalized, not under-institutionalized as many assume. Russia's parties are not appearing in a vacuum, but against a background of numerous existing networks and institutions.

Yedinnaya Rossiya is very similar to the Communist Party of the Soviet Union in that it is essentially a machine for holding on to power. This new party is highly centralized and controlled. But the party is weakly represented in many regions such as Siberia. Putin has yet to associate himself formally with the party. If he did so, the party organization might start to replace the presidential administration, according to Petr Kozma. Accordingly, many in the presidential administration are skeptical about further developing the party.

Kozma said that Yedinnaya Rossiya functions basically by the presidential administration asking Duma deputies to vote a certain way in exchange for funding directed toward their district. It is entirely practical, with no ideological content. Zubarevich described it as a quasi-party that was similar to the governors' political machines. It functions as a lobbyist for both central and regional interests, effectively serving as a place for cooperation between federal and regional authorities.

Alongside Yedinnaya Rossiya, several individuals have started a variety of other parties that seem to have official support: Seleznev has set up Rossiya; Federation Council Speaker Sergei Mironov recently launched the Party of Life; Novgorod Governor Mikhail Prusak recently launched the Democratic Party of Russia; Soyuz brings together many military people, while Gennadii Raikov has the People's Party. It is not clear how all these parties will fit together or what purpose they all serve.

## **Overall Assessment**

The main reason for establishing the seven okurbs was to scare the regional elite, a task that has been carried out. Putting the governors on the defensive made it possible to implement other federal reforms. However, beyond acting as a heavy, the envoys have played little role in the further evolution of federal reforms. In this sense, they serve as a stick to keep regional authorities in line rather than an institution that can fine tune federal policies as they are implemented across the country. - Robert Ortung

## **CENTER -PERIPHERY RELATIONS**

## **NEW PROCURATOR IN BASHKORTOSTAN SERVES REPUBLICAN**

**INTERESTS.** President Putin and the regional authorities are battling each other to assert control over Russia's law enforcement agencies. This battle also affects the procurators even though the Constitution subordinates this office exclusively to the federal authorities. Last month, Bashkortostan scored a significant victory in this struggle with the removal of a feisty federal official.

On 16 May the Bashkortostan legislature confirmed a new republican procurator after the former procurator, Yavdat Turumtaev, unexpectedly resigned. Neither Turumtaev nor the republican leadership explained his departure.

Bashkortostani officials were not happy with Turumtaev's work because, at the urging of the Russian procurator general and the Volga Federal Okrug procuracy, he had tried to bring republican legislation in line with federal norms. In his almost two years on the job, he protested more than 4,000 republican executive and legislative acts. Most importantly, he began to contest republican laws in the courts and his success there particularly angered the Bashkortostani authorities. The final straw for the republican authorities was Turumtaev's ability to secure court rulings that parts of the republican constitution violated federal law and needed to be replaced.

Bashkortostan President Murtaza Rakhimov discussed Turumtaev's activities with Procurator General Vladimir Ustinov and apparently convinced Ustinov of the need to remove Turumtaev. Moreover Ustinov accepted Rakhimov's proposed replacement, Florid Baikov, one of Turumtaev's deputies. Baikov is considered a professional, though one who is loyal to the Bashkortostan authorities. The members of the republican parliament unanimously confirmed his candidacy.

In discussing candidates to serve as republican procurator, it became clear that under Turumtaev, the republican authorities' ability to influence the federal procurator and courts was deteriorating. As Baikov took his new office, the republican legislators advised him not to sue the republican legislature because republican laws do not conform with federal standards, but rather to enter into a "constructive dialogue" at the beginning of the law drafting process.

Baikov agreed with these proposals and announced that the problem of bringing Bashkortostani law into line with federal norms is not so difficult that it needs to be solved through the courts. He claims that, in essence, republican laws do not contradict federal laws, but that specific inconsistencies between them reflect technical and stylistic errors that crop up in the legislative process.

Baikov preferred to distance himself publicly from the "destructive" positions of his predecessor in regard to the clause on state sovereignty in the republican constitution that the Russian Constitutional Court has specifically declared unconstitutional. He diplomatically declined to provide a legal commentary on these passages and said that as the republican procurator, he would respect them as long as they are part of the republican constitution.

Having carried out a "rotation" of the republican procuracy, the republican authorities have significantly strengthened their position within this federal structure. - Igor Rabinovich in Ufa

## **TVER GOVERNOR FIRES ALL HIS DEPUTIES FOLLOWING FEDERAL AUDIT.**

On 22 May Tver Governor Vladimir Platov fired all of his deputy governors. He asked all but four to stay in office until he could replace them. The purge affected many key members of his administration, including Yurii Krasnov, who seemed most likely to succeed Platov, Anatolii Polyakov, who supervised the use of oblast property, and Aleksandr Zatvan, who was in charge of housing issues (*Veche Tveri*, 24 May).

The governor decided to make these radical personnel changes in reaction to an audit conducted by Audit Chamber of Russia and the Monitoring Department of the presidential representative in the Central Federal Okrug (Poltavchenko). In a recent interview, Platov said that the audit did not identify any serious violations in his work, but did reveal shortcomings in the work of several deputy governors (*Tverskaya zhizn*, 31 May). Platov is currently half way through his second term.

The biggest surprise in Platov's actions was the removal of Krasnov, who was considered to be Platov's chosen successor. Platov claimed that Krasnov spent too much of his working time resolving "personal problems."

By making these personnel changes, Platov won a certain amount of favor within the presidential administration. However, it is also clear that Krasnov remains one of the most popular politicians in the region and plans to remain in the political arena. He does not consider his sacking legal, pointing out that it must be confirmed by the regional legislature. Krasnov also points out that Polyakov, who handled the oblast's property holdings, can only be removed from his position by the federal property ministry or the deputy prime minister responsible for this ministry.

Platov has radically changed the political situation in the oblast. Only time will tell how successful will be his attempt to rehabilitate himself in the eyes of the presidential administration and remove a potential rival. - Boris Gubman in Tver

## **BUSINESS AND REGIONAL ELECTIONS**

**ALFA GROUP, CHUBAIS + KIRIENKO DETERMINE SARATOV LEGISLATIVE ELECTIONS.** The influence of the Alfa Group and the federal authorities working in conjunction with Russia's electricity monopoly will most likely decide the outcome of the Saratov's 8 September legislative elections. However, to understand the situation surrounding the elections, it is best to first look at the oblast's recent political history.

Upon coming to power in 1996, Governor Dmitrii Ayatskov immediately opened Saratov Oblast up to Moscow-based big business (SBS-Agro, Alfa-Bank, Rossiiskii Kredit). Ayatskov played on the differences between these companies, securing large credits and significant concessions to the oblast administration from them, often by threatening to back the interests of their competitors.

Ayatskov's tactics ultimately provoked the anger of the business groups, who demanded the repayment of the credits they had offered, which amounted to more than 1 billion rubles. The 1998 default effectively saved Ayatskov, making it possible for him to wipe out the oblast's debt. Since the region had no exportable resources, however, it temporarily dropped out of the field of interest for big business.

Under Yeltsin, Ayatskov had a strong position with the federal authorities and was better able to control which companies worked in his region. Ayatskov's influence quickly evaporated with the election of Putin, however, making it possible for Russian financial-industrial groups to operate more freely in Saratov. Therefore, seeking new spheres of influence, they returned to region and further property transfers are expected to take place.

Who will be the main players in Saratov? It is clear that the group of companies associated with Yeltsin's Family will not play a role. These companies include Sibneft, Russian Aluminum, the Ural Mining and Metallurgy Company, Yevrazkholding, and MDM Bank, none of which have significant financial interests in the oblast. None of these companies is interested in Ayatskov or in financing his campaign.

Because of his weak and deteriorating position in the oblast, Ayatskov has temporarily allied with Vyacheslav Volodin, the leader of the Otechestvo-Vsya Rossiya bloc in the State Duma and an obvious rival to Ayatskov in future elections. Volodin helped Ayatskov replace the anti-Ayatskov chair of the Saratov legislature, Aleksandr Kharitonov, but, as a result, Volodin was able to name one of his allies (Vladimir Churikov) to replace Kharitonov. This appointment shows that Ayatskov will likely have little influence over the upcoming elections and is becoming increasingly marginalized.

On the other hand, other players are appearing on the political stage. These include the Alfa group (represented in Saratov by Alfa-Bank and the Tyumen Oil Company, TNK), Anatolii Chubais' Unified Energy System, and LUKoil.

Until Ayatskov's rise to power, Vladimir Potanin's SIDANKO was the largest of the Moscow-based big businesses operating in the region, with a number of holdings in the energy sector. But Potanin and his associates lost much of their influence during Ayatskov's rule, forfeiting control over the Khimvolokno and Nitron enterprises. After Alfa's TNK bought SIDANKO, Alfa became the dominant group in the region, adding the energy firms to its holdings of Saratovsteklo, Zhirkombinat, the Volskii Cement Factory, and others. Additionally, Lyubov Sliska, once the deputy chairwoman of the oblast government and now the first deputy speaker of the State Duma, represents Alfa's interests.

Chubais and EES also have major interests in Saratov. The oblast generates one quarter of the electricity produced in the Volga Federal Okrug, giving it considerable political importance. Chubais began taking control of the regional electricity sector by sacking Saratovenergo General Director Sergei Samsonov, an Ayatskov ally. Additionally in November 2001, management functions of Saratovenergo were transferred to the Middle Volga Interregional Energy Management Company (SMUEK), located in Samara and under Chubais ally Vladimir Avetisyan.

Chubais' colleague in the Union of Right-Wing Forces, Presidential Representative to the Volga Federal Okrug Sergei Kirienko, represents the "party of federals," which is friendly to Chubais. This group convinced the oblast legislature to appoint Chubais' first deputy Valentin Zavadnikov as its representative to the Federation Council. This appointment signaled the formation of an anti-Ayatskov coalition in the regional legislature under Kharitonov and Chief Federal Inspector Rinat Khalikov. This group temporarily controlled a majority in the oblast legislature with 18 of 35 seats. As noted above, Ayatskov retaliated by joining with Volodin in February 2002 to form a Yedinnaya Rossiya faction in the legislature, which attracted 23

deputies. Having taken the majority, Ayatskov removed Kharitonov from the speakership on 20 March, but Volodin named his ally to the seat Kharitonov vacated.

In light of this set back, Kirienko's group will not be able to determine the outcome of the September elections to the Saratov legislature. Kirienko and his allies suffer from a lack of resources, a shortage of appropriate personnel, and limited finances. However, the fact that the federal group's interests in the region are similar to those of EES may help the okrug authorities increase their political clout.

LUKoil is Alfa's main competitor in the region, though it is in a relatively weak position locally. Alfa controls 100 of the 300 local gas stations, while LUKoil controls no more than 40. Ayatskov tried to use LUKoil against SIDANCO three years ago in his efforts to reduce SIDANCO's influence. Alfa remembers that unpleasant period and is now restructuring SIDANCO to prevent a similar attack.

LUKoil is continuing to invest in the region and has taken over Nitron, which once belonged to SIDANCO. However, these investments are relatively small and Saratov is not a strategic priority for LUKoil. Nevertheless, LUKoil remains politically active in the region and LUKoil-Saratov General Director Semen Glozman has announced that he will seek another term in the oblast legislature (he won his current term with Ayatskov's support).

Having forced the resignation of the legislature's speaker, Ayatskov is now devoting much of his energy to removing Saratov Mayor Yurii Aksenenko. The governor has publicly asked the mayor to resign, but Aksenenko shows no signs of doing so. In fact, he is gathering all of the anti-Ayatskov politicians in the region under his wing to continue the fight against the governor.

Most likely the influence of the Alfa Group and Kirienko's okrug officials will be decisive for the oblast elections. Probably, the two will divide between them the most profitable parts of the oblast, leaving the most difficult areas to Volodin and other less visible politicians. - Yuliya Yeliseeva in Saratov

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## REGIONAL ELECTIONS

### **DAGESTAN'S MAGOMEDOV CONTINUES IN POWER, POSTPONES ETHNIC**

**POWER-SHARING.** Dagestan's incumbent leader Magomedali Magomedov won another term as head of the republic's State Council on 25 June. Maintaining stability in the republic, which borders on Chechnya, is an extremely important part of Moscow's North Caucasus strategy and Magomedov has been a loyal ally. The 72-year-old leader, who rose from serving as director of a rural school to republican leader, is doing everything possible to maintain the political status quo in the republic. Assuring such stability in the multi-ethnic Dagestan is no easy task. The republic's political stability has come at the cost of economic stagnation and the abolition of a free press. Many professionals are leaving the republic to seek opportunities elsewhere.

Magomedov was the only viable candidate for the post and 228 of 242 members of the republican Constitutional Assembly voted for him. The other candidate, republican Audit Chamber head Atai Aliev, only ran so that the elections could not be overturned on the grounds that there was no alternative candidate. Aliev won just 4 votes. The election took place in conditions of high security following the deadly terrorist explosion on 9 May in Kaspiisk.

Dagestan is the only Russian region that elects its president indirectly. According to the republican constitution, the Constitutional Assembly selects the leader once every four years. The Assembly also chooses the 14 members of the State Council, which effectively serves as a collective president for the republic (Magomedov is one of these 14). Each of the 14 members represents one of the main ethnic groups in the republic. The Assembly includes the 121 members of the Dagestani parliament and 121 representatives of rural raion and city administrations. These officials are generally loyal to Magomedov and the elections proceeded quickly and without conflict. Dagestani voters have rejected proposals to elect a Dagestani president directly three times (in 1992, 1995, and 1999).

Magomedov has led the republic since 1991 when he was appointed speaker of the republican parliament. The republic's 1994 constitution transferred all power to the State

Council. According to the constitution, the leader of the republic should rotate among the 14 titular ethnic groups represented in the council. In 1994, Magomedov, an ethnic Dargin, became the first chairman. His term was supposed to last two years, with subsequent leaders to be elected to four-year terms.

However, after two years, in 1996, Magomedov appealed to the republican parliament to extend his term for another two years, citing the proximity of Chechnya, the extremely difficult political and criminal situation in the republic, and the continual conflicts among its various ethnic groups. Changing leaders at that time, Magomedov argued, would destabilize the situation even more. After tense debates and a public argument with Speaker Mukhu Aliev, the parliament approved Magomedov's proposal.

Two years later, in 1998, the republican parliament, overturned the requirement for rotating the republican leadership among the 14 officially-recognized ethnic groups. Instead, the republican legislatures limited the leader to two terms, and June 1998 elections gave Magomedov another term.

This time in May 2001 the State Duma amended the federal legislation on regional political institutions allowing regional leaders to start counting their two terms from October 1999. Two weeks later the republican legislature amended the republican law, opening the door for Magomedov to win yet another term on 25 June 2002.

Dagestanis are divided in their opinions of Magomedov's rule. Some argue that things would be worse without him and that his good ties in Moscow are crucial for obtaining the massive subsidies the republic needs to survive. Magomedov's close relationship with Moscow is palpable. During the last two years, Moscow doubled its aid to the republic and such subsidies now make up about 85 percent of the republican budget. In May the leader of the pro-Kremlin Yedinaya Rossiya party, Aleksandr Bespalov, visited the republic to support Magomedov. Magomedov's critics blame him for the explosions, murders, and high employment that characterize republican life today. - Zaira Magomedova in Makhachkala

## **BURYATIA'S POTAPOV WINS THIRD TERM**

by J. Paul Goode, St. Antony's College, University of Oxford

Buryatia President Leonid Potapov secured a third term with little difficulty in the republic's 23 June elections. Potapov won 68 percent of the vote in a field of five candidates. The nearest contender, State Duma Deputy Bato Semenov, took 23 percent of the vote. The third closest vote was "against all" with 2 percent, while all other candidates received less than 1 percent. Potapov avoided a second round of voting by receiving more than 50 percent of the vote in the first round.

Elections for the legislative assembly, the Narodnyi Khural, and mayor of Ulan-Ude took place simultaneously with the presidential election. In the legislative assembly, 263 candidates competed for 65 seats, of which about two-thirds of the incumbents sought re-election. 29 candidates managed to win more than 50 percent of the vote in their districts, while the rest will face a second round in two weeks' time. Voter turnout for both presidential and legislative assembly elections was just over 50 percent. In the race for mayor of the capital city,

incumbent Gennadii Aidaev was re-elected with 78 percent of the vote (47 percent voter turnout).

Though five candidates were registered for the presidential race, only Potapov and Semenov had a realistic chance of winning. Potapov has been in power effectively since 1990, first as secretary of the CPSU's oblast committee and shortly thereafter as the elected chairman of the Supreme Soviet. In the republic's first presidential elections in 1994, Potapov won in the second round and was re-elected in 1998 with 63 percent of the vote.

Semenov's political career began when he took over the Zakamenskii sovkhoz (1986-1990). After leading the Zakamenskii municipal administration (1991-4), he served two terms as a deputy in the Narodnyi Khural, becoming the republic's agriculture minister and deputy chairman of the republican government in his second term. He was elected to the State Duma in 1999.

The remaining contenders for the presidency had little political experience. They were: Vladimir Antonov, Director of the National-Humanities Institute at Buryat State University; Innokentii Dagbaev, head of Bauntovskii Evenkiskii Raion; and Georgievich Gromov, industrialist and executive director of the nongovernmental pension fund "Buryatia". Together they were generally viewed as being Potapov's men, floated to soak up votes from Semenov's campaign (with the possible exception of Gromov - the only candidate who was self-nominated and ran a low-profile campaign). In particular, most analysts argued that the purpose of Antonov's and Dagbaev's campaign was to draw the ethnic vote from Semenov (Potapov is Russian, while Antonov is western Buryat and Dagbaev is eastern Buryat).

While Potapov refrained from directly attacking Semenov in his campaign, the other candidates took out advertisements in the local press to do the job for him. Antonov was particularly active in this regard, printing a full-page article in *"Pravda Buryatii"* (6 June) comparing the campaigns of "the main candidates" - four paragraphs of which supported Potapov's program while the rest was a scathing critique of Semenov's campaign. Two days prior to the election (and the last day that candidates were allowed by law to issue pre-election campaign ads), Antonov's campaign fund took out two ads in *"Argumeny i Fakty v Buryati"*. The first was a half-page ad backing Antonov, the second a full-page ad supporting Potapov and attacking Semenov.

A sixth candidate throughout most of the pre-election race was Narodnyi Khural member Aleksandr Kardash. Kardash's campaign followed a similar path to the others. A full-page interview with sociologist Aleksandr Khuralov, published in a popular local broadsheet *"Nomer Odin"* (22 May 2002) and paid for by Kardash's presidential campaign fund, described Kardash's campaign as an effort to garner support for his re-election to the legislative assembly. Of the other candidates, Potapov's main "problem" was judged to be the lack of a serious competition while his opponents' motives were "unknown." Semenov was singled out for extensive criticism for his assistant's criminal history, abuse of travel privileges, and for turning the local chapter of Yedinaya Rossiya into a "family clan."

Kardash dropped out of the race shortly before the election, saying that his intent had never been to become president, but to learn from Potapov "how to earn the people's trust" and voiced his support for Potapov's candidacy (*Inform-Polis*, 19 June). Kardash continued to

campaign for re-election to the legislative assembly after he dropped out of the presidential race, though ads for his campaign in local papers were paid for by his presidential campaign fund.

## **Constitutional Changes**

Preparations for Potapov's reelection bid began last fall, well before any candidates were registered. In a statement issued on 30 May, Potapov justified his decision to run for a third term by arguing that there had been insufficient time to realize the plans for Buryatia's development begun during his first two terms. He also emphasized that he was not in violation of federal law (*MK v Buryatii*, 30 May). Article 71 of Buryatia's 1993 constitution placed a two-term limit on the presidency, but the republican legislature removed this limit last December. The revised portion of the constitution states that term limits are determined in accordance with federal law.

In this case, the relevant federal law, "On the General Principles of the Organization of Legislative, Representative, and Executive Organs of Government of Subjects of the Russian Federation" sets two-term limits beginning from the law's adoption in 1999. Consequently, the issue was no longer whether Potapov could run for a third term, but rather that he had only served one term since 1999. In parliamentary hearings, only two deputies spoke out in opposition to the constitutional changes, arguing that a protest from the procurator was needed in order to consider changes to the republic's constitution since the Russian Federation constitution is silent on the issue of term limits for regional leaders.

In response, the chairman of Buryatia's Supreme Court, Anatolii Khorinoev, emphasized the necessity of bringing Buryatia's constitution in accordance with federal legislation: "We live in one Russia... Let's live under one law." (Stenographic record, 18 December 2002). In an article on the proceedings in the government's newspaper, one of the two dissenters was ridiculed for requesting a secret ballot on the matter (*Buryatia*, 20 December 2001). The motion failed, 10-28, with 3 abstentions. The constitutional change was adopted with legislators voting 47-1 in favor with no abstentions.

Potapov's campaign for a third term was further facilitated by the absence of a decision by the Russian Constitutional Court, which began to examine the issue of third terms in April. Even if the Court delivered a decision prior to the election, changes would need to be made to federal legislation, a lengthy process requiring the approval of both houses of the national legislature and the signature of the president. The fact that all candidates (and specifically Potapov) were registered and the date of elections already designated effectively precluded the possibility that the federal government would be able to intervene (*Pravda Buryatii*, 6 June).

In the face of a legal fait accompli, Semenov's campaign was left to complain that Potapov was in fact running for a fifth term, beginning with his service as CPSU oblast chairman and chairman of Buryatia's Supreme Soviet. Semenov's camp also targeted the issue of Potapov's age (he will be 67 in July), drawing comparisons with Boris Yeltsin's infirmity during his second term. His campaign literature argued that Potapov no longer runs the republic, citing an Aesopian fable about an old Lion King who has given way to a circle of jackals. Semenov's attempt to tap the youth vote was ill-fated, however, probably from the start - the 18-25

population is the most politically apathetic portion of Buryatia's electorate, persistently ranking at the bottom in terms of voter turnout.

### **Party & Central Support**

In addition to congenial constitutional changes, Potapov's candidacy benefited from across-the-board political support from Buryatia's parties and movements. In particular, Potapov earned the support of the largest faction in the legislative assembly, the Narodno-Patrioticheskii Soyuz Rossii, as well as the Communist Party, the mayor of Ulan-Ude and 25 other heads of local government, 48 representatives in the legislative assembly, and three of the republic's State Duma deputies (Strana.ru, 18 June). Veterans' organizations also threw their support behind the incumbent president, incensed by Semenov's campaign slogan "From a Republic of Stagnation to a Republic of Dignity."

As leader of the local chapter of Yedinaya Rossiya, it was expected that Semenov would benefit from party support on both central and local levels. His campaign highlighted his experience in central politics and ability to lobby the republic's interests on the federal level. Ties to Moscow are particularly important for Buryatia since the region's economy is highly dependent on federal budget transfers. On 30 May, the local chapter of Yedinaya Rossiya voted to support Semenov in a closed session, though only 26 of 35 members were present (and of those, only 16 voted in support of Semenov). On the same day, however, Putin met personally with Potapov - an important symbolic victory for Buryatia's president, all the more so because the president's representative to the Siberian Federal Okrug, Leonid Drachevskii, tends to avoid publicly involving himself in regional elections.

The effect was immediate. On 4 June, 18 members of Buryatia's Yedinaya Rossiya split with the earlier decision to support Semenov and voiced their support instead for Potapov. In the ensuing confusion as to who exactly Yedinaya Rossiya supported, the party's central executive committee issued a statement confirming its support for Potapov and called upon the local party organization to join ranks behind his candidacy. As in many other regional elections, concern for "stability" and "governability" determined whom the center supported, regardless of the candidates' party affiliation. Potapov received further central blessing for his "sustainable development" program in a widely circulated article by Aleksandr Ushakov, head of the department of regional economics in the Russian Ministry of Economic Development and Trade (*Rossiiskaya Gazeta*, 18 June). Thus, despite his tour of duty in the State Duma, Semenov found himself outflanked both in Moscow and in Ulan-Ude.

### **The Ethnic Factor**

Buryatia's ethnic composition is almost 70 percent Russian and 24 percent Buryat (according to the 1989 census). Though inter-ethnic relations are relatively calm, previous studies of voting patterns in the republic show some differences in political preferences based on ethnicity. In this year's presidential election, most analysts agree that almost all of the ethnic Russian voters supported Potapov. The Buryat voters were far more likely to support Semenov, though they are a smaller portion of the population and are far from unified behind Semenov. Strana.ru (24

May) claimed that most of Semenov's support came from Buryat businesses and the Buryat Diaspora in Moscow. Semenov also had the backing of Buddhist leader Damba Ayushiev.

In general, the ethnic issue was not much of a factor and most candidates did not seek to politicize ethnicity publicly, emphasizing instead the republic's heritage of stable ethnic relations. Regarding relations with the nearby Buryat regions (Ust-Ordinskii and Agin Buryatskii Autonomous Okrugs, located within Irkutsk and Chita Oblasts, respectively), Potapov supported ongoing cultural and economic integration but categorically rejected suggestions of politically joining the okrugs to the republic. As the election date approached, the local chapter of the Communist Party spread rumors suggesting that a Semenov victory would turn Buryatia into "a second Chechnya." The other candidates denounced this position as ludicrous.

### **Media Pressure and Tactics**

Almost all of Buryatia's regional media are controlled by, or linked to, the republican administration, meaning that Semenov had to focus his media campaign in Buryatia's raions outside of Ulan-Ude. In an open letter to Semenov published in *"Pravda Buryatii"* (16 May), editors and journalists from virtually all local newspapers and the director of "Russkoe Radio" criticized Semenov, insinuating that his promise of a "unified Buryatia" would mean the end of press freedoms in the republic.

The editor of the one newspaper which did not sign the letter (and from which Semenov's comments were taken), *"Inform-Polis,"* is a relative of Semenov's (Strana.ru, 24 May). Generally speaking, Semenov did not receive any positive press coverage in any of Buryatia's main newspapers. Many "analytical" articles in support of Potapov were re-printed by several newspapers with increasing frequency as the date of the election approached. One member of Buryatia's electoral commission reported that he'd individually handled some 130 citizens' complaints of electoral law violations, the majority of which were related to the press.

The largest media sensation in Buryatia's election campaign, however, was the sound of silence. Since only seven of Buryatia's 23 rayons receive television broadcasts, radio is crucial for reaching voters outside of the central raions - even more so for Semenov, whose campaign hinged on mobilizing voters outside the republican capital.

On 14 June, nine days before the election, three of the republic's four FM radio stations (Pul's-radio, Evropy plyus, Avtoradio-Buryatia) were shut down when a newly-appointed regulator conducted inspections and found the stations to be lacking certain necessary documents. Pul's-radio's station manager stated that once the documents were produced and the station resumed broadcasting, its power was shut off. When the power was restored the following day, the station found "Radio Rossii" already broadcasting on its wavelength. The manager suggested that the motive was political: "Listen to whose ads we broadcast and everything will become clear." (*Inform-Polis*, 19 June)

A journalist from Evropy-plies claimed that the station was warned by the regional administration in advance not to air election advertisements, but that it was shut down "just in case" even though they did not have any political ads in their possession. Avtoradio-Buryatia was closed under similar conditions. Following a protest to Buryatia's procurator, all three stations were allowed to resume broadcasting by 20 June, three days before the election.

Semenov's camp suggested that the three stations were shut down specifically because they signed agreements to air his campaign ads (*Kur'er*, 17 June). The fourth radio station, "Russkoe Radio," was to be closed, as well, but managed to produce the necessary documents at the last second. It was also the only radio station to sign the open letter critical of Semenov mentioned above.

According to Buryatia Electoral Commission Chairman Vladimir Larionov, bogus sociological surveys proved to be a large problem in past elections. The only legitimate (that is, reasonably objective and financially independent) sociological survey group in Buriatia is based at the Russian Academy of Science's Institute for the Study of Mongolia, Buddhism, and Tibet. In this year's presidential election, an early survey by the "Center for Political Innovation" appeared in Semenov's campaign materials giving the impression of a neck-and-neck contest. The week running up to the elections saw the appearance of another survey commissioned by the group "Eidos", which gave Potapov a commanding lead. The Eidos survey was printed in almost every major newspaper in Buryatia.

Two days prior to the election, Potapov's camp announced that several thousand campaign leaflets were stolen from its publisher's office and claimed that "one of the opposition candidates" planned to release them the day before the election, thus making Potapov appear guilty of illegal campaigning. Potapov's team also suggested that he would be framed for other electoral law violations. (*Buryatia*, 21 June) It was a shrewd tactic: though clearly implicating Semenov's camp, Potapov avoided fingering him directly. Moreover, the timing of the announcement effectively precluded any response from Semenov.

**PRIMORSKII KRAI ELECTS PRO-NAZDRATENKO LEGISLATURE.** In repeat elections on 23 June, Primorskii Krai voters elected a new regional legislature that is heavily dominated by members with ties to former Governor Yevgenii Nazdratenko. Nazdratenko can count on the support of more than 20 deputies in the 36-member regional parliament, according to the analysis of State Duma member Viktor Cherepkov, a longtime Nazdratenko opponent. Cherepkov's team now has about five allies in the legislature, marking a decrease in his overall influence since he could count on 8 votes among the previous membership. Current Governor Sergei Darkin seemed to do the worst of all, winning only four seats. The regional legislature can vote no confidence in the governor with a two-thirds majority.

In the first set of elections, held in December 2001, only 16 of 36 deputies were elected because of low voter turnout. This time turnout was only 18 percent, but it did not matter because the minimum turnout requirement for the elections to be valid (previously set at 25 percent) had been removed. Overall turnout had been 22 percent in the December elections.

Nazdratenko's success in the elections reflects his continuing support among the regional elite in the krai. Darkin has not been able to win many allies among these elites because, in contrast to Nazdratenko, he has not blocked the arrival of Moscow-based oligarchs in the krai. However, Nazdratenko does not have the necessary 26 votes to threaten Darkin with a no confidence vote. Moreover, his hold on the current faction is shaky since many of his allies have already demonstrated a willingness to work with the current governor.

Cherepkov apparently lost some of his authority in the krai because he has come into conflict with some of his former supporters. Darkin seemed nervous at his press conference

after the elections, but said that he was satisfied with the results. Now the krai can expect an intensified battle over the deputies who are not allied with any of the major figures.

Already an effort is underway to impeach Darkin. Vladivostok Mayor Yurii Kopylov, who won power with Nazdratenko's assistance, has sent a letter to President Putin complaining that Governor Darkin is doing nothing to improve the situation in the krai. Simultaneously, signs have appeared on Vladivostok streets in the spirit of Stalinist times with a clear attempt to curry the favor of the president: "The Future of Russia is With Putin" and "Putin Is Our Strength." - Oleg Zhunusov in Vladivostok

## **REGIONAL ON-LINE RESOURCES**

### **RUSSIAN COURTS PUBLISH DECISIONS ON THE WEB**

by Alexei Trochev

In the past few years, the Russian judiciary has begun to publish its decisions on the Internet, greatly improving the general public's access to court decisions.

#### **Constitutional Courts**

Russian Constitutional Court has its own website ([ks.rfnet.ru](http://ks.rfnet.ru)), which contains all decisions (*postanovleniya*) and some rulings (*opredeleniya*). Several regional constitutional/charter courts also maintain web sites. Karelia Constitutional Court ([www.gov.karelia.ru/Law/index.html](http://www.gov.karelia.ru/Law/index.html)) has a regularly updated site with decisions, the by-laws of the court, and short biographies of the justices. For the text of dissenting opinions, search for "osoboe mnenie" at the website of "Karelia," the official newspaper of this region ([www.gov.karelia.ru/gov/Karelia/search.html](http://www.gov.karelia.ru/gov/Karelia/search.html)). Sverdlovsk Oblast Charter Court ([ustavsud.ur.ru/1.htm](http://ustavsud.ur.ru/1.htm)) has similarly detailed information on the justices and their work. This site also has several publications by the justices as well as data on the implementation of the court's decisions in 2000. The St. Petersburg Charter Court ([ustavsud.spb.ru/content.asp?cnt=114](http://ustavsud.spb.ru/content.asp?cnt=114)) is also present on the web thanks to the efforts of the St. Petersburg State University law school students. This website contains fewer court decisions (only for 2001) and has only brief biographies of the judges.

#### **Courts of General Jurisdiction**

Unlike federal and regional constitutional courts, Russia's regular courts form a hierarchy with the Russian Supreme Court at its apex. The federal Supreme Court ([www.supcourt.ru](http://www.supcourt.ru)) has information about its work and contains links to a dozen regional courts, including two military courts. The majority of the regional courts' websites simply list the courts' addresses, working hours, and contact information. The Krasnodar Krai Court site ([kks.krasnodar.ru](http://kks.krasnodar.ru)) also explains how to file a suit. The Chelyabinsk Oblast Court is famous for its televised criminal trials. Its website ([www.ural-chel.ru/gubern/obl\\_sud/index.htm](http://www.ural-chel.ru/gubern/obl_sud/index.htm)) contains materials on the information technology to support such practices. The Bryansk Oblast Judicial Department's site ([www.debryansk.ru/~suddepbr](http://www.debryansk.ru/~suddepbr)) devotes attention to this issue as well as to the work of the justices of the peace in the region.

The website of Omsk Oblast Court ([www.oblsud.omsk.ru](http://www.oblsud.omsk.ru)) has statistics on the cases heard in 2001 and early 2002, a monthly schedule of civil and criminal cases, and a review of publications about the court in the local media. The Leningrad District Military Court ([www.dk.ru/voensud/INDEXX.HTM](http://www.dk.ru/voensud/INDEXX.HTM)) has a database of its decisions issued from 1999 through mid-2001 and a short essay on the history of military courts. The Pskov Garrison Military Court ([www.psc.ru/voensud](http://www.psc.ru/voensud)) posts certain decisions issued in 2000 and templates for filing complaints. The most valuable and regularly updated website ([www.scourt.vens.ru](http://www.scourt.vens.ru)) is hosted by the Ulyanovsk Oblast Court and provides a wealth of information on this court's jurisprudence, judicial reform, etc. It even has the minutes of the meeting of the oblast conference of judges.

Among local courts, the Moscow District court in the city of Tver offers the most informative and up-to-date homepage ([www.mossud.tver.ru](http://www.mossud.tver.ru)) with all court decisions since 2000 and templates for complaints, claims, and civil actions in various categories. This is the only local court that publishes its own decisions. The Usinsk City court in Komi Republic ([www.usinsk.com/sud](http://www.usinsk.com/sud)) has some statistics for 1997-99, claim forms and contact information for judges, the Bar, the procuracy and the court bailiffs. For an extensive analysis of local courts in Rostov Oblast in 2000 conducted by local NGOs, visit [www.hro.org/docs/reps/judge/index.htm](http://www.hro.org/docs/reps/judge/index.htm)

### **Arbitration Courts**

The Supreme Arbitration Court maintains a website ([www.arbitr.ru](http://www.arbitr.ru)) with an extensive database of its decisions, the contact information for all lower arbitration courts, an archive of publications about them, and statistical data on the work of these courts during 1992-2001.

The Northwestern District Arbitration Court ([www.fas.spb.ru](http://www.fas.spb.ru)) has a wealth of data on its work, including helpful information for litigants. This court posts its own quarterly journal "*Arbitrazhnye spory*" on the web at [www.kadis.net/asp/asp\\_view.php3](http://www.kadis.net/asp/asp_view.php3), which you can read free of charge after registering. There you can also view the texts of bills under consideration by the St. Petersburg Legislative Assembly.

The Moscow City Arbitration Court ([www.msk.arbitr.ru](http://www.msk.arbitr.ru)) boasts a database of over 500 decisions issued in 1999-2001, statistical data on the court's work since 1998, contact information, and claim forms. The Omsk Oblast Arbitration Court ([www.omskarbitr.ru/index.htm](http://www.omskarbitr.ru/index.htm)), posts a daily schedule of its casework and texts of decisions issued in October-November 2001 and April-May 2002. One judge of this court has his own website ([chucha.omskarbitr.ru](http://chucha.omskarbitr.ru)) with several publications and court decisions.

What do judges and lawyers think about the electronic dissemination of court decisions? Find out by viewing: [www.femida.ru/mainmenu/TLaw/conferens.html](http://www.femida.ru/mainmenu/TLaw/conferens.html) for their comments at an October 2000 conference on judicial transparency. For the most interesting court decisions and commentary, visit [pi.agava.ru/courts](http://pi.agava.ru/courts), [moscow.hrights.ru/sud/sud.htm](http://moscow.hrights.ru/sud/sud.htm), [www.arbitr-praktika.ru](http://www.arbitr-praktika.ru), and [www.interfile.ru/sudy.shtml](http://www.interfile.ru/sudy.shtml).

**CORRECTION:** The 17 June Russian Regional Report incorrectly reported that "The arbitration courts, where business disputes are resolved, already function with such a system

where the lowest standing court has responsibility for several regions." In fact, it is not the lowest standing court that has responsibility for several regions, but the intermediary one, the circuit court that stands in between the arbitration court in the region and the Supreme Arbitration Court. We apologize for this mistake.

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## SPECIAL REPORT

### ATTITUDES TOWARD THE WTO IN RUSSIA'S REGIONS

*EastWest Institute Russian Regional Report correspondents, working together with Ekspert magazine, recently polled business people across the country to determine their attitudes about Russia's upcoming entry into the World Trade Organization (WTO). Here is a summary of their findings.*

#### Reaction of Russian Citizens: Indifference, Tinged by Vague Fears

"As long as there is no thunder, a Russian man does not cross himself." This Russian proverb sums up how most Russians citizens feel about their country's entry into the WTO: It is simply a topic that is not high on their agenda. Many college students in the Far Eastern city of Khabarovsk thought that the acronym WTO stood for the "World Theater Organization" or "World Tourist Organization."

Those who are aware of the WTO often see it as something vaguely "scary and threatening," according to observers in Irkutsk. However, few are actually worried about it. The Russian organization "Russia Against the WTO" could only gather 1,000 signatures in that Siberian region for a petition against Russia's quick entry into the international trading body.

Regional businessmen view the WTO through their usual perceptions of Moscow and Russian politics in general. Representatives of big and medium-sized enterprises in Khabarovsk were convinced that if Moscow initiated the process of joining the WTO, it would lead to nothing good for them in the provinces.

#### Lack of Knowledge Among Businessmen, Officials

Most business representatives simply have no idea how the WTO will affect their enterprises. When asked about the expected impact or what they would recommend that Russia's government do about the WTO, most businessmen answer "I don't know" or "I'm not informed on this issue." Regional governments often do not have the resources to conduct detailed research on the WTO. In most cases, regional enterprises have little

understanding of the threats that they are facing and even less of an understanding of how to prepare for them.

The media in places like Smolensk devote very little attention to issues surrounding the WTO. Discussions of this issue are characterized by "dilettantism in the worst sense of the word," according to a local observer.

### **Factory Directors, Regional Officials Suffer from Old Thinking**

Many factory directors still think in terms of the planned socialist economy and believe that Moscow will somehow solve all of their problems and bail them out. These managers fail to think in market terms. A key task in many regions is to improve the way that people think about the WTO and economics in general.

### **General Sense of Support for WTO Entry**

Most informed observers in the regions generally support the idea of joining the WTO. They believe that Russia must integrate itself into the world economy and that such integration is a necessary condition for the modernization of Russian industry and its future development. While Putin has demonstrated the political will to join the organization, the readiness of the regions for actual membership remains an open question, though.

### **Fears of Negative Social Consequences**

Many enterprise directors who follow the issue closely are deeply concerned that joining the WTO will make it hard for Russia to take into account the specific regional features of its vast territory. Many fear that joining the WTO will force numerous large enterprises that cannot compete out of business, creating new armies of unemployed people and raising social tensions. The federal government will not have sufficient resources to help these people.

One of Russians' main complaints is that entering the WTO will force the country to raise energy prices for industrial and residential consumers. There are extensive fears that such price hikes, combined with Russia's low standard of living and slow economic growth, will exacerbate social tensions in the country. Russia has no plan to deal with these issues.

### **Fear That WTO Entry Will Deprive Russia of its Advantages**

Since Russia boasts abundant and cheap energy sources, many Russians believe that low energy prices are one of its international comparative advantages. By holding down energy prices, all of its products are cheaper and more competitive. Many Russians believe that forcing Russia to raise its energy prices as the European Union is demanding in order to secure WTO entry will make it even harder for the country to compete on the international market.

### **Fear that the WTO will not Produce Promised Benefits**

A representative of the World Bank visiting Khabarovsk tried to counter these fears by pointing out that entering the WTO would exert strong pressure on local manufacturers to improve the quality of their products. However, Oleg Burov, the commercial director of the large Far East cable manufacturer Amurkabel, said "It is hard to say that entering the WTO will improve the quality of our products. Even without entering the WTO, we already feel enormous pressure to improve quality."

### **Fear of Continued Discrimination Against Russia**

Businessmen in Bashkortostan fear that the West will discriminate against Russian producers, who have lower labor costs than Western competitors, even after Russia joins the WTO. They believe that unless the state defends their interests abroad, they will not be able to compete with Western businessmen.

Representatives of small and medium businesses in the republic believe that they lack the resources to actively market and advertise their products and do not have sufficient knowledge about how to do business in the West. They also fear language and cultural barriers and are concerned about their overall lack of business experience.

### **Absence of High Quality Exports**

Since more than 90 percent of Russia's exports are raw materials, many fear that it will not have any high value-added products to sell to the rest of the world. The businessmen believe that state support will help them overcome these difficulties. In particular, they want the state to take some responsibility for increasing the quality of local products.

### **Frequent Demands for Greater State Protection**

Beyond taking steps to improve product quality, representatives of Russian business frequently argue that the Russian state should protect certain industries from full international competition. They point out that this is how many Western countries, including the US, initially developed. Advocates of protective measures are particularly seeking help for firms in the following sectors: small business, food processing, agriculture, automobile manufacturers, and aircraft producers, among others.

### **Expected Reduction in Corruption**

Ironically, while many businessmen seek more state aid, the Russian state is now one of their main enemies. Small and medium-sized exporters now face considerable problems from Russian border guards who extract considerable bribes to let goods in and out of the country. Such problems are a particular curse for small, innovative businesses of the kind that Russia is seeking to foster. Some businessmen believe that entering the WTO will force the Russian state to root out some of the most egregious forms of corruption that flourish today.

## **Business Community Divided**

Economically developed regions will have a number of firms that benefit from entry into the WTO and a number of firms that lose out. Thus, the business community in relatively rich regions like Irkutsk is divided on the wisdom of Russia's quick entry into the WTO.

## **Sectoral Losers**

-- Aluminum companies will suffer significantly because entry into the WTO will force Russia to raise the price it charges for energy to world levels. Ninety percent of the cost of producing aluminum is energy. Irkutsk has two giant aluminum smelters and benefits from cheap electricity generated by its hydroelectric dams. WTO entry will drive up the price of the electricity, making the oblast's aluminum uncompetitive. Such problems will particularly affect the interests of aluminum magnates like Oleg Deripaska.

-- Irkutsk Cable, which produces \$50 million a year in cable products, will lose out because it will not be able to compete on the domestic market with companies like Alcatel, which has factories in China and Turkey. The USSR adopted its own standards for cable production and now Russian firms will have great difficulty meeting commonly-accepted international standards.

-- Makers of consumer products like computers, paper plates, and toys in regions such as Smolensk fear that their products simply will not be able to compete with the foreign goods expected to flood the Russian market. They assume that WTO entry will bankrupt them.

-- Russian banks will likely lose out as foreign banks come into the market and transfer money collected on the Russian market abroad. However, a well-thought out Central Bank policy could prevent this outcome, according to Arschi General Director Valerii Burlutkin (Arschi is a leather processing firm based in Kalmykiya whose products were included on the list of the 100 best in Russia). Other observers in Kalmykiya agreed that if foreign banks played a role in the country, they would not have an interest in destabilizing the country's financial system. Moreover, they argued that being a member of the WTO would give Russia access to international law-based protections and dispute resolution procedures.

-- Automobile producers are divided on the WTO's impact on their industry. Car manufacturing now makes up about 9 percent of the country's industrial output. It employs more than 10 percent of the working population. The industry is also geographically concentrated since more than 80 percent of Russian cars are produced in the Volga Federal Okrug (especially Samara, Nizhnii Novgorod, and Ulyanovsk oblasts). Therefore the problems associated with WTO accession are both political and economic.

Representatives of different factories view the WTO differently. The Nizhnii Novgorod-based Gorkii Automobile Factory opposed Russia's WTO entry last year. At the same time, the head of the Severstal Analytical Center Yevgennii Chernyakov said that no foreign firm would be a competitor for the Ulyanovsk Automobile Factory, which

Severstal owns (*Birzha*, no. 19, 2001). While Russia continues to have bad roads, the firm expects its jeeps to benefit from high demand. Samara's AvtoVAZ also does not oppose WTO entry since there are few foreign counterparts to the relatively inexpensive cars that it produces. Most imported cars are in the middle range and would compete directly with GAZ's cars, hence the high level of concern in that factory.

-- It is widely believed that Russian food processing firms and agricultural producers will suffer in the WTO.

### **Sectoral Winners**

-- Oil and natural gas companies will benefit from WTO entry because they can compete on world markets and will be better placed to attract investment once Russia is a member.

-- The forestry industry will also benefit. Irkutsk is Russia's leading forestry products exporter. Regions in the northwest (Karelia, Komi) likewise will gain. Currently, the industry is extremely corrupt, with most wood exported illegally.

-- Irkutsk's export-oriented chemical industry will also benefit from the WTO.

-- Enterprises seeking investment capital at reasonable interest rates. Aleksandr Fedorovskii, the general director of Tver's PeLaKron-plus factory (which makes bottle caps and labels) believes that the entry of foreign banks to the Russian market will make it easier for Russian firms to secure long-term, low-interest loans. He claims that if Russian firms have access to such loans before the country opens its borders to more imported consumer goods, they will be able to restructure themselves sufficiently so that they will be able to compete effectively.

This summary was compiled from reports prepared by the EastWest Institute's Russian Regional Report correspondents, including Yekaterina Vyrupaeva (Teleinform, Irkutsk), Igor Rabinovich (Ufa), Yurii Rozhkov (Khabarovsk), Vladimir Volgin (Elista), Tatyana Bikmetova and Rustam Bikhmetov (Nizhnii Novgorod), Dmitrii Bordin (Tver), and Arsentii Ledovskoi (Smolensk).

### **ST. PETERSBURG DIARY**

by Robert Orttung

**ST. PETERSBURG AT 299.** This summer I am living with my family in St. Petersburg. The city today has great significance for Russia and for me personally. St. Petersburg is President Vladimir Putin's hometown and he has showered considerable attention on it. He regularly brings foreign leaders here, including recently President George Bush, German Chancellor Gerhard Schroder, and the leaders of the Shanghai Cooperation Organization.

Putin has filled his government with his colleagues from the Northern Capital and they have become one of the dominant clans in national politics. Of course, Muscovites, continuing the long rivalry between the two cities, have already had enough of them.

There is plenty of talk that Petersburg will once again become Russia's capital, but such plans are hardly likely to be realized. Also unattainable are the dreams of some Petersburg intellectuals to secede from Russia. One such organization has even secured official registration, avoiding a constitutional ban on secession by declaring that its goal is merely to obtain "the maximum possible autonomy."

The city wins headlines for plenty of other reasons as well, contrasting the trivial with the tragic. In May Oksana Fedorova, a local police-woman, won the Miss Universe beauty pageant. During the same month, one of the city's apartment buildings collapsed unexpectedly, sadly taking the life of some of its citizens.

St. Petersburg will celebrate its 300th anniversary next year, providing a chance to look back to 1703, when Peter the Great founded the city in a northwestern swamp. Putin's federal government has set aside large sums of money to clean up the city for its birthday and construction projects are underway all over town.

But even such great events can hardly escape the usual problems that afflict Russian life. Putin recently came to town to criticize local officials for improperly using the money he had assigned them in advance of the birthday bash.

Although Petersburg likes to think of itself as being different from the rest of Russia, it is also representative of the larger country. Political consultants from Moscow are already swarming into the city in advance of its December city council elections. They will try out their latest strategies before the 2003 national parliamentary elections.

The city also represents an interesting example of the relationship between business and politics, a topic I am currently researching. As in many other parts of Russia, Moscow-based firms now control many of the best properties in the city, including the most visible on Nevskii Prospekt.

St. Petersburg is the place where I researched my doctoral dissertation from 1989 to 1990, gathering the information for my first book, *From Leningrad to St. Petersburg*. I returned to live here for the summer after more than ten years to see how the city has changed. I hope to examine my memories and hold them up to today's reality.

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## IMMIGRATION AND CITIZENSHIP ISSUES

**FEDERAL GOVERNMENT INCREASES ATTENTION TO SOUTH.** The federal government has recently begun paying much more attention to immigration issues in the North Caucasus region of Krasnodar Krai. Deputy Presidential Chief of Staff Vladislav Surikov visited the region on 28 May, meeting with representatives from two sides of this divisive issue: Governor Aleksandr Tkachev and members of the Armenian, Georgian, Meskhetian Turk, and Jewish communities. The main topic of discussion was illegal immigration and the response of the regional authorities, who have been cracking down on the immigrants. Following Surikov, a Federation Council group led by Aleksandr Kazakov, chairman of the Committee on Federal Issues and Regional Policy, and nationalities Minister Vladimir Zorin also visited.

During the last decade, Krasnodar governors, regardless of their political ties, have seen uncontrolled immigration as one of the most serious threats to the social and economic well-being of the ethnic Russian population in their regions and to Russia's national security in general. In 2001, the krai authorities attempted to solve their problems without violating federal law by proposing to the State Duma a new federal law on migration. This legislative initiative failed as the Russian government rejected the bill and sent it back for further amendment (see *Rossiiskii regionalnyi byulleten*, 15 January 2001). Following this failure, the krai sought to address immigration by rewriting its own laws.

Krai politicians sought to overhaul regional legislation during a period of frenetic activity during the first quarter of 2002. On 20 February, the krai legislature adopted a resolution (no. 1363) on Meskhetian Turkish groups in the region. For more than ten years, this issue has been a point of dispute between the krai authorities, on one side, and federal authorities and human rights groups on the other. The resolution required the

governor to demand that the Russian Foreign Affairs Ministry start negotiations with Georgia to return the Meskhetian Turks. Additionally, the legislature called for rewriting Krasnodar's power-sharing treaty with Moscow to take into account the ethnic tensions in the region. Until these changes were made, the resolution forbid the authorities from granting individuals without citizenship the temporary or permanent right to stay in Krasnodar.

On 22 March, Governor Tkachev took his boldest move by signing a decree creating a 5-kilometer border zone from the Azov and Black Sea along the Russian-Georgian border. Tkachev's initiative was a clear violation of federal law. Article 71 of the Russian Constitution assigns responsibility for the border exclusively to the federal government. Russian legislation does not provide for regions to introduce their own policies regarding the country's borders.

According to the decree, the zone will stay in effect until Russia establishes different rules for its border with Ukraine and Georgia. While the zone is in effect, all permanent residents of the border zone area aged 14 and over have to carry documents identifying them as permanent residents of the zone and present them to border guard, Federal Security Service, and Ministry of Internal Affairs personnel when asked. Entering, crossing, or temporarily staying in the zone requires individual or collective permits issued by the border service. Employers in the border zone are forbidden from hiring employees who do not have permits to enter the zone.

On 27 March, the krai parliament adopted a resolution (No. 1381-P) requiring the governor to take additional measures to evict individuals illegally living in Krasnodar and find funds in the krai budget for this purpose. Since the legislators thought that such deportations would be widespread and exceed the funds available in the krai budget, the resolution provided for a variety of innovative fund-raising measures. In particular, the resolution suggested developing a way to raise money from social organizations and commercial entities to finance such measures. The local branch of the Ministry of Internal Affairs was given the task of preparing recommendations for improving procedures for deporting illegal immigrants, taking into account the expenses associated with creating temporary holding centers and police units for dealing with convoys of deportees. In criticizing this resolution, the Russian national media began to publish stories about the construction of "concentration camps" in the krai.

At its 27 March session, the krai legislature also adopted legislation requiring all visitors to the krai to register within three days. Foreigners and individuals without citizenship had to leave within 90 days. The Krai Migration Commission took over responsibility for assigning residence permits from lower level commissions and the Ministry of Internal Affairs (GUVD) gained the right to decide who should receive permanent residency.

The authors of this legislation asserted that such centralization would reduce the extent of corruption, which is widespread at the lower levels of the bureaucracy. If a foreigner or individual without citizenship violates the terms of staying in Krasnodar, he could be deported from Russia with funding from the krai budget.

Article 19 of this krai law limits the rights of foreigners and individuals without citizenship to buy property. Only permanent residents or those who receive permission from the Krai Migration Commission can buy a residence in the border zone.

Russian legal experts found numerous violations of Russian law in the krai's legislation. In April, several social organizations in Krasnodar appealed to President Putin protesting "Governor Tkachev's campaign of discrimination and persecution against the non-Slavic population." A war of words ensued. The groups accused the governor of xenophobia, violating the constitution, and everything up to genocide against some nationalities. The governor said that he was merely protecting the native population and that his actions were directed against those who violate Russian law regardless of their nationality.

Another reason for the federal government's attention to immigration issues in Krasnodar Krai was the fact that President Putin signed a new law on citizenship on 3 June. Commenting on the law, Putin said that it would be difficult to implement the law since it sought to overcome the different, and in some cases, conflicting, interests of potential migrants, local populations, and the state.

In this context, regional experience, whether positive or negative, has great significance and Krasnodar could be a "pilot region," that creates a base for new models of state migration policies. Zorin made this point clearly during his visit. He said, "One of the goals of my visit is to look at the possible mechanism for realizing the law on citizenship in the Russian Federation to resolve the dual goal of guaranteeing the rights of local residents and migrants in coordination with Russian legislation and international standards." - Sergei Danilchenko in Krasnodar

**KHABAROVSK SEEKS GREATER OVERSIGHT ON CHINESE TRADERS.** The Khabarovsk Krai administration is deeply concerned about the influx of Chinese workers into the region, and especially retail traders. Various official bodies are studying this question, including an interagency council to reduce barriers for small business in the region.

During a recent hearing, Khabarovsk business people stressed the need to discuss the issue of foreigners' business activities and labor policies. The Russian business people believe that foreigners (the vast majority of whom are Chinese) enjoy better working conditions than their domestic counterparts. Although the level of tension between Russian and Chinese traders is nowhere near as high as that in Kamchatka, the problem deserves attention now. Therefore the council set up a working group, which studied existing legislation and inspected markets and restaurants where foreigners work.

The Khabarovsk branch of the Tax Ministry reported that foreign-owned retailers paid 10 percent less in taxes on average than their Russian counterparts. Many enterprises hired more foreign workers than they were allowed, but faced no sanctions for these violations. A major problem is that there is no unified database on the entry and exit of foreign tourists and legal violations on their part.

According to the members of the council, it would be easier to monitor the trading activities of foreigners if Khabarovsk had a single market for trading Chinese industrial goods. This proposal is periodically discussed in the press, however similar markets elsewhere, such as the "Chinese" market in Ussuriisk (Primorskiy Krai) have not produced the desired effect.

The council members would like to make several changes to the current federal law on migration policy. One amendment calls for increasing the penalty for hiring more than the legal number of foreign workers. However, it remains unclear how to simultaneously

avoid violating the rights of foreign business people, assure a normal and regular flow of workers into the krai, satisfy the market for cheap goods, and support domestic business.

- Yurii Rozhkov in Khabarovsk

## **BUSINESS IN THE REGIONS**

### **TNK RAISES GASOLINE PRICES IN A MARKET WHERE IT HAS A**

**MONOPOLY.** This year, for the fourth year in a row, gasoline prices went up in Kursk Oblast. Residents believe that the main reason is that the Tyumen Oil Company (TNK) owns a majority of filling stations in the region. The other stations buy gas from TNK and must pay the prices set by the company. In effect, the lack of competition allows TNK, whose main office is in Moscow, to charge prices that are higher than would otherwise be possible. (*Vedomosti*, on 16 July, published an article about similar practices by LUKoil in Nizhnii Novgorod Oblast).

The main oil companies have long since divided the Russian regions among themselves and do not let "outsiders" into "their" territory. Several years ago, YUKOS tried to enter the Kursk market and opened a representation in the oblast capital, but found that all niches in the market were filled. YUKOS ultimately left the market, although Governor Aleksandr Mikhailov frequently claimed that they would return. However, after the governor established friendly relations with TNK President Semen Kukes, YUKOS had even less of a chance of making it in Kursk.

The Kursk branch of the Anti-Monopoly Ministry admits that TNK monopolizes the regional market, and that competitors cannot enter the market, but sees no reason to intervene in the situation. Ministry officials claim that TNK is not violating anti-monopoly legislation and prices are rising all over Russia. Some members of the regional legislature tried to complain about TNK's price policies and the lack of competition, but the protests went nowhere. The deputies ultimately decided that it would be prudent not to attack a monopolist who can simply switch off the oblast's gasoline supply, particularly when the fall harvest season is approaching.

TNK describes itself as the only investor willing to put its money into Kursk Oblast. It has spent more than \$10 million on building just one gas station, and made additional outlays for reconstructing an oil storage facility, buying expensive imported equipment, and other costs. The oil company says that Kursk is a poor region, so no competitors want to work there. It explains the high gasoline prices by claiming that the government now allows it to send more oil abroad, where the markets are more lucrative. Even at current prices, TNK considers oil sales on the domestic market as charity contributions since the company can get much higher prices abroad. - Sergei Sarychev in Kursk

## **PARTY BUILDING IN THE REGIONS**

### **PRAGMATISM DETERMINES BUSINESS ELITE'S PARTY CHOICES**

By Natalya Lapina and Alla Chirikova, Moscow

Regional elites are not interested in talking about ideological issues, according to research conducted in Samara and Yaroslavl oblasts in 2001. For them, joining a party is

usually an attempt to solve business problems or increase their standing in society. As one person put, "People join parties for opportunistic reasons. Some need assistance, some need connections."

Recognizing the lack of ideological interests among the elite, party leaders focus on their pragmatism by stressing that joining the party can bring concrete benefits. Thus, the leader of Samara's Yedinstvo party said, "We focus on people who are mainly interested in the federal government. These are the heads of federal agencies and big business. For example, the head of the Kuibyshev Railroad. He is with us and is a member of the party. Kadannikov [the general director of AvtoVAZ] also must join us. He works at the federal level and needs little from the region, just as his team does. They all participate in our party-building efforts."

Such pragmatism is also characteristic for most other members of the business community. Business people make their political choices based on business interests. "We have a special mentality," said one Samara businessman. "In the past, there was only the Communist Party. Then new parties began to appear -- Democratic Choice of Russia, Our Home is Russia. Now everyone must join Yedinstvo. Businesses that hope to increase their standing join that party. In particular, that means big business, which is interested in contacts with the Center, wants to have access to information, and participate in federal programs."

Analysts make similar points: "Twenty percent of Samara Oblast's regional elite joined Yedinstvo. If it is necessary to address a question involving a contract, the party leader can help set up a meeting with Kirienko or someone in Moscow. It might help. These people think that party membership might help them solve personal questions at the federal level because [such party membership] does not provide any benefit on the regional level."

The logic of party building in the regions confirms this assessment. All parties that have influence at the federal level or access to the oblast administration (such as with the Russian Party of Social Democracy in Samara Oblast) count influential business representatives among their ranks. In Yaroslavl Oblast, the business groups essentially divided the parties among themselves, assuring that there is at least one prominent businessman in each party. Yaroslavl Tire Factory General Director Yurii Lastochkin heads Yedinstvo and Rybinskie motory Director Yurii Lastochkin is in the leadership of the Union of Rightwing Forces (SPS).

Nobody in the oblast is surprised by this distribution of political functions. Observers believe that Lastochkin hopes to use the SPS leadership and resulting contacts with Unified Energy System head Anatolii Chubais to win profitable contracts for his enterprise, and these expectations are not unfounded. Tonkov has indicated that he will run in the next gubernatorial elections. As governor, he would benefit from the support in Moscow and contacts that heading Yedinstvo provides him.

## **BOOKS WORTH READING**

### **WORLD BANK EXAMINES BARRIERS TO BUSINESS**

Harry G. Broadman, ed., *Unleashing Russia's Business Potential: Lessons from the Regions for Building Market Institutions*, World Bank Discussion Paper no. 434, 2002.

This book can be ordered on-line at the following site:

[http://publications.worldbank.org/ecommerce/catalog/product?item\\_id=1133873](http://publications.worldbank.org/ecommerce/catalog/product?item_id=1133873)

*Unleashing Russia's Business Potential* examines the many barriers to business development that are preventing Russia from achieving its full potential. World Bank Lead Economist Harry Broadman and his colleagues note that Russia faces a major policy challenge to increase the level of inter-enterprise competition in the country.

Regional governments often hinder business development by preventing new firms from entering their regions to the benefit of existing firms. In fact, as the report notes, in many cases, these firms work with the local authorities to keep out competitors.

Such collusion is certainly the case in many regions, but new factors are at play that the report does not discuss. In particular, big business has begun to actively move into the regions following the 1998 default and in some cases is scrambling the old ties between governors and regional businessmen. Also Putin has been able to secure the resignation of some key governors, such as Primorskii Krai's Yevgenii Nazdratenko, and his successor, Sergei Darkin, has opened the doors to Moscow business, overturning the protectionist policy that Nazdratenko pursued. In other cases, Putin's seven presidential representatives may exert influence by serving as a constant potential threat to the governors. Such changes may or may not have positive effects, but deserve further study.

The report rings the alarm bell about the rising level of concentration among Russia's industrial output. Recent data on concentration at the oblast level indicate that the average 4-firm concentration ratio (the sum of the market shares of the top four producers) is about 95 percent. As noted, these existing firms face few new competitors.

A chapter on corporate finance by Stijn Claessens and Esen Ulgenerk finds that many of the barriers businesses face are finance related. Russian banks do not have the capital to lend firms seeking to expand and to entrepreneurs seeking to open new firms. The domestic banks also lack personnel with the skills to assess risk and structure financial products and services to meet the needs of the business community.

While the problems with Russia's banking sector are well known, the chapter on dispute resolution by Kathryn Hendley and Peter Murrell provides new insights into the arbitrazh court system. Hendley and Murrell contradict the accepted wisdom that these courts are not effective and that enterprises are not seeking to use them. In fact, empirical research shows that there is strong demand for the courts and that they make fair decisions. The authors also argue that dismissing the judges as hopelessly incompetent and corrupt is inaccurate.

Enforcement of court decisions remains the greatest barrier to using the arbitrazh courts, but this is not something that can be blamed on the judges or courts since it is not their responsibility to enforce the decisions. However, it is an issue that needs to be addressed. While many problems remain with the arbitrazh courts, the authors hope that a more informed understanding of the empirical data will lead to a better basis for conducting institutional reform.

Anecdotal evidence in St. Petersburg suggests that this analysis is on target. One local business journalist noted that despite Petersburg's reputation for assassinations (another took place a few days ago), the number of such killings in the city is relatively small. What is more important is that the number of lawyers is growing and businesses

are using them more frequently to resolve disputes in the arbitrazh courts. Accordingly, the use of violence as a tool for dispute resolution is declining. - Robert Orttung

## ST. PETERSBURG DIARY

**A CUP OF JOE IN PETER.** There is something new under the Russian sun: a vast supply of coffee houses from downtown Moscow and St. Petersburg to Novosibirsk. In Petersburg, cafes focusing on coffee and pastries began to appear in force about two years ago. However, there is a long history of coffee in St. Petersburg.

Peter the Great first brought coffee to the city when it was still young. Moscow had been a tea-drinking city because of its proximity to Asia. Peter brought coffee to his northern capital from the West. Initially, it was less expensive than tea because the city was closer to east than west, at least that is what my friend Sergei told us while sipping a latte in the best coffee house in the city.

Far from the throngs on Nevsky Prospekt is the Gurme Coffee House, where the coffee is much better than Petersburg's answer to Starbucks, Idealnaya chaska (The Ideal Cup) chain of cafes that has sprung up in various sites around the city. This is the opinion of Alla, a former math professor at the local university of refrigerator technology who has more recently found her calling selling life insurance for AIG. She knows her way around a cup of coffee and is Sergei's wife.

My family and I checked out Gurme (Russian for Gourmet) and found Alla to be right on target. As usual, my wife ordered a mocha, which comes in separated layers of espresso, chocolate, and cream in a tall glass. It was just short of Frappacino perfection, the ideal for coffee in any market. Somehow, Starbucks has not entered the Russian market, although I suppose an invasion is imminent. Nevertheless, Russia is doing very well without it.

Gurme's pastries are excellent. We had a piece of Israeli Cheese Cake that could hold its own against anything found in Brooklyn, where cheesecake is more of a religion than a dessert. This version was heavy on the chocolate and light on the "cheese." We also tried a "Gornii pik," a pyramid shaped confection that had the consistency of a Russian chocolate "kartoshka," which was less popular with my family, but Sergei was happy to find a giant prune at the bottom.

Gurme is the only coffee house in Petersburg that roasts its own beans. The room has a real sense of style, with old-fashioned coffee pots and grinders perched on the wall and imaginative coffee-themed table decorations. The young staff is as friendly as one would expect these days.

We are frequent visitors to the Idealnaya chaska at the Hermitage end of Nevsky because it is open late. It attracts a large crowd of young Russians and tourists. Although lines can be long, the coffee is pretty good and the Glyass is among the best. This is a mixture of hot coffee, ice cream, whipped cream, and chocolate. My kids go for the milkshakes and the thick, rich, and flavorful hot chocolate, which resembles a melted chocolate bar and is like nothing we have ever tasted. The pastries are mediocre so the main attraction here seems to be the fact that the rest of the city has crammed itself in as well.

This particular Idealnaya chaska is located in the old Cafe Druzhba (Friendship), where my wife and I occasionally went when we were students here in 1990. Then the

Druzhba was almost the only cafe on Nevsky and the service was just short of surly, though the food was reasonably good. Of course, in 1990 it was a bit of a challenge for us to find something to eat, even if we were never in danger of starving.

According to local lore, a young woman of 24 founded the first Ideálnaya chaska after spending three months in the US and enjoying Starbucks there. Later she married a banker, whose bank gave her a \$1 million loan to open several more stores. The name comes from a book in English about coffee.

The coffeehouse closest to our apartment is the Ontrome, a French pastry shop right off of St. Isaac's Square. They serve beautiful fruit tarts and tasty espresso in a cozy cafe with some outdoor seating. The effect is only slightly marred by the fact that they quickly microwave the tarts before serving them. This cafe is also a chain and one that deserves support.

As far as I can tell, nobody seems to be plotting a revolution in the coffee houses. In fact, most people are having a nice chat. Of course, the prices are a little steep for the many Russians who are not in the middle or upper classes, but still low by Western (and Moscow) standards. A good cup of coffee costs about \$1, a lot if your salary is \$500 a month, but much less than the \$3.50 you would pay for basically the same thing in New York.

What is the next wave in the industry? Tea houses. Two young men have already set up one Chainaya loshka (Tea Spoon) and are planning to expand into several other locations soon. It is easier to make tea than coffee, but their overall concept will be more sophisticated -- beyond pastries they will serve blini and salads, so you can make a lunch of it. - Robert Orttung

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### SPECIAL REPORT

#### BUSINESS AND POLITICS IN ST. PETERSBURG

##### OVERVIEW

As in everything else, the relationship between business and politics in St. Petersburg is relatively unique among Russia's 89 regions, but there is also much that looks familiar. In contrast to many other regions, there is not one factory that dominates the city economy and therefore the local political situation. In contrast to the federal level of politics, there are no local oligarchs who try to control the governor. Like many other regions, however, the governor is rather old-fashioned in his view of business-political relations and the city is relatively closed to outside investors, whether from Moscow or abroad.

The key source of the governor's power in relation to business groups is his control over the city's budgetary funds and his ability to provide access to land plots. Manipulating these resources makes it possible for the governor to build coalitions of supporters among the business community. As one St. Petersburg banker put it, "the largest corporation in our city is the city itself." (Balt-Uneximbank President Yurii Rydnik, *Yedinstvo i Stabilnost*, no. 7, July 2002). As is common across Russia, having the administration's support makes it much easier to do business in a particular area.

Business size often determines which authorities are most important for specific corporations. Big business, in general, focuses on the federal authorities, although ties to governors can be important in some instances. Regional businesses must build relationships mainly with the governor or local officials. For small businesses, tax and fire inspectors are the most important official contacts.

Sectoral differences are also important. Bankers tend to be more dependent on their relations with the authorities because much of their business comes from handling state

money. Executives in the food processing industry are less dependent because their profits depend much more on their ability to sell products to the population than on their ties to political officials.

## PETERSBURG'S BUSINESS ELITE

The three most prominent businessmen in St. Petersburg fall into these categories. The city's most profitable corporation is the Baltika brewery, which is headed by Taimuraz Bolloev. His power depends on his ability to sell beer to the drinking public. He therefore supports all political groups in order to ensure that they basically leave him alone. Thus, even though the governor and Putin's representative to the Northwest Federal Okrug are opponents, Bolloev is a member of Governor Vladimir Yakovlev's Social Council and helped found the North-West Center for Strategic Initiatives, which works at the federal okrug level in relation with Presidential Representative to the Northwest Federal District Viktor Cherkesov. Bolloev also supports the Rosbalt news agency, which is run by Cherkesov's wife.

Even though Bolloev tries to set up ties with everyone, he maintains a strong degree of independence. In 1999, the city asked Baltika for an \$8 million contribution to the construction of the new ice hockey stadium, where the world championships were about to be held, but the company turned the city down. Observers believe that considerable sums of money designated for the stadium was wasted or stolen as construction costs were much higher than they should have been.

Yuri Rydrik, the head of Balt-Uneximbank is a close Yakovlev ally. Critics of the governor charge that the city keeps some of its money in this bank, circumventing the treasury system, and gives the bank preferences, providing the basis for much of its business. Balt-UneximBank was once part of Sergei Potanin's financial empire, but in the fall of 2001, Potanin sold his shares to companies that apparently are close to Yakovlev's administration. The bank is planning to change its name later this year.

In an extensive interview in the newspaper *Yedinstvo i Stabilnost* (July 2002), an organ of the Russian Party of Stability, Rydrik said that his bank had actually proposed the creation of the treasury system. Even after this system was established, however, Rydrik's bank still plays a role in handling city money. As Rydrik explained, the treasury system is simply a way of disbursing money. That money goes to state organizations, which keep their accounts in commercial banks. The Central Bank could not handle all these accounts because with 89 regions there are simply too many of them. Rydrik claimed that the battle for city funds is a normal phenomenon. If the city kept all of its money in the Central Bank, commercial banks would lose interest in working with the city and would not have any funds to finance other projects.

Another key city figure is Vladimir Kogan, the head of Promstroibank. His main alliance is not with Yakovlev, but with the many former Petersburg residents who are now working in high positions in Moscow. Additionally, Kogan is cooperating with aluminum magnate Oleg Deripaska to buy up a large share of Russia's forestry industry, in particular by attacking another St. Petersburg company, Ilim Pulp Enterprise, to take control of the Kotlass Cellulose and Paper Combine in Arkhangelsk Oblast (*Izvestiya*, 25 July 2002).

Yakovlev has a key ally in his wife Irina. Her influence is considered to be extensive, though investigative journalists have never been able to prove any wrong doing. She has considerable control over the programming at Petersburg television. She also has been tied to the Pyaterochka chain of warehouse discount stores. In a relatively quick period, this company set up a large number of stores, surprising local observers with the amount of financing the company apparently has and the speed with which it was able to move through the bureaucracy to gain control of attractive pieces of real estate. Only good access to the city administration makes it possible to secure some of the prime commercial real estate in St. Petersburg. The stores have become very popular because they charge very low prices. The company already has several stores in Moscow and is planning to open many more with the close support of the Moscow mayor's office (*Vedomosti*, 25 July, 2002).

Yakovlev's wife is apparently also close to a factory that produces cobblestones. This factory receives numerous orders from the city to supply the large number of construction projects now under way in preparation for the city's 300th birthday celebration. Other construction firms that benefit from city orders also back the governor. Moreover, Yakovlev has close ties to numerous media outlets that receive support from the governor's administration.

Andrei Likhachev and the management of the Lenenergo utility, a part of Anatolii Chubais' Unified Energy System, is Yakovlev's chief opponent, although the situation is more complicated than one of direct conflict. The governor and the utility have different interests. The governor wants to keep electricity prices low for residential and corporate customers, while the utility would like to raise prices in order to fully cover its costs and generate income to invest in new facilities. Currently, the city provides subsidies to keep the prices low. Often, however, it is late in making these payments, leading to friction with the company.

Likhachev is considered a likely candidate in the city's 2004 gubernatorial elections. Yakovlev announced in July that he would like a third term. Chubais knows that Putin would like to replace Yakovlev with someone else, but that Putin will only support a strong candidate who has good chances of winning. In 2000, Putin backed the obviously unprepared Valentina Matvienko with disastrous results. Chubais would like to turn Likhachev into a strong candidate. In 2001, Likhachev served for a short while as the head of the Petersburg branch of the Union of Rightwing Forces (SPS), the party of which Chubais is a member. However, Likhachev has since left that position since he did not want to be identified with a narrow partisan organization. Whatever Likhachev's standing on the eve of the elections, local observers suggest that the federal government may not play a major role in the campaign because Putin is extremely indecisive.

## MOSCOW BUSINESS IN PETERSBURG

Even though Petersburg is Russia's second largest market, Moscow business plays a relatively small role in the city. The Petersburg business community has a reputation for being very protective of its territory. This public perception is in contrast to places like Yaroslavl, which see it in their interest to present themselves as being open to big business (*Profil*, 22 July 2002).

The Moscow business community is very careful in its relations with the city and those who do not seek close ties with the governor come to regret it. Several years ago, the Moscow firm Energomash tried to buy three firms in the energy machine-building sector (Metallicheskii zavod, Elektrosila, and Zavod turbinykh lopatok). Energomash was trying to set up a national network of such firms and already had acquired several similar enterprises in other regions. However, they had poor relations with the governor. In response, Yakovlev and then Deputy Governor Klebanov worked to back Interros and Siemens in gaining control of these enterprises. Interros was able to push Energomash out of the St. Petersburg market.

Some powerful Moscow companies have been able to enter the Petersburg market with little regard for politics. The MTS telephone company has started working in St. Petersburg by offering lower prices and better service. At the same time, the main St. Petersburg operator, North-West GSM, is now working in Moscow and many other Russian cities under the name Megafon. Suspicious local observers suspect that MTS was able to work out some sort of arrangement with the governor and perhaps even Megafon. Megafon is now becoming a Russian company rather than a "Petersburg" firm. It has just moved its office to Moscow, and is the only mobile phone company with licenses to work on all of Russia's territory (*Vedomosti*, 2 August).

Another market that is ripe for intervention is the gas station business. There are currently 270 gas stations in Petersburg, owned by 30 operators and local independent operators dominate the business. The largest is the Petersburg Fuel Company (PTK), which runs 94 stations. The next two largest operators are also local, Faeton and the Baltic Financial-Industrial Group (BFPG). The only outsider in the top four is the Finnish Neste, with 22 stations (*Delovoi Peterburg*, 22 July).

Since 2000, Russia's largest oil companies have begun to move into Petersburg. By that time they had accumulated a large amount of capital and wanted to invest in the lucrative Petersburg market. The local companies cannot compete because they are not able to match the resources of Russia's big companies.

So far two of Russia's major oil companies are players in St. Petersburg: Slavneft, controls about 14 percent of the market, and LUKoil. Despite numerous meetings with the governor, LUKoil was only able to build two stations in the city over the last five years. In the spring, however, it ordered 5 ships from a local firm and subsequently was able to purchase nine more stations (see RRB, 29 July 2002). In July it bought an additional eight (*Vedomosti*, 2 August). Faeton is already in negotiations to sell many of its stations to a large Russian oil company.

Ultimately, four companies are likely to control the market, Neste, LUKoil, Slavneft, and PTK, according to *Izvestiya*'s St. Petersburg edition (31 July). The real changes in the market will come when Russia's oil companies decide to start building new stations in the city rather than simply buying up old ones. The big oil companies, with their own extraction and processing operations, can sell gasoline about 10 percent cheaper than independent gas station owners, who have to buy gas from the big companies. Ultimately, these four gas station operators will be in a much stronger position to dictate terms to the regional authorities because of the way tax and fee revenue will be collected (*Kommersant Vlast*, 23 July 2002).

The federal authorities believe that the Petersburg energy business is heavily criminalized. In May, Interior Minister Boris Gryzlov set up a working group to study the

situation. The newspaper *gazeta.ru* speculated that the federal authorities wanted to clean up the business to make way such large Russian oil companies as LUKoil, Sibneft, Tyumen Oil Company, and Tatneft to enter the market (22 May, as translated and reprinted in David Johnson's *Russia List*).

Additionally, on 14 March, 2002, the Anti-Monopoly Ministry filed charges against the St. Petersburg administration for selling land to build gas stations without making a public announcement or holding an auction (*Peterburgskii Chas Pik*, 31 July-6 August, 2002). The combination of federal pressure and new market conditions should change the way the city works.

## THE LEGISLATIVE ASSEMBLY

Since there are no stable political parties or deputy factions in the city legislature, businesses have difficulty organizing effective representation of their interests here. This situation may change once the new law requiring party-list voting for half the seats in regional legislatures goes into effect in the summer of 2003, but there will be no party voting in the quickly approaching December 2002 city legislative elections.

Each deputy has his own connections to the business community working as an individual. Most likely, the deputies receive some money from business for specific services that they provide. The governor, in turn, helps his legislative allies by making sure that their projects are funded and implemented quickly, while the projects of his opponents often face a much greater number of obstacles.

## PRESIDENTIAL REPRESENTATIVE

Local observers are divided in their opinions about the success of Presidential Representative Viktor Cherkesov's work in the city. Some believe that he exerts a powerful influence on the overall political situation in the city, while others believe that he has little influence and simply benefits from processes taking place beyond his control.

Analysts who see Cherkesov playing a major role stress that his influence is mainly political and not economic. The St. Petersburg businesses that do not have close ties to Yakovlev now gravitate toward Cherkesov, seeing him as a kind of balancer to the governor. Baltika and Lenenergo are both prominent members of the business council that Cherkesov set up. This council is extremely bureaucratic, however, and does not really play a role in city politics.

Until Cherkesov's arrival, Yakovlev had extensive power that gave him almost complete control of the city. Cherkesov's activities are not visible to the public and observers cannot cite any concrete conflicts between the governor and presidential representative, beyond for the dispute over the federal funding for the celebration to mark the 300th anniversary of the city. Nevertheless, Cherkesov's presence represents a constant threat to Yakovlev and implicitly limits the kind of activities that he can engage in.

Reflecting his career background, Cherkesov mainly uses KGB methods against the governor. Corruption cases have been brought against four deputy governors and one of them has died, apparently because of the stress surrounding the situation. Cherkesov's deputy in St. Petersburg, Chief Federal Inspector Nikolai Vinnichenko, compares the

situation in Petersburg to the one in Kursk under former Governor Aleksandr Rutskoi, when many of his deputies were being prosecuted. He said that the governor "feels uncomfortable" in this situation (*Delo*, 27 May, 2002).

In essence, Cherkesov is creating conditions in which no one is willing to work as a deputy governor because they are afraid of the consequences. Many who join the Russian bureaucracy see it as an opportunity to secure side payments enabling their own personal enrichment. However, if a potential deputy governor knows that the federal authorities will be scrutinizing his every move, then he has no interest in working for the governor. Moreover, most observers believe that Putin wants to remove Yakovlev, limiting the time horizon for profitable work with the governor. Recently, many deputy governors have resigned of their own accord, seeking better opportunities elsewhere. The new generation of vice governors now working for Yakovlev is not well regarded and there are very few businessmen deciding to enter state service. Sooner or later, these conditions will make it difficult for Yakovlev to work, but, even under this pressure, he has not become more pliable to federal wishes.

Those who are skeptical about Cherkesov's powers point out that the governor controls all of the money in the city. Moreover, Cherkesov is a much worse politician than Yakovlev, who gives regular interviews and interacts well with journalists. Yakovlev shows up at all important events in the city. In contrast, Cherkesov rarely gives interviews and does not have much public standing. However, one of Cherkesov's main assets is his access to numerous media resources, including through his wife who controls the *Chas Pik* newspaper and Rosbalt news agency.

Nevertheless, Cherkesov did not create the current media freedom in the city. Yakovlev has always faced an opposition press. The Yabloko party and many deputies in the city legislature have long opposed the governor. In short, those skeptical about Cherkesov's activities claim that his arrival did not really change anything in the city. In the case of the vice governors, Cherkesov merely does nothing to block the procurator's actions.

According to Yakovlev-supporters like the banker Rydnik, Moscow is exerting a destructive influence in the city. Rydnik charged that the federal government's constant criticism of the governor was driving away investors who sought to avoid any kind of political instability. The federal authorities argue that it is the perceived corruption in the Yakovlev administration that is keeping investors out. In many cases, the city seems to be losing the battle for investment to its rural neighbor, Leningrad Oblast, which has been able to boast of many new foreign-financed projects lately.

## OTHER CONSTRAINTS ON THE GOVERNOR

Yakovlev faces a number of other constraints. Following the Constitutional Court's 9 July 2002 ruling that sitting governors can count their terms beginning in 1999, Yakovlev announced that he was interested in a third term. However, to run, Yakovlev must introduce changes in the city charter, which currently limits the governor to two terms. The current membership of the city legislature is unlikely to support such amendments, but a new legislature will be elected in December. Thus, Yakovlev and his opponents will fight a tough battle in the fall to secure a super majority among the deputies (they need 34 of the 50 seats to change the charter). President Putin has a cold

relationship with Yakovlev because Yakovlev defeated Putin's political mentor, former Mayor Anatolii Sobchak, in his bid for a second term in 1996. However, it is not clear how much money Putin and his allies will put into the city's legislative elections since influencing such campaigns from Moscow is relatively difficult.

Nevertheless, Moscow continues to exert pressure on Yakovlev. The federal government has just appointed a Muscovite as the new police chief for the city. He is expected to conduct a major overhaul of the city's police forces, which have functioned poorly since the collapse of the Soviet Union. Federal inspectors have determined that Petersburg is violating the law in the way that it is restoring the Kirov- Vyborg line of the metro, which was damaged by flooding several years ago and is now partially out of service (*Delovoi Petersburg*, 2 August). The Transportation Ministry is dissatisfied with the way that the city is building the new ring road around Petersburg. Even the Ministry of Culture has taken over the management of several federally-owned historical buildings, charging that the city was not doing a good job caring for them - Robert Orttung

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### SPECIAL REPORT: LENINGRAD OBLAST

*During the last part of my summer in St. Petersburg, I concentrated on developments in Leningrad Oblast. I also had an opportunity to visit Kirishi and its giant oil refinery. Here is a report of my findings. - Robert Orttung*

## BUSINESS AND POLITICS

**INVESTORS FLOCK TO PETERSBURG'S RURAL NEIGHBOR.** Although it can hardly compete with the splendor of St. Petersburg's palaces, churches, and canals, Leningrad Oblast, the rural area around Russia's northern capital, has become a magnet for foreign investors. Along with Novgorod and Sakhalin oblasts, it has established a new model of relations between business and politics in Russia in which the local authorities work hard to attract foreign investors and meet their needs.

The American Chamber of Commerce in Russia awarded Leningrad Oblast its Region of the Year award in 2002 and it is not hard to see why the region is earning such plaudits. Growth during the first half of 2002 was 36.6 percent, compared to 3 percent for the country as a whole (*Argumenti i Fakti Peterburg*, no. 32, August 2002). Ford just opened a plant planning to produce 25,000 cars a year in Vsevolozhsk. Kraft Foods is building a plant to make instant coffee. Veda-PAK has just opened a \$50 million glass bottle factory in Kingisepp that will be one of the largest in Russia. Philip Morris has a large tobacco plant in Izhora and is attracting other firms to the area such as Kress-Neva.

The successful cooperation of foreign business and the authorities is bringing more business in. John Deer, Electrolux, Volkswagen, and Finland's Thomesto OY are expected to sign contracts in the near future. Even Russian investors are showing interest,

particularly in chicken production and forestry. Additionally, the powerful MDM group is reviving the Fosforit fertilizer factory in Kingisepp.

Leningrad Oblast, which marked its 75 anniversary on 1 August, began its successful foray into attracting investors in 1997. Then, the economy of the region was in horrible shape and the oblast budget depended for more than half of its tax revenue on the income generated by the giant oil refinery in Kirishi, which is owned by Surgutneftegaz. Under Governor Vadim Gustov, the authorities decided to follow a strategy of diversifying the economy and attracting foreign investors. They essentially copied the investment legislation adopted under Governor Mikhail Prusak in Novgorod Oblast. In September 1999, Valerii Serdyukov became governor, defeating Gustov, who had left the region to serve briefly and fruitlessly as first deputy prime minister under Yevgenii Primakov. Since then, the region has gone from a recipient of federal subsidies to a donor to the federal budget (*Ekspert*, 3 June 2002).

Leningrad Oblast has much brighter prospects than Novgorod. Under Prusak, the Novgorod political system is highly centralized and little happens without Prusak's personal participation. The political system in Leningrad Oblast is much more diversified and Serdyukov does not try to control everything himself. Today, Novgorod is no longer able to attract as much investment as it wants, while Leningrad Oblast is booming.

Leningrad Oblast has many objective advantages over Petersburg as a destination for major foreign investors. Its workers tended to be highly educated, but command lower salaries than in the city. The region borders on Finland and the Baltic republics. It has a good transportation system, so it is a good place for production aimed at foreign or Russian markets. Ports under construction in Primorsk and Ust-Luga are expected to have a brilliant future. Factories in the region have access to cheap power from the Leningrad Nuclear Power Station. There are also extensive forestry resources available. With the arrival of an IKEA furniture factory in Tikhvin, the oblast is beginning to build processing plants so that it will no longer merely export round timber, as it has done in the past, but produce high-quality goods, generating tax revenue and jobs in the process (*Peterburgskii chas pik*, 7-13 August).

Leningrad Oblast also benefits from more competent leaders than there are now in St. Petersburg. The oblast's political leadership is much more adept in courting investors than their urban counterparts. Serdyukov, and especially Deputy Governor for Economics and Investment Grigorii Dvas, simply try harder by working one-on-one with investors to meet their needs. The officials help investors remove barriers that might otherwise block their efforts. For example, the oblast worked with ecologists and energy companies to bring Caterpillar to Tosno. The oblast's assistance with the customs authorities helped International Paper make an investment. Oblast officials also work to ensure that fire inspectors do not hinder business operations.

Petersburg officials have long talked about opening a "one-stop shop" to handle all bureaucratic problems for investors, but has done nothing in practice. In some cases, Putin's tax reforms have overturned the advantages Leningrad Oblast's 1997 investment law provided to investors. In response, the oblast authorities have sought other ways to give investors a break (*Kommersant*, St. Petersburg, 2 August). Increasingly, commentators are comparing Serdyukov to St. Petersburg Governor Vladimir Yakovlev, usually to Serdyukov's benefit.

The heads of all Leningrad Oblast enterprises are organized into municipal councils of directors. The chairmen of these municipal councils meet with the governor once a quarter. These councils discuss the range of problems involving the relationship between business and the authorities, including taxes, electricity prices, salaries, and the utilization of industrial production capacities. Serdyukov describes this council as a "good connecting link between regional and local authorities and business."

Of course, one has to remember that for the governor relations with the federal government are much more important than with a single investor. This fact became obvious when Serdyukov was six hours late to the ceremony marking the opening of IKEA's new furniture factory in Tikhvin on 29 July. The governor kept the investors waiting because Prime Minister Mikhail Kasyanov had just arrived in the region for his summer vacation and Serdyukov wanted to use the opportunity to discuss his problems with the head of government.

For the future, the oblast is seeking to attract computer-programming companies to add a high-tech component to its industry. It will do this by offering subsidies on profit tax payments (*Delovoi Peterburg*, 5 August). An attempt to get the law through the regional legislature last year failed, but oblast officials have now committed themselves to making it work by the end of this year.

### **THE VARIETY OF BUSINESS-POLITICS RELATIONS IN LENINGRAD OBLAST.**

At the regional level, Leningrad Oblast has a general reputation for being hospitable to foreign business. However, looking at the oblast city by city reveals a wide range of variety in the kinds of relationships between business and politics.

The gigantic Surgutneftegaz oil refinery dominates Kirishi, the richest and most polluted city in the oblast. This refinery supplies 49 percent of the oblast and city's wholesale market for petroleum products (*Delovoi Peterburg*, 22 July). Given its size and importance to the local economy, the refinery has extensive control through all local political institutions. In fact, there is little more to the city beyond the refinery, an electricity generating plant, a vodka factory, and apartments for the workers to live in. There are essentially no cafes or small business of any kind. Apparently, everyone is better off working for the refinery, which is doing very well, than trying to set up other kinds of business.

The city of Vyborg is defined by its location on the Finnish border and local business generates considerable profits from cross-border trade. Since gasoline is cheaper in Russia than it is abroad, there is a big business in selling domestic gasoline to customers outside of Russia. In 1994, local businessmen and the authorities sought to set up a local fuel company that would be independent of St. Petersburg and Russian companies. These attempts have led to numerous battles between two groups in the city that still continue. Here, in contrast to Kirishi, the opposing groups are battling for political authority (*Izvestiya*, St. Petersburg edition, 19 July).

In Sosnovy Bor, the main employer is a nuclear power plant. In this city, there is a strong trade union and a powerful Communist Party organization. These Communists do not look back to the Soviet era, but behave more like West European leftists. In recent mayoral elections, the trade union put up strong resistance to the alliance of oblast and nuclear plant officials. Ultimately, however, the trade unions were not able to prevail.

In the city of Kingisepp, near the Estonian border, the local fertilizer factory failed in the 1990s and, as an alternative, many local businessmen went into the business of importing and selling cars. The city now ranks third in the country for car sales. The most successful businessmen have decided to use their earnings to invest in other local businesses, including restaurants and agriculture. In this city, the local authorities are largely dependent on a multiplicity of business groups.

Governor Serdyukov generally has won the respect of all local groups in the region and power is divided into various spheres of influence. Serdyukov maintains his sphere of influence at the oblast level, while the local groups control their own areas. Naturally, the governor wants the oblast to be rich. However, he does not simply try to control everything as some governors do, but lets the various local groups do their own thing.

## CENTER-PERIPHERY RELATIONS

**LENINGRAD GOVERNOR CRITICAL OF FEDERAL REFORMS.** The poor relationship between St. Petersburg Governor Yakovlev and President Putin also works to the benefit of Leningrad Oblast, which does not suffer from such problems. Putin vacationed last year in the oblast and spent a considerable amount of time with Leningrad Oblast Governor Serdyukov (*Argumenti i Fakti Peterburg*, no. 32, August 2002).

However, while Serdyukov has good relations with the federal government, they are not free of conflict. Like all Russian regions, the oblast suffers since the federal government is constantly changing its tax laws. The biggest problem for the oblast concerns fees charged on tobacco. The Philip Morris factory working in the oblast is the largest in Europe. Starting on 1 January 2003, all of these fees are slated to go to the federal government. Currently the plant pays the oblast about 1 billion rubles a year, so the loss of this money would dramatically affect oblast finances. During the last 2.5 years, the factory has paid 4.5 billion rubles to regional and local budgets. In fact, it is largely due to the appearance of the cigarette plant that the oblast was able to reduce its dependence on the Kirishi refinery.

The tobacco factory would also suffer if this tax reform goes into effect. According to its agreement with the oblast, it has secured tax breaks, which are worth 1.3 to 1.5 billion rubles a year. Serdyukov met with Putin to discuss this issue on 23 July and the president promised to raise the matter with Finance Minister Aleksei Kudrin (*Kommersant Sankt-Peterburg*, 25 July).

Another problem is that the Russian government is planning to abolish the road tax, which went into regional coffers, and instead give the regions an additional 1.5 percent of the profit tax. But, according to Serdyukov, this new tax does not provide enough compensation. He points out that the value-added tax, customs fees, higher electricity costs, higher natural gas prices, and other costs are reducing company profits and the possibility that the oblast can collect revenue from profit taxes. "I told the president at one of the sessions of the State Council Presidium that such steps were impermissible." (*Ekspert*, 3 June)

Serdyukov is also critical of Putin's decision to create seven federal districts in Russia, noting that their "results are not visible." Instead of administrative procedures, he would like the federal government to set up clear rules and laws. "We need to create the appropriate conditions for business, not set up gosplans," he asserted. He also argues that

the attempts to pull the police and procurators away from the governors and put them under the control of the federal districts do not make sense. He claims that ultimately the police and procurators work in the regions, not in the okrugs. However, he agrees that the president should have the right to fire governors if they are not up to handling their jobs.

## LOCAL GOVERNMENT

### THE KOZAK COMMISSION ON LOCAL GOVERNMENT: THE VIEW FROM THE NORTH-WEST.

Ultimately, the Kozak Commission report on dividing responsibilities between the federal, regional, and local levels of government should provide a blueprint for redefining the organization of the Russian state and its relationship with society. It will outline future amendments to hundreds of federal laws that will have to be changed in the coming years. One of the most controversial issues so far has been who will control Russia's natural resources. The newspaper *Vedomosti* caused a scandal when it reported that the Kozak Commission wanted to nationalize Russia's resources under federal control, but government officials quickly denied that such a plan actually existed.

Local government officials are particularly interested in the final content of the report. In a meeting on 8 August, for example, the mayor of Kirishi (Leningrad Oblast) made clear that the current situation is intolerable. The federal government is dumping an increasing number of responsibilities on local government, while reducing financial support. Local governments now face 6.5 trillion rubles worth of responsibilities at a time when there is only 2.6 trillion rubles in the budget for them, according to one estimate reported at a meeting of local government officials from the Central and North West Federal Okrugs in Petrozavodsk (*Izvestiya*, 10 August). The Kirishi government has particular difficulty supporting the local branches of the police and fire departments, which are supposed to be backed by the federal government. It also has problems providing federally mandated benefits to veterans.

The Kozak Commission was supposed to issue its report at the beginning of the summer. However, the work has not been completed and the commission has not made available any preliminary texts. Several newspapers have obtained differing drafts of the commission's overall concept, but it is not clear if they contain official policies or just proposals (see, for example, *Kommersant*, 28 May 2002, and *Izvestiya.ru*, 25 July 2002, <http://izvestia.ru/politic/article21570>).

According to one local government official in St. Petersburg, the Kozak Commission is planning a major recentralization of power in the country. Now, this official said, the commission is sending out trial balloons to various local government officials to determine just how negative their reaction will be. The commission will presumably gauge its policies according to the response that it receives.

The key issue is financing for local government. In order to operate independently of federal and regional influence, local government must have stable and predictable sources of income. Under current conditions, it does not have such income because Russia's tax laws are always changing.

Formally, local government is not part of the Russian state, which the constitution defines as the federal and regional governments. In line with the European Charter, Russia's local governments are separate from the state and do not fit into the "power

"vertical" that Putin is creating. In practice, however, local government is largely subordinate to the federal and regional authorities.

The way that the tax system is structured will be crucial in determining the future of Russia's local government. If local government is assigned the income from reliably collectable taxes, it will be able to develop autonomously. If it must continue to rely on subsidies from regional governments, it will always be dependent on the policies of regional officials. Naturally, local government officials want their own sources of income, meaning the assignment of taxes specifically for the local level. Just as logically, regional officials would like to ensure that local officials remain dependent on their good will for financial support, and therefore would prefer to continue handing out subsidies.

Kozak's plans for local government in Russia will likely draw heavily on his earlier experience in Petersburg, according to Nina Shubina, who handles relations with local government for Governor Vladimir Yakovlev's administration. This experience suggests that Russia's local governments will ultimately have a small set of responsibilities and only limited amounts of financing.

Before moving to Moscow, Kozak developed the local government system for St. Petersburg. In the city, there are 111 local government councils. These local governments deal with a limited set of issues (24 in all) ranging from handling emergency situations to installing metal doors in apartment houses. Their funding accounts for about 2 percent of the city's consolidated budget. Rafgat Altynbaev, the chairman of the Federation Council Committee on local government argues that local government will only become a reality when it controls 30-35 percent of the country's revenues, not the 5-7 percent it controls now on average (*Izvestiya*, 9 July). (Moscow and St. Petersburg are exceptions among Russia's 89 regions since they are cities with oblast status. Usually, local government refers to city or agricultural raion governments within an oblast. In Moscow and Petersburg, it refers to sub-city units.)

In Kirishi, local officials admit that they have very little influence on the federal government beyond the work of sympathetic deputies in the State Duma. They believe that the only way to increase the power of local government is faster democratization of society. Kirishi officials said that the most important thing is that people gain a sense that they can solve their problems themselves. From this view, the problem is one of mentality.

American social scientists point out that levels of social activity are often determined by the amount of information available on a given situation. In Kirishi, the media is largely funded by the local government, which is heavily dependent on the refinery. As a result, it will be difficult to gain independent information about current conditions in the city.

## ENVIRONMENTAL ISSUES

**NO STATE ENVIRONMENTAL MONITORING FOR REFINERY TOWN.** Until the beginning of this year, Russian enterprises had to pay fines if they discharged more than their allowance of air, water, or solid waste pollution. However, in January the Russian Supreme Court ruled that such fees were illegal because they amounted to "taxes." Only the legislature can impose taxes, so the fees, which had been set up by the

executive branch, were cancelled. As a result, Russian enterprises now have no incentive to cut their emissions.

Because of the presence of its giant oil refinery, Kirishi is the most polluted city in Leningrad Oblast. According to local officials, neither the federal government nor the oblast government does anything to monitor the pollution situation. The federal environmental ministry has seen its budget slashed in recent years and the oblast government employs no ecologists. The local government, which is in any case beholden to the refinery for the vast majority of its income, does not have the resources to monitor the local ecology either, although its staff includes an ecologist with an education in chemistry.

On paper, Russia has some of the toughest environmental laws anywhere. However, these laws are so stringent that they cannot be enforced in any reasonable way. As a result, state officials and corporate managers usually ignore them.

In this situation, public pressure on business is the only way to ensure that corporations maintain reasonable standards of environmental protection. Here Kirishi has considerable experience. Modern Kirishi began to develop in 1960 when the Russian Supreme Soviet decided to build the refinery and electricity plant there. In December 1974, planners also built a biochemical plant to use some of the output from the refinery to produce protein-vitamin concentrates. At the same time, the population of the town grew to 55,000 by the middle of the 1980s.

In 1987, an environmental movement became very active in the city when local researchers concluded that pollution from the biochemical factory was causing an unusually large number of cancer deaths among the city's children. At this time when environmental and political activism reached their peak, there were mass rallies in the city demanding change, including an enormous one that filled the city square on 1 June 1988. Although the state ordered that the factory stop production in 1989, it did not do so until 1993. Then, the reasons for its shut down were economic rather than ecological -- continued production was no longer profitable. Today, the factory produces Tigoda vodka and other beverages. Two-thirds of the facilities remain unused.

The refinery seems to have enlightened management and was willing to show a delegation of American researchers its production facilities and the measures it takes to reduce its impact on the environment. Most importantly, the refinery and power station are switching to burning natural gas rather than fuel oil (mazut), a change that will reduce air pollution. The plant takes measures to clean its waste water, but huge ponds of this water seemed to contain some petroleum products. This water is dumped into the local river once a year. Over all, the area remains heavily polluted and more work needs to be done.

However, at the moment, such concerns are left to the good will of the plant's corporate managers. The Russian state and local government are not taking action to enforce reasonable environmental standards. The local population is too concerned about surviving in Russia's new economy to engage in the kind of political and ecological activism that was prominent in the second part of the 1980s. Then environmental problems were at the top of the public agenda, a situation that no longer holds.

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## GUBERNATORIAL ELECTIONS

### CORPORATIONS, POLITICS MINGLE IN KRASNOYARSK ELECTIONS.

Krasnoyarsk Krai will hold first round gubernatorial elections on 8 September in a battle that pits some of Russia's largest corporations against each other in an extremely complicated and resource rich political landscape. The snap election follows the untimely death of Governor Aleksandr Lebed, who was killed in a helicopter crash on 28 April. The three main candidates in the campaign are Krasnoyarsk Krai legislature Speaker Aleksandr Uss, Taimyr Autonomous Okrug Governor Aleksandr Khloponin, and Krasnoyarsk Mayor Petr Pimashkov.

#### Krasnoyarsk under Lebed

Lebed won election as Krasnoyarsk's governor in 1998 with the backing of Boris Berezovsky and local businessman Anatolii Bykov, who at that time owned 28 percent of the Krasnoyarsk Aluminum Factory, in a classic case demonstrating the close ties between business and politics in Russia (see Andrew York's Oxford M.Phil thesis "Business and Politics in Russia's Regions: the case of Krasnoyarsk Krai"). In that battle, the incumbent governor, Valeriy Zubov, sought the support of Vladimir Potanin who owned Norilsk Nikel, the other major enterprise in the krai, and one that usually balances the Krasnoyarsk Aluminum Factory.

After the gubernatorial election, Bykov and Lebed had a falling out when Lebed refused to provide sufficient aid in securing the cheap electricity and access to raw materials that Bykov desired to maintain high profit margins at his plant. Lebed turned out to be a weak governor and ultimately needed help from then Prime Minister Yevgenii Primakov to deal with Bykov. Bykov subsequently fled the country when the authorities accused him of participating in a murder. While abroad, he lost control of the

Krasnoyarsk factory to Russian Aluminum, the alliance of Oleg Deripaska and Roman Abramovich that controls 70 percent of Russia's aluminum production. Overall, Lebed had few chances of winning another term at the time of his death.

### Corporate Interests in Krasnoyarsk

Beyond Russian Aluminum and Potanin's Interros, numerous corporate groups work in Krasnoyarsk Krai, including, YUKOS, MDM group and Mezhprombank. However, among these groups, only Interros is clearly backing a concrete candidate in Khloponin, the former general director of the Norilsk Nikel plant and one of Potanin's chief lieutenants (*Vedomosti*, 18 July). Russian Aluminum is generally associated with Uss, while Pimashkov seems to be taking money from Interros.

The Norilsk Nikel plant in Taimyr provides 60 percent of the krai's tax revenue, but has little influence over Krasnoyarsk politics. One of the main reasons why Interros is participating in the campaign is that corporations in the krai are not taxed evenly. Norilsk Nikel generates about \$4 billion a year in sales. The Krasnoyarsk Aluminum Factory sells about \$2.2 billion a year in goods, but pays taxes that make up only 7 percent of the krai's budget, proportionally much less than Interros's contribution (*Vedomosti*, 18 July). KrAZ made \$400 million annual profit, but paid only 400 million rubles in taxes in 2001 (*Kommersant*, 5 August). Most of KrAZ's profits go to Russian Aluminum.

KrAZ's main interest in having good relations with the local authorities is gaining access to cheap electricity. Despite his earlier battles with Bykov, Lebed generally supported the aluminum maker's interests in this regard. At the end of 2001, when the Unified Energy System electricity monopoly wanted to raise prices from 19.1 kopecks per kilowatt-hour to 32 kopecks, Lebed set the price at 24.5 kopecks. Currently the average electricity price for industrial consumers in Russia is 65 kopecks. The plant was supposed to pay 2 billion rubles into a social support fund in exchange for these lower prices, but never did so (*Vedomosti*, 18 July). Naturally, the krai population ends up paying for this energy subsidy to the aluminum maker through higher electricity prices for residential customers. As one would expect, Uss has no plan to raise electricity prices for KrAZ, considering the low prices a good way to stimulate economic growth.

In addition to preserving good conditions for his aluminum business, Deripaska wants close ties with new governor so that he can continue his expansion into Russia's forestry industry. Deripaska is pushing this drive in many regions at the moment.

The other companies working in the krai have not played an active role in the campaign. Observers believe that YUKOS, whose interests are concentrated in Evenkia, has purposefully stayed on the sidelines so far, but may give \$100,000 to both candidates in the second round of the elections so that the eventual winner will let the company continue to operate in peace.

### On the Side of Oligarchs

Uss has scored some of his greatest publicity coups denouncing the Moscow-based oligarchs that stand behind Khloponin. Citing examples in Chukotka, Khakasiya, Evenkia, Taimyr, and "many Caucasus republics," he points to the trend across Russia in which corporations are increasingly taking over entire regions. Uss views this

development negatively and claims to be the man to stop this wave of corporate takeovers in Krasnoyarsk. He argues that the oligarchs are only interested in the krai and the gubernatorial campaign for the purpose of making a profit (*Nezavisimaya gazeta*, 18 July). He warned the electorate not to pay for the benefits the corporations bring to the regions "with their own slavery."

Khloponin's defenders point out that Uss is being hypocritical in leveling these charges. One of Taimyr's representatives to the Federation Council, Le onid Roketskii, for example, pointed out that Uss has not tried to counter the numerous statements that his campaign has substantial financial backing from Russian Aluminum (*Kommersant*, 1 August). Uss apparently tries to overcome this inconsistency by dividing the major financial groups into "ours" and "Moscow's" (*Kommersant*, 5 August), with his supporters apparently being less rapacious than the ones backing his opponents.

Khloponin has taken a different approach to the question of the oligarchs since it would be impossible for him to claim that he is not associated with them. He says that he wants to work with oligarchs so that their contribution to the krai budget is equal to their use of resources from the krai. He also calls for increasing other forms of business in the region, such as forestry, heavy machinery, agriculture, chemicals, and small business to reduce Krasnoyarsk's dependence on its traditional tax-payers.

#### North v. South

Beyond corporate interests, the campaign pits the krai's north against its south. The north, with its extensive resource deposits, is relatively rich and generates a lot of the money that subsides the south. In Taimyr, Khloponin pays all salaries on time. By contrast, the southern part of the krai is relatively poor and the city of Krasnoyarsk is facing wage arrears for the first time since 1996. Local politicians blame low international aluminum prices and Moscow for their problems. They complain that Putin's centralization of budgetary revenue and his order to increase public sector wages by 89 percent in December 2001 makes it impossible for them to meet their obligations. Total wage arrears for the krai on 1 July were 1.8 billion rubles, of which nearly 800 million rubles were in the public sphere.

The structure of the krai exacerbates the battle between north and south. The krai is made up of three units, with the Taimyr and Evenk autonomous okrugs simultaneously being part of the krai and independent regions. The city of Norilsk, where the Norilsk Nikel plant is located, is physically inside the Taimyr Autonomous Okrug, but is subordinate to Krasnoyarsk for the purposes of paying taxes.

As a candidate who represents the south, Uss naturally argues that the krai should be united and that money from Norilsk Nikel should continue to subsidize residents of the southern part of the krai. Khloponin naturally would put the interests of the north above the south and would try to redirect some of the money now flowing south as governor. He claims to favor merging the various units of the krai as well, but does not want to move quickly in this process, saying that the first steps toward a merger can only be taken 1.5 to 2 years in the future (*Kommersant*, 5 August).

#### The Bykov Factor

Having been the king-maker in the 1998 election that brought Lebed to power, Bykov announced his support for Uss in late August (*Vedomosti*, 30 August). Even though Bykov fought with Deripaska for control of the aluminum factory, the apparent Uss-Deripaska connection did not prevent Bykov from joining with Uss.

Ultimately the Moscow court found Bykov guilty of participation in the murder plot, but he was given a suspended sentence and returned to the krai just as the elections were getting under way (*Kommersant Vlast*, 6 August). In the December 2001 krai legislative elections (when Bykov was still sitting in jail), his bloc took second place with 17 percent of the party list vote and he won a seat in a single member district. (Krasnoyarsk is one of the few regions that elects its legislature partially through party lists.) Uss's supporters believe that Bykov's endorsement of their candidate will significantly boost his electoral chances. Despite his supposed criminal links, Bykov is popular in the krai, where he makes numerous and well-publicized charitable contributions and allegedly imposed order on the local crime groups.

Different groups within the Kremlin back different candidates, so the presidential administration has not publicly backed one person in particular. Some believe that Moscow mainly supports Khloponin. The presidential administration remains suspicious of Bykov and Uss's association with him does not win him much support at the federal level. The pro-Kremlin Yedinaya Rossiya party has also failed to endorse a single candidate (*Izvestiya*, 3 September).

Uss currently leads the opinion polls with Khloponin in second. Khloponin will likely win 8-10 percent of the overall vote from Taimyr residents. In the south, he will count on right-wing voters as he has the backing of Union of Rightwing Forces leaders Boris Nemtsov and Irina Khakamada. The Interros-controlled Rosbank gave a 200 million ruble credit to the city of Krasnoyarsk in July. Some observers think that Pimashkov is working in allegiance with Khloponin since his candidacy is taking votes away from Uss (*Vedomosti*, 1 August). - Robert Orttung

## CENTER-PERIPHERY RELATIONS

**PRESIDENTIAL ENVOY, ROSTOV ADMINISTRATION FACE OFF IN PROPERTY DISPUTE.** The Moscow-based Alfa-Eko's attempt to gain control of Rostov Oblast's largest enterprise, the Taganrog Metallurgical Combine (Tagmet), has shaken up political and economic life in the oblast and the Southern Federal District. The conflict has gone on more than a year, but has become particularly hot in recent months.

After buying a minority stake in Tagmet in 2000, Alfa-Eko, sought to replace the factory's general director, Sergei Bidash, a local business magnate, with one of its allies, Aleksandr Gladkov. Alfa claimed that Bidash did a poor job managing the plant, caused tax debts to rise, blocked external oversight of his work, and spent money intended for the reconstruction of the factory to purchase unrelated enterprises in Rostov Oblast. Alfa-Eko also complained that it did not receive dividends on its shares. Bidash rejected these accusations as baseless, arguing that the enterprise was working effectively, citing the launch of a new production line as evidence.

A series of court battles and share-holder meetings in Moscow and Krasnoyarsk did not resolve the conflict. The opposing sides refused to recognize meeting results and court decisions that did not serve their interests. Until the end of August 2002, Bidash

and Gorshkov both claimed to be the plant's real director and did not recognize the other's legitimacy. The Rostov Oblast administration, which has long had bad relations with Bidash, supported Alfa-Eko and authorized a media campaign against Bidash in the media that it controls. The office of the presidential envoy in the Southern Federal District, which has frosty relations with Governor Chub, backed Bidash. With presidential envoy Viktor Kazantsev's support, Bidash sought to block the pressure exerted by Alfa-Eko and the oblast administration.

The situation became even more complicated when Bidash, under continuing pressure from Alfa-Eko, sold his controlling stake (57 percent) in the plant to the Rinako investment company, a subsidiary of the powerful Moscow financial-industrial group MDM. According to the terms of this sale, Bidash remained as the general director of Tagmet, but was no longer the majority owner. MDM defined his main task as resolving the conflict with Alfa-Eko and refurbishing the factory at an estimated cost of \$120 million. Rinako hoped to resolve the conflict by buying up Alfa-Eko's shares in the factory. Rinako also sought better relations with the Rostov Oblast administration. However, it has not been successful in either of these attempts.

The battle has been evolving over time. After the oblast administration had *Vechernii Rostov*, one of the newspapers it controls, publish an article saying that MDM only wanted to buy Tagmet to close it since it competed with other pipe and metal factories that it already owned, several governors stepped up to defend the company. Stavropol Krai Governor Aleksandr Chernogorov, Sverdlovsk Governor Eduard Rossel, Irkutsk Governor Boris Govorin, and Volgograd Deputy Governor Vladimir Kabanov all sent letters to the paper defending MDM. The paper has now changed its tune. It not only published the letters criticizing its previous article, but has stopped publishing articles that cast a negative light on MDM.

At the end of August, Bidash, no longer able to stand the pressure, resigned his position as general director, handing the leadership of the enterprise to Anatolii Brovko, a representative of MDM (*Vedomosti*, 3 September). Alfa-Eko had listed Bidash's departure as one of the conditions for its agreement to negotiate a solution to the stand-off and saw his resignation as a positive sign that the dispute was coming to an end.

The appearance of such powerful industrial and financial groups, with their enormous financial and lobbying power, will undoubtedly change the economic and political situation in the oblast. Until now, the local business elite played the main role. Alfa-Eko is continuing to expand in the region and has expressed interest in purchasing another of Bidash's properties, Krasnyi kotelshchik, which produces boilers for industrial enterprises and electric stations. It is clear that both Alfa-Eko and MDM are serious about working in the region for the long term. Both will likely want to purchase the most profitable enterprises in the region. However, disputes between the two groups will likely lead to more conflict between the oblast administration and the presidential envoy, since they have sided with different players.

These conflicts will undoubtedly affect the stability within the oblast business elite, which until recently generally sought to preserve good relations with Governor Chub and Kazantsev. Now, they may have to decide between the two. Most likely, though, Alfa-Eko and MDM will not become politically active until the oblast's legislative elections, which are set for December 2003. - Aleksandr Krasnov in Rostov-na-Donu

## JUDICIAL REFORM

### **KABARDINO-BALKARIA PRESIDENT CONTINUES TO INFLUENCE JUDICIAL SYSTEM.**

Federal law requires that society have a voice in each region's commission tasked with examining judges' qualifications to sit on the bench. However, in adopting a republican law on defining the role that society will play in this process, Kabardino-Balkaria has twisted the intent of the federal legislation beyond recognition. In explaining this outcome, the chairman of the republican parliament's committee on legislation asserted that the legislature had to adopt the law quickly to avoid holding up the formation of the Qualifications Commission (Kvalifikatsionnaya kollegiya sudei).

Kabardino-Balkaria President Valerii Kokov's representative to the republican parliament Zalim Kashirokov presented the parliament three possible ways to form the commission, all of which gave the president the upper hand in picking society's representatives to the commission. According to the first proposal, the president suggested the candidates. Under the second proposal, the parliament appointed the candidates at the president's suggestion. Under the third scenario, the president formed the list of candidates at the recommendation of society.

Some of the members of the legislature did not approve of this list of proposals. One even asked, "Does the president really have nothing else to do? Why can't the parliament resolve this question on its own?" But Kashirokov explained that under Russia's on-going judicial reform, the Qualifications Commission plays a large role in determining who will be a judge. Therefore it would be impermissible to deprive the executive branch of a role in picking the members of the commission since this would destroy the system of checks and balances.

Of course, this argument is absurd since for the last ten years the president alone has held real power in the republic. He is even the head of the Committee on Human Rights! All social organizations, such as the International Cherkes Association and Adyge khace, have been removed from the opposition's control and given to allies of the president.

Unfortunately, the deputies could not or did not want to reject the bill, especially since the decision was taken through an open roll call vote. After a long search for alternatives, a hybrid solution was found: the republican parliament will name seven social representatives for a term of two years at the recommendation of the president on the basis of candidates proposed by social organizations. This solution does not substantially change the president's original proposal to let him control the process. - Lyudmila Maratova in Nalchik

## BUSINESS AND POLITICS IN THE REGIONS

### **KURSK GOVERNOR MAKES PEACE WITH BUSINESSMAN/STATE DUMA MEMBER.**

On 9 July, after years of fighting, the Kursk Oblast administration and the Agrokholding group of companies signed an investment agreement. Kursk's Communist Governor Aleksandr Mikhailov was at odds with the company because Aleksandr Chetverikov, its majority owner and the chairman of its board of directors, won a State Duma seat in the 1999 elections, defeating one of the leaders of the local communists, Aleksandr Potapenko. The election demonstrated the company's independence from the

oblast authorities. Agrokhodling has worked in the region for 11 years and owns several enterprises, including poultry farms, pig farms, animal feed factories, meat processing plants, and plant-growing enterprises.

Since Agrokhodling had poor relations with the oblast authorities, the governor supported the company's key competitors on the local market: the firm Kurskaya zemlya (which belongs to the Metalloinvest holding company) and Stroittransgaz-Agro (which belongs to Stroittransgaz). In the last two years, these companies invested 1.5 billion rubles in Kursk projects.

Upon signing the agreement, Chetverikov said, "... All this time we dreamed of normal, business relations with the authorities. Now we can confidently say that we have realized our dream. We have good business relations with the oblast government, with the local legislatures, and we quickly and by mutual consent resolve the most difficult problems. The situation in which businessmen export more than \$20 billion every year is possible only because we still do not have an answer to the question 'what should be the relationship between business and the authorities?' It is a relief to say that recently the Kursk Oblast authorities have begun to enable the development of business." (*Kurskaya Pravda*, 10 July)

The two sides reached the agreement after six months of difficult negotiations. The authorities worried that the businessmen were quickly enriching themselves at the expense of ordinary people, while the businessmen worried that the politicians would seek to increase the use of administrative controls over them. According to Governor Mikhailov, the authorities' doubts about Agrokhodling's motives were assuaged because the company took over enterprises and land that other businesses did not want and paid attention to developing the social sphere. Presidential Envoy to the Central Federal District Georgii Poltavchenko removed the governor's last doubts during a visit to the oblast on 6-7 July.

According to the agreement, the firm will invest no less than 400 million rubles in a variety of Kursk enterprises, reviving local agriculture production. The agreement also focuses on social questions, such as providing for the gasification of several parts of the oblast, preserving and creating jobs, organizing professional training, retraining factory workers, and increasing salaries. The governor is happy because none of these projects will require funds from the oblast budget.

The signing of this agreement suggests that the Communist governor is giving up his ideological aims in favor of pragmatism. The administration has now signed 16 agreements similar to those signed with Agrokhodling. - Sergei Sarychev in Kursk

## BANKING SECTOR

**KRASNODAR GOVERNOR BACKS LOCAL BANKS, PUSHES THEM TO INVEST IN PRODUCTION.** At the end of July, the Krasnodar Krai administration announced that it would support Krasnodar banks in their competition with branches of banks based in Moscow, St. Petersburg and other regions. The governor accused the out-of-town banks of sending half of the money they collect in the region to their head offices in other regions, providing few loans to local enterprises, and not paying taxes to the krai budget. During 2001, the administration claimed that these banks sent 15.7 billion rubles out of the region and 21 billion rubles during the first five months of 2002. First Deputy

Governor Aleksandr Remezkov flatly stated that, "the system of out-of-town banks opening branches in the krai is ineffective, loses money, and is not in the krai's interest."

There are 132 financial institutions working in the krai: 27 krai banks, 37 branches of Sberbank, 43 branches of banks from other regions, 14 krai insurance companies, and 54 branches of companies from other regions. With increasing capital and a growing client base, the influence of the krai banks is growing. The number of credits in the krai has grown three times in the last year, while for Russia as a whole, this figure has increased only 1.5 times. During the last 18 months, the krai bank's credit portfolio has increased from 3 to 17 billion rubles. The banks have invested approximately this much money in the krai economy.

The authorities are calling on local banks to compete more actively against the outside banks coming into the region and their ability to attract some of Krasnodar's largest clients. The krai leadership is also trying to use local banks to develop local productive capacity. The administration believes that the 17.5 billion rubles currently invested in the krai economy does not meet existing needs. The banks do not support many krai investment projects and local enterprises have only 15 percent of the working capital loans that they need. In 2001, only 7 percent of loans were offered for more than a year. Loans to the real sector of the economy made up only 35 percent of all loans that the banking system provided. This figure is 24 percent larger than the amount of real sector loans in 2000, but the administration believes that it is still far too small. The administration claims that the local enterprises need at least 100 billion rubles of investment (Sberbank claims that this figure should be 380 billion rubles). The administration believes that banks' main purpose should be to provide credits to krai enterprises and announced that it is ready to coordinate the work of banks with funds available and enterprises that need these funds.

Vice Governor Remezkov nevertheless says that investing in the economy's real sector is not the state's job. It is the banks' responsibility and the state should only provide favorable conditions for their work. Thus, the krai administration suggests the following approach: enterprises will borrow money from banks while providing their own guarantees while the krai administration will use public funds to pay the interest rate fees for these loans. According to the administration, this plan will make loans accessible and cheap for enterprises, while using a small amount of public funding to help a large number of enterprises.

Remezkov wants banks to play a more active role in this program. So far only 19 banks are involved and 120 million rubles of public funds set aside for this program are not being used. Overall, the krai administration believes that the banks should lend at least a half of their assets. The banks have expressed interest in expanding the types of industries that could benefit from these loans.

For their part, the banks want to take advantage of the governor's administrative resources to widen their client bases and increase their competitiveness. Many commercial bank directors believe that their banks will only be able to develop if the authorities reduce the privileged position of Sberbank, which today holds 75 percent of all deposits. However, Sberbank has no intention of giving up its leading position, but has offered to work with commercial banks in providing joint loans to clients (commercial banks would provide part of the credit through short-term loans, while Sberbank would provide an additional part of the credit through long-term loans).

Additionally, Krasnodar's commercial banks would like to work with the money invested in the krai's Pension Fund and have asked the krai authorities for help in setting up relations with this agency. They cite the example of Moscow, where commercial banks have long used Pension Fund money successfully. Currently, the krai's Pension Fund money is deposited exclusively at Sberbank.

The local insurance companies are also interested in close ties with the krai administration. The situation in this sphere is very similar to the situation in the banking sphere. Branches of insurance companies from other regions make up the majority of the market since there are 56 of them and only 14 local companies. The outsiders control about 75 percent of the market, leaving only one quarter for the local companies. The outside firms are much more aggressive in expanding their client lists than are the locals. In general they make money by developing various systems for paying salaries and optimizing their clients' tax payments.

The insurance companies are interested in working with the krai authorities in requiring property owners to purchase insurance. Such requirements would produce a large amount of business for them. Currently only one third of the region's private homeowners have insurance and only 100,000 of the krai's 1.3 million cars are insured. Enterprises rarely insure their property. - Oleg Tsvetkov in Krasnodar

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## BUSINESS AND POLITICS

**BASHKORTOSTAN'S RAKHIMOV SELLS OFF OIL COMPANIES.** At the end of August, Bashkortostan President Murtaza Rakhimov unexpectedly announced that he planned to sell off several of the republic's energy companies. Until now, he has exercised exclusive control over this sector. These sales mark a significant shift in the way that Rakhimov governs and reflect the economic and political pressures on him in the run up to the republic's 2003 presidential elections.

On coming to power, Rakhimov, who once had been the director of an oil refinery, imposed strict republican control over Bashkortostan's energy industry, which is key to the republic's economy. Bashkortostan holds about half of Russia's oil refining capability, including many large, contemporary petro-chemical enterprises, and accounts for about 8 percent of Russia's oil output. During his years in power, Rakhimov provided considerable aid to the industry, giving it exclusive tax breaks and writing off debts. In exchange, the republican president exercised full control over the industry.

Despite the wave of privatizations that took place during 1993-1996, the republican authorities converted from 60 to 100 percent of the shares of oil sector enterprises into republican property, including shares in oil refineries, petrochemical companies, and production firms. Usually, the republic violated shareholder property rights in carrying out these nationalizations.

Moreover, Rakhimov made his son Ural the chairman of the boards of directors of all the main corporations in the republic's energy sector - the Bashkir Fuel Company (BTK), the Bashkir Petrochemical Company (Bashneftekhim), the Bashneft oil company, and the Bashkirenergo utility - effectively turning the entire industry into a family business. Rakhimov fired the former managers of these companies regardless of their previous service, experience, or professionalism. Through these methods, Rakhimov

concentrated complete and undivided control over the republic's energy sector in his hands.

Now Rakhimov has announced that he will sell shares in four refineries that are part of Bashneftekhim, as well as shares in Bashneft and Bashenergo, which are part of BTK. Theoretically, he could sell up to 50 percent of all shares in these enterprises, an unprecedented situation for Bashkortostan, where no more than a few percent of the companies' shares were sold in previous years. Until now, the republic's energy industry enterprises have been closed for foreign and Russian investors alike, despite great interest expressed by companies like LUKoil, the Tyumen Oil Company, and Surgutneftegaz. Additionally, the Tatarstani government several times offered to provide supplies of oil to ensure that the refineries would work at full capacity in exchange for shares. (Tatarstan has large oil reserves, but little refining capacity, while Bashkortostan has lots of refining capacity, but few reserves.) Rakhimov consistently refused to share ownership of the enterprises, but continued to negotiate in the hope of convincing his partners to increase oil deliveries to Bashkortostan.

Most Russian and Bashkortostani observers logically connect Rakhimov's decisions to sell the shares with next year's republican presidential elections. The republican authorities, however, refuse to comment on the decision. Most likely, the share sales will take place by the end of the year. Currently, it is not clear how many shares will be put up for sale and under what conditions. However, the republican government will undoubtedly try to keep a controlling stake.

There are a number of potential purchasers for the oil stocks. Among foreign investors, it could be French companies, which have long had a close relationship with Rakhimov. Rakhimov's son apparently studied in a French oil institute with the support of these companies. Of the potential Russian investors, observers believe that Federation Council member Sergei Pugachev's International Industrial Bank is a possibility. Pugachev is Rakhimov's trusted banker and is close to Putin as well. If this is the case, then the Kremlin administration apparently stands behind Rakhimov's announcement and his sale of the shares amounts to a payment for being able to stay in office. In exchange, the Kremlin will gain a powerful lever of control over the republic that does not want to give up its sovereignty.

Another possibility is that one or several of the large Russian oil companies that supplies oil to the republic's refineries will purchase the shares. These companies include LUKoil, TNK, Surgutneftegaz, and Tatarstan's Tatneft. In this case, Rakhimov would receive access to significantly larger guaranteed supplies of oil for the republic's refineries and the possibility of meeting or exceeding the republican budget, which in 2002, as in 2001, is predicted to have a deficit of one billion rubles.

Obviously, in an election year, having a healthy budget and an ability to pay for the republic's social programs is a first-order priority for Rakhimov. Moreover, by selling shares to a Russian oil company, Rakhimov not only guarantees that his refineries will have enough oil to process, but that he will have a sponsor for his re-election campaign. It would be much better to enter the elections in this way than to not make a deal with the oil oligarchs and leave open the potential that they could attack him at any time. One way or another, Rakhimov has to sell the shares and the political reasons to do so are just as weighty as the economic ones. - Igor Rabinovich in Ufa

## MEDIA ISSUES

### CONSOLIDATION OF REGIONAL ELITE LIMITS KURSK MEDIA

**FREEDOM.** During his nearly two-year tenure, Communist Kursk Governor Aleksandr Mikhailov has greatly improved his relations with business groups operating in Kursk, whether local or from other regions. Now, it is much easier for business to coordinate activities with the governor's office than it was during the administration of previous Governor Aleksandr Rutskoi and even during the early days of the Mikhailov's own administration. Rutskoi and his lieutenants often pursued their own business interests in a variety of areas, including pharmaceuticals, petroleum products, alcoholic beverage production, and sugar.

Businesses have taken advantage of Mikhailov's new attitude to sign agreements with the oblast administration. During the last two years, the governor has signed agreements with Metalloinvest, the Tyumen Oil Company, Schetmash (part of the SOK group of companies), Pikur (Sun-Interbrew), the Kursk Bearing Factory, Akkumulyator, Agrokholding, and many others (see *Russian Regional Report*, 3 September, for one example). Negotiations with other companies are under way. In some cases, the agreements are not committed to paper, but that does not mean that they are not enforced. Usually in these agreements, the businesses offer loyalty to the oblast authorities and timely tax payments in exchange for non-interference in the companies' business activities.

The consequence of warming relations between business and the authorities has been the practical disappearance of critical material about the governor and his cabinet from the local media. Most of the oblast's newspapers belong to local businessmen and are dependent on them. Nikolai Greshilov, the owner of the GRINN Corporation, owns Kursk Oblast's most popular newspaper, *Drug dlya druga* (<http://www.ddd.kursknet.ru/>), which has a circulation of 32,000. After the scandal following Mikhailov's anti-Semitic remarks in November 2000 (see *Russian Regional Report*, 15 November 2000), there have been no critical articles in this publication. Their absence signals that the company had come to terms with the administration. The situation is basically the same with the influential newspaper *Kurskii vestnik*, which has a circulation of 10,000, and belongs to Kursk Businessman Aleksandr Degtyarev. The previous critical material about Rutskoi has now been replaced by boring interviews with deputy governors, their wives, and other officials. This is also a signal!

When Agrokholding owner Aleksandr Chetverikov signed an agreement with the governor, criticism of oblast policies disappeared from the three papers published by his Land and Business publishing house. These papers have a total circulation of 15,000.

The other media in the region also support the governor. *Kurskaya Pravda* is owned by the oblast administration. The State Television and Radio Company Kursk also avoids criticism. The Communist Party newspaper *Golos Naroda* backs Mikhailov and he has avoided any conflicts with the local Communists. Further ensuring favorable coverage, Mikhailov limits his interviews to a narrow circle of journalists: Sofiya Kondrateva at the State Television and Radio Company Kursk, Yevgenii Kotyaev, the editor of *Kurskaya Pravda*, and Boris Gogolev, the editor of *Golos Naroda* and the third secretary of the KPRF obkom.

Beyond the Communist Party, the only other political organization with an oblast newspaper is the pro-Kremlin Yedinnaya Rossiya. This paper is called *Region 46* (<http://www.gorodkursk.ru/reg46/>) and its editors say that it is "mildly opposed" to the governor. In practice, however, the paper openly cooperates with the governor. Yedinnaya Rossiya's status as the "party of power" easily explains such close ties. Oblast and raion level civil servants make up the majority of its 3,700 regional members and numerous mayors head up local Yedinnaya Rossiya party organizations. Deputy Governor Aleksandr Kamardin is a member of the party's regional political council.

The regional offices of the Ministry of Internal Affairs and the oblast procurator control the only other newspaper in the region. Yet, as with the business groups, Mikhailov has close relations with these law enforcement agencies as well. The articles they publish about the political and economic situation in the oblast are correspondingly favorable to the governor.

The main feature of Mikhailov's administration - a lack of conflict, which is transforming into passivity - has become a real obstacle to the realization of media freedom in the oblast. Mikhailov has even managed to build good relations with the federal government. Currently the regional elite has no interest in opposing the governor, fostering a deadening passivity on the media, which is under its control. - Sergei Sarychev in Kursk

## ASSASSINATIONS

**CRIMINALS DECLARE WAR ON SMOLENSK GOVERNOR.** More than a month after the assassination of First Deputy Governor Vladimir Prokhorov on 7 August, the residents of Smolensk Oblast are still in shock. Prokhorov was killed a few steps from his house as his wife watched. The murder sent a bloody signal that newly elected Governor Viktor Maslov, the former head of the Smolensk Federal Security Service, faced a difficult struggle in implementing his campaign promise to rid the region of crime.

Prokhorov was Maslov's campaign manager and then was appointed to a high position in the new administration. He dealt with local government, the civil service, the legal department, and the oblast's budget. In addition, he oversaw the program to reform and significantly reduce the governor's staff. Perhaps most importantly, he personally cancelled many of the oblast's coal and pharmaceutical purchase orders because the oblast was paying prices that were far too high.

After Prokhorov's murder, Maslov's administration received a phone call in which the caller advised, "Maslov, you understand that this was your last warning?" Thus, the criminal world declared war on the governor. On the Smolensk radio station Vesna, the governor replied that "This [murder] was a blow by criminal and corrupt circles against the new administration's course. It is an attempt to inflict turmoil and confusion on the governor's office" (*Rabochii put*, 20 August).

As in many such cases, the authorities do not know who ordered the killing or for what reason. The governor swore that he would find the murderer and the person who ordered the assassination and President Putin is personally monitoring the investigation into Prokhorov's death. More than 130 personnel from the Ministry of Internal Affairs, procuracy, and Federal Security Service are working on the case, including personnel from Moscow. In his speech on 1 September, marking his first 100 days in office, Maslov

said that he was satisfied with the scale and speed of the investigation. - Arsentii Ledovskii in Smolensk

## **CENTER-PERIPHERY RELATIONS**

**TATARSTAN SEEKS TO PRESERVE ITS STATUS.** On 5-6 September the Tatarstani legislature met to discuss the republic's relationship with the federal government. The discussion focused on the prosecutor's protests that previously-adopted republican laws did not conform to federal norms. The most important protests concerned Russian Deputy Procurator General A. Zvyagintsev's complaints about the new republican constitution, which was adopted in April 2002, and the new law on elections to the republican legislature.

After a debate that included personal attacks on Zvyagintsev, the legislators decided to create a committee to study the protests in more detail. In creating the committee, however, the legislators did not define the deadline for it to finish its work. Tatarstan President Mintimer Shaimiev did not attend the discussion about possible amendments to the constitution, making clear that he was not interested in this issue, even though he is technically the guarantor of the republic's basic law. According to informed sources, Shaimiev said at a closed meeting that he had no intention of further amending the republican constitution.

In parallel, Zvyagintsev has lodged a protest with the republic's Supreme Court. On 23 July, the court postponed discussion of the issue because no one from the republican legislature came to argue against the prosecutor's complaints. The parliament was not in session at that time, and all of the legislators said that they were on vacation and could not attend the hearing. Ultimately, on 10 September, the Tatarstani Supreme Court rejected Zvyagintsev's complaint that the Tatarstani legislature was not implementing the decisions of the Russian constitutional and supreme courts.

These actions make clear that the republican leadership is determined to defend the inviolability of the new Tatarstani constitution and is willing to risk the disbandment of the republican legislature by the State Duma to defend it. Further evidence for this policy include the initiative to adopt a new law on electing members of the republican legislature, which the legislature has approved in the first reading. The bill conforms with federal legislation and is aimed at creating a professional parliament. It will have 50 members (instead of the current 130) and they will all work full-time and not hold other jobs simultaneously.

The current legislature is made up mostly of rural and urban mayors and enterprise directors. It has a reputation for being unprofessional and simply rubber-stamping the decisions of the executive branch. The official newspaper *Respublika Tatarstan* has published information that some legislators sit in the hall only while Shaimiev is in the room. As soon as the president leaves, these deputies also disappear. Moreover, some lawmakers, such as Tatneft General Director Sh. Takhautdinov, Atninskii Raion Mayor G. Khakimov, Chairman of the Board of Directors of the Santa sanatorium I. Savvidi, and former KamAZ General Director I. Kostin, did not attend a single session during the first half of 2002.

Tatarstan's leaders are clearly employing delaying tactics in their battle to retain as much sovereignty as possible. It remains unclear how the federal government will respond. - Midkhat Faroukshin in Kazan

## **BORDER ISSUES**

**RUSSIA, CHINA SEEK TO INCREASE CROSS-BORDER TRADE.** The Pogranichnyi-Suifenhe border trade and economic center, uniting these Russian and Chinese cities across the border, is attracting investor interest in both countries since the development of this site serves the foreign trade interests of both China and Russia. During 2001, 13 million tons of cargo and 3.4 million people crossed the Chinese-Russian border (up 28.6 percent and 10 percent, respectively, from 2000). The Pogranichnyi-Suifenhe crossing handled 6 million tons of freight (up 22 percent) and 2 million people (up 12 percent).

The Chinese government and Heilongjiang province leadership both support construction of the center. They are prepared to invest in the necessary infrastructure on the Chinese side of the border, drawing on state funds allocated for developing the northern provinces. Heilongjiang exports agricultural produce, light industrial products, and construction materials, low-value-added goods in comparison with products from China's southern and eastern provinces. As a result, Heilongjiang officials fear that once Russia joins the World Trade Organization, the province's share of Russian-Chinese trade will shrink.

Therefore, the province government is developing a new program of border cooperation, seeking to organize industrial production in Russia, manufacturing goods to be sold there and in European markets. It also intends to process Russian natural resources in order to sell the products to other Chinese provinces. Russian experts suggest that investors from eastern and western China, Hong Kong, and Taiwan may invest in these projects. Such experts claim that Chinese investment would provide financing that is not available in Russia and create conditions for these goods to be sold on the world market, but that the lack of infrastructure in the Russian regions could create significant obstacles.

Chinese officials are paying special attention to the Heihe-Blagoveshchensk and Suifenhe-Pogranichnyi border centers since they believe that they could evolve into Russian-Chinese free trade zones or duty-free zones. The Suifenhe-Pogranichnyi zone is the result of a 15 February 1998 international agreement and the 16 July 2001 Russian-Chinese Treaty on Good-neighboringness, Friendship, and Cooperation. In March 2002, the Primorskii Krai administration and the Heilongjiang leadership signed a cooperation agreement, making the Suifenhe-Pogranichnyi center one of their priorities.

China and Russia set aside 300 hectares of land on the border and are creating the border trade and economic center with similar rules for citizens of both countries. The complex will have inspection posts allowing movement across the border. Citizens can enter the complex without visas, but Chinese citizens must enter through Chinese posts and Russian citizens must enter through Russian posts.

The Primorskii Krai administration supports the center, which it believes will increase tax revenue for the krai and federal budgets. All the state has to contribute is buildings to facilitate border crossings and housing for the customs and other services.

The complex is a commercial enterprise designed to make a profit. During the first stage, which should take about 2-3 years, the Russians will build a business center with exhibition halls for trade shows, customs warehouses, administrative offices, basic infrastructure, and a parking lot – everything that is needed to organize foreign trade operations.

The expected annual turnover during the first phase should be about \$50 million. Russia's main exports will be timber and forestry products, construction materials, ferrous and non-ferrous scrap metals, chemicals, machinery, and raw wool and leather. The Chinese will sell textiles, processed food, fruit and vegetables, shoes, and household appliances.

The second stage of construction will consist of an automobile and passenger entry point, hotels, campgrounds, restaurants, sports centers for kids, and winter recreation facilities. The expected annual turnover after completion of the second stage will be \$100 million.

During the third stage, Russian and foreign investors will be invited to build various types of production facilities, including food processing, lumber mills, textile manufactures, electronic goods, and any other type of industry. This could be tourist firms or automobile transportation enterprises. Planners hope that these enterprises will produce more than \$100 million a year.

Construction should cost \$57 million for the first phase, \$50 million for the second, and \$30 million for the third. The Russian and Chinese sides will each own half of the shares in the center. The initiator on the Russian side is the Primore' Information and Analytic Agency, which was headed until recently by Igor Belchuk, a former deputy governor and currently the chairman of the krai administration's Committee on Transportation and Communication.

Work on constructing the site could begin as early as October, depending on when the documents for removing trees on the site are signed. Project supporters believe the complex will better regulate shuttle trade flows and ultimately replace a significant part of these activities with wholesale trade, making cross-border exchanges more profitable by increasing the scale of the activities. - Irina Drobysheva in Vladivostok

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## LOCAL GOVERNMENT

**PUTIN BACKS AWAY FROM KOZAK PLANS TO RESTRUCTURE STATE, FINANCIAL FLOWS.** President Vladimir Putin has sent the Kozak Commission's proposed bills on reforming local government in Russia to the State Council for further amendment. Even though the proposals could result in an overhaul of the Russian state, Putin's move largely escaped public notice amid the discussions surrounding the 2003 budget and reform of the electricity monopoly.

President Putin set up the commission to redefine the powers and responsibilities of federal, regional, and local levels of government under Deputy Chief of Staff Dmitrii Kozak last year. The commission was supposed to submit its proposals at the beginning of the summer, but still has yet to do so. The latest deadline was 15 September, but at that time Putin felt that the bills were still not ready for consideration by the State Duma and sent them for amendment to a State Council working group headed by Tyumen Oblast Governor Sergei Sobyanin. The State Council is a consultative body whose membership includes Putin and Russia's 89 governors.

As Putin made clear in his address to the Russian parliament earlier this year, reform of local government stands at the heart of his plans to modernize the Russian state. The existing state bureaucracy has demonstrated its inability to become a force for modernization and now works mainly as a shock absorber between the president and society. Overhauling the structure of local government could play a decisive role in improving the lives of millions of Russian citizens.

Currently federal legislation assigns many tasks to local governments, but does not provide the necessary financing to pay for them. State Duma Budget Committee Deputy

Chairman Mikhail Zadornov says such "unfunded mandates" totaled 300 - 350 billion rubles in 2001, while Labor Minister Aleksandr Pochinok speaks of several trillion rubles a year.

Local governments also often have to cover expenses that are not legally their responsibility. The Kremlin is trying to improve this situation through its reform of the law enforcement agencies, the procuracy, and the judicial system, whose personnel should be financed from the federal budget, but often receive aid from regional governments. The problem is enormous given the scale of the country.

Part of the problem in redefining the relationship between different levels of government is the persistence of the power-sharing agreements that the federal government signed with many regions in the 1990s. Although some governors quickly gave up their treaties when Putin announced his opposition to them, many others, such as Moscow Mayor Yurii Luzhkov, Petersburg Governor Vladimir Yakovlev, Bashkortostan President Murtaza Rakhimov, and Tatarstan President Mintimer Shaimiev continue to claim special status for their regions. It seems unlikely that they will give up their treaties peacefully. Doing so would limit their room for political and administrative maneuver and reduce their oversight of financial flows and economic resources.

The financial side of local government reform is the most difficult because it affects the interests of the regional elite and big business. The Kozak Commission calls for giving each level of government enough money to pay for the responsibilities it has been assigned. If the federal government were to transfer many of its current responsibilities to local government, including paying pensions, children's benefits, and benefits for the handicapped, there would be a radical redistribution of budget flows. Local governments already spend large sums providing municipal services, supporting the housing stock, and ensuring access to pre-school education.

However, even if local governments were to gain control of the traditional local taxes, such as the taxes on property, land, water, and income, most municipalities would still not have enough money to cover their costs and would continue to rely on federal subsidies. According to Oleg Sysuev, the president of the Congress of Local Governments, currently only 500 of Russia's 13,000 local governments have enough money to meet or exceed their expenses.

Conflict over how to divide up state funds led to this summer's stormy debate over who should receive the taxes from the use of Russia's natural resources. Kozak argued that these funds should be centralized so that they could be redistributed fairly among the regions. He noted that under current conditions, six regions receive 40 percent of the tax income from the exploitation of Russia's most valuable raw materials. He argued that all regions should benefit from these funds.

Additionally, the version of the bill on natural resources now under consideration proposes abandoning the current "two key" practice, by which both the federal and regional governments must sign off on licenses to mine natural resources, in favor of a system in which the federal government will have exclusive control. Naturally, the regional leaders will put up stiff resistance to block any attempts to strip them of their ability to control this lucrative flow of funds. The major raw materials firms will also use their extensive lobbying power to block any changes to the status quo.

Most likely, Putin's decision to avoid escalating this battle and send the entire package of laws on the reform of local government to the State Council was a necessary

step in order to soften the positions of both sides and find a compromise. However the composition of the working group makes it seem unlikely that it will be willing to make many concessions to the federal government. Working group member Novgorod Governor Mikhail Prusak recently suggested abolishing mayoral elections in order to prevent mayors from playing political games against governors. Moscow Mayor Luzhkov is a well-known opponent of local government in Moscow. Committee Chairman Sobyanin, whose Tyumen Oblast produces the majority of Russia's oil and gas, will hardly give up the region's right to a voice in how local natural resources are used.

Although the Kremlin has rich experience pushing decisions through the State Council that the regional leaders strongly oppose, it is difficult to say how successful the current campaign will be. It is taking place in the run up to the parliamentary and presidential elections and touches the interests of a wide circle of elites. Ultimately, the debate will be enmeshed in the outcome of the overall administrative reform (especially the reform of the ministries), the success of political party building, the results of upcoming federal and regional elections, and ultimately, conditions on the world markets.  
- Pavel Isaev in Moscow

## **CENTER-PERIPHERY RELATIONS**

**CENTER USES CRIMINAL INVESTIGATION TO GAIN POWER OVER SAMARA'S TITOV.** Samara Governor Konstantin Titov is now in the center of a major financial and political scandal. On 11 September Deputy General Procurator Vladimir Kolesnikov announced that an investigative group found numerous cases of embezzlement and misuse of office in the administration. Kolesnikov said that he had many serious questions for Titov to answer.

The investigation focused on the creation of a system for siphoning off funds from the federal budget. According to RIA Novosti, the procurator has filed cases against a number of mid-level oblast officials. These cases involve embezzling \$238,000 from the budget to build an oblast administration hotel, taking 300,000 rubles from a road sign production account, stealing oil worth 1.75 million rubles in Shigon and Syzran raions, and a number of less significant cases. The money was stolen through illegal tax payments using veksels (promissory notes) and budget financing by means of discount veksels issued by the Solidarnost commercial bank, which is an agent of the oblast administration. Governor Titov's son Aleksei is the president of this bank (*Kommersant*, 16 September).

However, while these charges are serious, what gives the case a political character is that it also involves accusations that the self-exiled magnate Boris Berezovsky and his partner B. Patarkatsishvili stole more than 60 billion rubles from the AvtoVAZ automobile factory in 1994-1995. Berezovskii naturally denied any wrongdoing. However, since Berezovsky and Patarkatsishvili are not in Russia now, Titov is likely to bear the brunt of the scandal.

Titov has had poor relations with the Kremlin since he ran against Putin in the 2000 presidential elections. For the Kremlin, the conflict with Titov meant the partial loss of control over one of Russia's richest regions. For Titov, it meant that he lived under the constant threat of an attack by the Kremlin, which wanted to make the region more manageable.

Indeed, the first attack occurred in 2000 when the Kremlin tried to unite Titov's enemies in the local Yedinstvo party organization. However, Titov gained the upper hand over Moscow by resigning, holding snap gubernatorial elections, and ultimately winning them to secure another term and reconfirm his mandate. After this election, the attacks stopped since the Kremlin concluded that no one could beat Titov in pre-term elections.

Now, however, the Kremlin offensive looks much more serious. The procurator's accusations could provide the basis for firing Titov by presidential decree. Putin gained the ability to fire governors in such a manner in 2000, but has not yet tried to use it.

Titov has emphasized the political subtext of the charges against him. In announcing that he was ready to answer any questions from the procurator, he said, "Kolesnikov has made a public announcement about this case two times, and I am gaining the impression that this publicity has the goal of shaping popular opinion." - Ilya Malyakin in Samara and Saratov

## INTERNATIONAL AFFAIRS

### KOMI POLITICIANS DISCUSS PUTIN'S STATEMENTS ON GEORGIA.

President Putin's recent threat to use force to combat Chechen fighters located in the Pankisi Gorge on Georgian territory has became a major topic of discussion among politicians and public figures in the regions. While regional leaders have taken a variety of positions on the issue, they have mainly sided with the Russian president. However, the opposition sees Putin's comments as another reason to criticize the country's current federal leadership.

Komi President Vladimir Torlopov generally backed Putin, stressing the need to "preserve and strengthen Russia's borders, pursue state interests, and support Russia's status." He expressed hope that Putin and Georgian President Eduard Shevardnadze would find a mutually beneficial solution to the crisis at their upcoming meeting in Kishinev. However, he stressed that such a solution should come "without extreme use of force."

Komi State Council member Valerii Potolitsyn asserted that if Georgia did not move against the Chechen fighters in a serious way, then Russia could take measures against them. Leonid Vokuev, the republic's human rights ombudsman, stressed the need for diplomatic measures, which would allow Russia and Georgia to take joint action against the Chechens (*Molodezh severa*, 19 September).

The leader of the Komi Communists took a much more critical approach, declaring that while "Covering himself in patriotic rhetoric, Putin started the second Chechen war with the desire to 'kill them in the toilet.' He became president on the basis of this. The people have begun to figure out who is who. There has been no improvement in any sectors of the economy. Only words and assurances. Soon there will be new elections, and it is necessary to win favorable publicity and prepare new diversions. I think that Putin made a deal with Bush: one will bomb Georgia and the other Iraq. And they will support each other." (*Krasnoe znamya*, 18 September).

The local leader of Aleksandr Lebed's Chest i Rodina movement, Vladimir Pystin, was even more extreme in his statements: "Adolf Hitler and people like him made similar statements in the 20th century. I consider them blasphemous. Rather than help the Georgian state strengthen its defense capabilities and finance border defenses with

Georgia, Russia is threatening to escalate the war. Thousands of peaceful Chechens, seeking to save themselves from state terror and the barbaric bombing of urban areas, fled Chechnya to Georgia. Now Russia is trying to drive them from there, charging that the Chechens are terrorists."

The head of Syktyvkar's human rights group Memorial Igor Sakhin noted that while some diplomatic solutions remained untried, the use of force was impermissible. The famous geologist Yakov Yudovich pointed out that Russia has conducted a war in Chechnya for many years without much noticeable success and now the country's leadership wants to expand activities into the Pankisi Gorge. "From the military point of view, I don't understand this and can't evaluate such statements. I simply sit looking at the screen with complete incomprehension." (*Molodezh severa*, 19 September)

The majority of Komi residents support the harsh tone adopted by the Russian politicians in relation to Georgia. These feelings do not simply reflect patriotism and a feeling of concern about the situation on the southern borders of the country. They demonstrate a popular "Caucasus-phobia," which is increasingly strongly rooted in the Russian consciousness.

According to a survey we conducted in 1996 in Komi, one third of the respondents claimed that the representatives of the Caucasus peoples living in Komi should leave the republic. There was little support for ideas of cultural adaptation. A ROMIR poll conducted in 2000 only confirmed these findings. Numerous publications in the republic's yellow press have called for people from the Caucasus to conduct themselves "quietly" in Komi (see especially *Stefanovskii bukvar*, 27 July, 10, 24 August, and 21 September).

The statements of Russia's politicians on Chechnya and the situation in the Caucasus in general will only strengthen these feelings among the population. Unfortunately, such attitudes toward entire peoples undermine the internal stability of the country. - Yurii Shabaev in Syktyvkar

## GUBERNATORIAL ELECTIONS

**KHLOPONIN WINS KRASNOYARSK ELECTIONS.** Taimyr Governor Aleksandr Khloponin won the 22 September Krasnoyarsk gubernatorial elections, defeating Aleksandr Uss, the speaker of the region's legislature, 48.07 to 41.83 percent, while 9.15 percent voted against all. Participation was 44.82 percent. Khloponin is the former director of the Norilsk Nikel plant and represents the interests of Vladimir Potanin's Interros group. Oleg Deripaska's Russian Aluminum, which owns the Krasnoyarsk Aluminum Factory, stood behind Uss.

After the first round of the elections, Khloponin trailed Uss 25.25 to 27.63 percent. In the second round, Uss won most of his support from the city of Krasnoyarsk, Achinsk, and several other urban areas, while Khloponin had the backing of northern (Taimyr and Evenkia) and rural voters. Khloponin ultimately won because he was able to win a significant number of votes in the south, despite the fact that he was closely identified with the northern part of the krai and its interests.

Khloponin also benefited from the Communist votes of former candidate State Duma deputy Sergei Glazev, who came in third place during the first round with 21.44 percent of the vote. *Nezavisimaya gazeta* claimed that Glazev's strong showing put him in

line to take over from Gennadii Zyuganov as the leader of the left in Russia. For the Communists, the choice between the two runoff contenders was a matter of picking the lesser of two evils, since both had powerful corporate backing. Ultimately, they found Khloponin more straightforward and less compromised than Uss (polit.ru, 23 September). Khloponin also won the second round support of Krasnoyarsk Mayor Petr Pimashkov, who represented the anti-Uss elite in Krasnoyarsk and scored 14.3 percent in the first round.

Uss's attempt to benefit from the anti-oligarch vote failed and partly explains his electoral loss. Part of the reason this campaign tactic did not work was that he was also closely tied to an oligarch.

Citing sources inside Deripaska's company, *Vedomosti* (24 September) claimed that Potanin and Deripaska met before the elections to discuss "post-election economic perspectives." Basically, they agreed not to interfere into each other's business spheres. However, sources in Interros denied that such a meeting took place and that Khloponin would resolve all issues independently.

Nevertheless, with this election, Krasnoyarsk in a sense becomes a "corporate region," where one powerful company has won the election of one of its representatives as governor. Khloponin can be expected to give preference to his former employer, though he naturally will also take some steps to demonstrate publicly that he is not completely under company control.

The Kremlin was apparently split over the vote. Chief of Staff Aleksandr Voloshin reportedly backed Uss, whose main support came from "Family" member Deripaska, while the St. Petersburg group reported backed Khloponin. Khloponin charged that Voloshin had ties with Deripaska's business partner Chukotka Governor Roman Abramovich that were "too close." He also asserted that the Defense Ministry ordered its troops to vote for Uss (*Kommersant*, 23 September).

In taking up his responsibilities as governor, Khloponin said that he will focus on social issues first, particularly the one billion ruble wage arrears to public sector workers in Krasnoyarsk and ensuring delivery of winter supplies to the krai's northern regions. He also wants to focus on closing the krai's 5 billion ruble budget deficit. Achieving this goal will be difficult. The most profitable enterprises in the region export metals to the world market and their economic health naturally depends on the level of world prices.

Currently, such prices are relatively low, driving down corporate profits and consequently the taxes that these corporations pay. According to *Nezavisimaya gazeta* (26 September), Norilsk Nikel's contribution to the krai budget is shrinking. In 2000, it contributed 70 percent, in 2001, 48 percent, and only 39 percent during the first seven months of 2002. If Khloponin wants to balance the budget, he will have to squeeze more money out of his former company or find other sources of income.

Relations between the executive and legislative branches may be difficult in the future since the speaker opposed the new governor in the race. The krai has a history of difficult relations between the two branches of power and Uss was considered one of former Governor Aleksandr Lebed's opponents.

Khloponin will likely try to unify the three pieces of the krai into a coherent whole (see the governor's program at [www.hloponin.info](http://www.hloponin.info)). However, he will likely face opposition from Evenkia, whose governor represents the Yukos oil company, which is very active in the region. A good indicator of whether such unification will be likely is

whether Taimyr elects another governor. If so, then that person will have a strong interest in blocking a merger. Currently, such elections are being planned and Khloponin hopes that First Deputy Taimyr Governor Lev Kuznetsov will win.

If Khloponin is successful in uniting the region, he will set a precedent for other regions whose territory includes autonomous okrugs, such as Tyumen and Arkhangelsk oblasts. Since he is a "northerner," he will be more likely to succeed because an attempt to unite the regions initiated by a "southerner" would meet considerable resistance in northern cities like Norilsk (see [politcom.ru](http://politcom.ru), 23 September).

## REGIONAL RESOURCES

**NEW ARTICLE ON SIBERIAN SEPARATISM.** On 3 June 2002, the RRR ran an article about Siberian politics entitled "... WHILE CRITICS SEE ATTEMPT TO REDUCE REGIONAL COORDINATION" that did not identify the main source of its information. It was Grigory Olekh, Dr., Prof., Head of the Department of History and Theory of Society, Novosibirsk State Academy of Water-Transport Engineering. He has further developed these views in a paper entitled "Competition Among Siberian Regions as a Factor Reducing the Risk of Disintegration in the Russian Federation" to be published next year. To contact Olekh and obtain the paper, please write him at [grigory1@irs.ru](mailto:grigory1@irs.ru)

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Andreas Wenger  
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Louise Shelley  
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## TRANSNATIONAL CRIME

### CORRUPTION, UNCERTAINTY FUEL ILLEGAL RUSSIA-GEORGIA TRADE

Erik R. Scott, Program Manager, TraCCC

Straddling the Caucasus Mountains, the territories of North and South Ossetia contain a major mountain pass linking Russia to Georgia. In the nineteenth century, this pass was a key strategic asset of the Russian Empire in its conquest of the Caucasus. Later, in the Soviet period, these territories served as a major transport hub. The Roksky tunnel, one of the world's longest, was constructed in 1985 to cut through the mountains at the pass between North and South Ossetia, effectively connecting the economies of the north and south Caucasus. Today, this corridor linking Russia and Georgia remains active, only now its primary uses have changed. Given widespread instability in the region, the pass has become a major route for smuggling everything from contraband cigarettes and gasoline to illicit narcotics and weapons that fuel regional conflicts.

In general, the Caucasus is made up of a complex patchwork of diverse ethnic groups with competing loyalties, and North and South Ossetia are no exception. The two regions are largely populated by the Ossetes, an ethnic group unrelated to its neighbors. Although their origins are obscure, the Ossetian language is closely related to Persian. Traditionally Christian, the Ossetes long been perceived as allies of Russia in contrast to their neighbors, the Chechens, who are Muslim.

In the 1920s, Ossetian lands were divided between Russia to the north and Georgia to the south, creating the boundaries of present day North and South Ossetia. With both Georgia and Russia belonging to the Soviet Union, these boundaries meant little at the time. However, these divisions later became the subject of great contention when the Soviet Union dissolved. The collapse of the Soviet system left North Ossetia as a region within Russia, and South Ossetia as a region within Georgia, divided by a newly patrolled border.

Aspirations for a unified Ossetia were first voiced in the late 1980s, on the eve of the Soviet Union's collapse. In 1989, the *Ademon Nykhas* (Popular Shrine) group in South Ossetia sent a letter demanding autonomous status for South Ossetia, envisioning eventual reunification with North Ossetia. The Georgian Supreme Soviet responded to the Ossetes' national stirrings with a law in October 1990 that effectively banned Ossetian political movements from participation in popular elections. At the same time, calls came for unification in North Ossetia, although the energies of the population there were occupied by a separate conflict with neighboring Ingushetiya.

South Ossetia continued to demand greater autonomy from Georgia. After the break-up of the Soviet Union, the government of independent Georgia under the leadership of Zviad Gamsakhurdia responded with similarly repressive measures to the national aspirations of South Ossetia. Concerns that Georgian would be made the sole language in the country stoked fears of ethnic Georgian dominance, as only 14 percent of ethnic Ossetes in South Ossetia could function in Georgian. Tension escalated into armed clashes between Georgians and Ossetes in the region. Tbilisi declared a state of emergency in South Ossetia and sent in a combination regular troops from its small and disorganized army and better trained, but brutally violent, paramilitary groups. The Ossetian authorities in the South Ossetian capital of Tskhinvali appealed to Moscow, which promptly dispatched Russian Interior Ministry troops.

The effects of war were devastating for the entire region. Most ethnic Georgians, who made up almost one-third of the population of South Ossetia in 1989, were forced to leave. Georgian forces retaliated by committing numerous atrocities against Ossetian civilians. Tskhinvali, once a thriving industrial center, was left in ruins. In total, the conflict, which lasted almost two years, left over one thousand dead and resulted in tens of thousands of refugees. Fighting ended with the accession of Eduard Shevardnadze to power in 1992. The new Georgian president, who soon realized that his country had more than its share of conflicts to contend with, quickly negotiated a ceasefire.

South Ossetia emerged from this period stranded between independence and uncertainty, an uneasy position in which it remains today. While Georgia and the international community recognize South Ossetia as part of Georgia, the region remains effectively independent from Georgian authority, with Ossetian leaders in Tskhinvali claiming an independent "republic" of South Ossetia, complete with its own flag and postage stamps. The current "president" of South Ossetia, Eduard Kokoev, holds a Russian passport and balances his attempts to seek closer ties with Moscow with efforts to maximize the shaky sovereignty of his region. In this environment of uncertainty, neither Georgian nor Russian laws are effectively enforced in South Ossetia, creating the perfect environment for numerous illegal enterprises and activities.

Smuggling is the most prevalent of these activities. The Roksky tunnel, which links the breakaway region with North Ossetia and the Russian market, is South Ossetia's lifeline. Russian border guards at the North Ossetian checkpoint in Nizhny Zaramag estimate that 700 to 800 vehicles pass in both directions through the tunnel every day. According to estimates, trucks carry millions of dollars worth of contraband goods across the border each year. The post already contends with twice as much traffic as it is equipped to handle. This factor, combined with widespread corruption among customs officials, makes the border between North and South Ossetia highly porous.

Many contraband goods eventually find their way to the Georgian market. A vast marketplace has been set up just north of South Ossetia's makeshift "border" with Georgia. Here one can find untaxed products from Russia, including cigarettes, alcohol, and gasoline. Prices of these smuggled goods are generally about half of those in Georgia. Border guards on both the Georgian and South Ossetian side turn a blind eye to the illegal trade; it is obvious that in the absence of substantive salaries, both sides have found other means to supplement their income. The situation is not helped by the fact that Georgia refuses to set up a properly enforced border with South Ossetia, fearing that to do so would indicate a recognition of the breakaway region's independence.

Contraband goods from South Ossetia can be found throughout Georgia, particularly in the Shida Kartli region, just south of Tskhinvali. Small stands dot the sides of Georgia's highways, selling illegal gasoline that, while marked up from South Ossetian prices, still undercuts the cost of gasoline purchased legitimately in Georgia. Roadside vendors also sell cigarettes with Russian excise stamps, or sometimes without excise stamps altogether. It is also not uncommon to see cars with Cyrillic-character South Ossetian plates driving in Georgia. According to reports, South Ossetia is used as a transit point to smuggle automobiles, some of them stolen, from Russia into Georgia and vice versa. Many believe that kidnappers recently abducted a Georgian officer serving with the combined Russian-Ossetian-Georgian peacekeeping force because of his attempts to combat the illegal trade in stolen cars.

There is also a less visible but still prevalent trade in illegal narcotics and weapons that transits South Ossetia. With little oversight from corrupt local authorities, organized crime groups use North and South Ossetia as a major drug smuggling route linking Central Asia with the Northern Caucasus and Russia. Numerous luxury cars and newly erected houses in Tskhinvali, given the absence of real economic activity, attest to the lucrative nature of this illegal enterprise. Like the illegal narcotics trade, the trade in weapons is difficult to measure, but sporadic seizures of weapons along the border indicate that many of the small arms that fuel regional conflicts likely pass through South Ossetia.

The prevalence and complexity of illegal enterprises linking South Ossetia and Georgia indicate a surprising degree of cooperation between the Ossetes and the Georgians, given the tense relations of the past decade. At the scale at which they are now taking place, these activities require the involvement of officials on both sides, as well as Georgian and Ossetian buyers and sellers. Where once there was armed conflict, there is now a sizable flow of people, goods, and money between Georgia and South Ossetia, albeit entirely illegal.

Such cooperation, however, hinders long-term development. With both sides profiting from South Ossetia's undetermined status, resolution of the conflict becomes even less likely. Until such practices are ended, legitimate investment in the region will remain elusive. Although smuggling does allow many Georgian and South Ossetian families to eke out a living, the negative effects of illegal activities are obvious. In particular, the illegal narcotics trade is blamed for increasing drug use among the region's young people and has allowed organized crime groups to expand their influence.

Resolution of the conflict depends on the improvement of overall relations between Russia and Georgia, which does not seem likely in the foreseeable future. Unification of North and South Ossetia seems doubtful, and North Ossetia's current president, Aleksandr Dzasokhov, does not support such a move. It seems probable that for the time being South Ossetia's status will remain undetermined. With increasing attention worldwide to the links between corruption, organized crime, and terrorism, Russia and Georgia may respond to international pressure and crack down on illegal activities in the region. However, most international attention is now focused elsewhere in the Caucasus, particularly Chechnya and Georgia's Pankisi Gorge. In the absence of an effort to resolve the situation, crime and corruption will continue to run rampant, contributing to instability in an already fragile region.

## CORRUPTION

**KAZANTSEV HAS LITTLE IMPACT ON CORRUPTION IN THE SOUTHERN FEDERAL OKRUG.** Even during the Soviet era, Russia's south had an extensive shadow economy and corrupt authorities. A decade of transition effectively legalized this system and corruption has become the norm for regional and local officials.

In a majority of the republics in the Southern Federal Okrug, which includes the North Caucasus, there now exists a shadowy system for channeling financial flows into the framework of patron-client relations. In Dagestan, the ethnic elites who make up the ruling clans divided the various types of legal and black market business among themselves. It would be incorrect to call the resulting system of redistributing financial flows simple bribery since the scale is so large. In Kalmykia, President Kirsan Ilyumzhinov and his closest allies completely control the republic's business and the current system of redistributing funds is much more extensive than mere corruption. The president has essentially privatized the republic into his personal corporation, Kalmykia Inc. Until Ruslan Aushev stepped down as the ruler of Ingushetia, several leading clans also set up a back-channel system of dividing the money in which it was impossible to separate the authorities from business. Northern Ossetia and Kabardino-Balkaria distinguished themselves because the fusion of the authorities and business was accomplished in a manner that was less open since the leaders of these republics were holdouts from the Soviet period. But the patron-client relationship did not change because of this: the ruling clans either directly controlled business or received their share of income in exchange for creating good working conditions for local companies.

In the ethnic Russian regions of the southern okrug, the union of the authorities and business takes various forms. Patronage in its most obvious form exists in Rostov, where the governor backed the formation of the largest corporation, Doninvest. In those regions where Russia's biggest companies are operating, the governors and firms cement their links through family ties. Thus, Volgograd Governor Nikolai Maksyuta's closest relatives work for LUKoil, the largest outside investor in the region. Despite these examples, however, in the ethnic Russian regions of Russia's south, the merger of business and politics has not reached the level that it has in the republics, so corruption in the usual form of bribery is much more common.

The most corrupt forms of business in the south are the production of alcoholic beverages (especially vodka production in North Ossetia and Kabardino-Balkaria), the caviar business (Dagestan and Astrakhan), seaports (Krasnodar), construction work in Chechnya, and freight trucking. There is a special system of collecting and distributing bribes in each of these areas. The criminal income from the ports is distributed between local (municipal) and federal authorities. For this reason, the Krasnodar Krai regional government, until recently cut off from this source of income, is fighting actively to take over the Black Sea ports. The freight moved by trucks (alcohol, and fruit and vegetables sent from the south to Central Russia) usually generates income for the police and military units that man roadside checkpoints. The caviar business and a significant part of the vodka business in the North Caucasus republics remains a part of the black market. The income is distributed among criminal groups (usually ethnic), and the municipal and republican ruling clans. A system of informal agreements has replaced the official battle against the illegal production of alcohol. If the federal authorities increase the pressure on

the regions or the budget deficit begins to grow, the influential leaders of Northern Ossetia and Kabardino-Balkaria change the rules of the game to meet their current needs. When North Ossetia President Aleksandr Dzasokhov took office, for example, he demanded and secured the legalization of the vodka and beer businesses to increase the amount of money collected in republican taxes. Corruption in Chechnya is connected to the provision of federal construction subsidies, which attract unscrupulous federal and republican authorities involved in distributing funds for the various projects.

Given the enormous scale of the black market in the southern okrug, Presidential Envoy Viktor Kazantsev must be selective in picking his battles and realistically can only work in a few areas. Accordingly, he focuses on:

- Strengthening monitoring at the seaports and over the activities of the customs service. The federal authorities initiated this work and it serves the interests of both the okrug and Krasnodar Krai authorities since the local government gets most of the significant income generated by the ports.

- Auditing the distribution of budget funds in Chechnya. This task serves the interests of the presidential envoy since he is trying to secure oversight over the financing of the restoration work in the republic and extend his economic responsibilities in general. The envoy not only conducts regular investigations, but continually informs the federal authorities and the media about the results.

- Exposing individual cases of corruption among the regional authorities. Such cases appear, in particular, when the federal authorities demand a "scapegoat" or when the envoy wants to demonstrate his leading role in the okrug. One example occurred when Southern Federal Okrug Procurator S. Fridinskii presented evidence leading to the removal of Krasnodar Krai Deputy Governor L. Baklitskii. A special investigation showed that the deputy governor, who had previously served as a mayor in one of the krai's cities, had used budget funds for purposes other than those intended and illegally transferred land to commercial interests (E. Stroiteleva, "Prokuratura obvinyaet krasnodarskogo vitse-gubernatora," *Izvestiya*, 25 September 2002). The real reason for the firing was the need to punish publicly the Krasnodar governor for corruption and poorly organizing the effort to rebuild housing destroyed during the summer 2002 floods. This was the first and only time that the presidential envoy has punished such a high-ranking bureaucrat since his office was established in May 2000. Analogous investigations in other regions (Rostov and Stavropol) led only to the removal of rank-and-file bureaucrats. Despite the total corruption of the authorities in the republics of the Southern Okrug, there have been no similar investigations there.

- Seeking to improve the work of the police by replacing regional police chiefs (though such tasks are the responsibility of the federal Ministry of Internal Affairs rather than the presidential envoy). Such personnel moves are essentially political acts, aimed at moving the law enforcement agencies out from under the control of the governors. Such shifts do not reduce the amount of corruption or extortion on the roads since replacing the leader does not resolve the larger problem of reforming the law enforcement agencies. Corruption on the roads is a well established and stable system of bribery providing income to poorly paid low-level policemen. Without cardinal reforms that increase salaries and the prestige of the traffic police's work, eliminating such bribery will be impossible.

Thus, the presidential envoy's battle with corruption is selective, of little impact, and achieves its purpose only when the envoy's interests coincide with the interests of another level of government (either federal or regional). The envoy's autonomous activities are usually aimed at another purpose -- fighting with unwanted governors through various audits and sanctions against low-level bureaucrats, and seeking to gain the ability to monitor large financial flows. In these cases, the battle with corruption is not an end in itself, but a way for the envoy to realize other interests. - Natalia Zubarevich, Moscow State University

## **POLICE REFORM**

### **VIEWS OF POLICE CORRUPTION IN PRIMORSKII KRAI**

T. B. Basova, Docent in the Department of Criminal Law at the Juridical Institute of Far Eastern State University, Vladivostok

The extensive corruption within the Russian Ministry of Internal Affairs is a well-known fact of life in Russia. In 1993, for the first time, the ministry published official figures on corruption within its ranks. According to the report in 1992, 283 law enforcement officers were accused of corruption, 97 percent of whom were from the ministry. By 1995, the number of officers facing charges was 678.

Unfortunately, these official data do not make it possible to study corruption within the law enforcement agencies because there is no clear definition of corruption. The Primorskii Krai branch of the ministry likewise publishes official data, but it also does not provide a real picture of corruption inside police ranks.

Despite this lack of official data, Primorskii Krai is a useful place to study police corruption because of its high crime rate, which results from the region's geopolitical location and its large economic potential. These factors all create fertile soil for police corruption.

Gaining a full picture of such corruption requires looking at the extent of latent corruption among police officers. To get a sense of this, I analyzed questionnaires completed by 292 police officers, 123 students in the krai's police academy, and 400 members of the general population on matters relating to the police. Using this information makes it possible to examine police corruption from the inside and the outside. I also drew on my extensive experience working in the ministry and regularly met with representatives of the law enforcement agencies.

The three groups of respondents often differed in their answers. For example, about half of the working police officers and population (53.7 and 50.5 percent respectively) believe that Russia is one of the most corrupt countries in the world. However, 81.7 percent of the police academy students, a substantially larger number, believe this statement to be true. Thanks to their studies, the students are the best prepared to answer this question intelligently. Many of them cited corruption as a threat to Russia's national security and plan to fight this phenomenon in their practical work once they graduate.

About 60 percent of the acting police officers and students thought that Russia's laws were insufficient to deal with the reality in the country, while only 31.3 percent of

the population held the same opinion. A full 40.3 percent of the ordinary citizens said that they had difficulty answering the question, reflecting their lack of knowledge about the legal situation in the country. These answers suggest a possible explanation for corruption among the police: the holes in Russia's legislation, combined with the lack of legal knowledge among Russian citizens, create a large potential for the police to engage in corrupt activities.

Russian law currently does not contain a definition of corruption. However, 57.9 percent of the police and 46.7 percent of the population surveyed wrongly claimed that it did. Considering that 22.8 percent of the police did not answer the question, a full 80 percent did not know the right answer (that Russian law does not define corruption). Only 19.3 percent answered the question correctly, a shocking figure since these are the very people who are supposed to enforce the law. In contrast, 72.5 percent of the police academy students gave the right answer. Clearly, the ministry should make better use of existing opportunities to raise the professionalism of its officers by providing courses that give them a better sense of current law. Since corruption is the central political, social, and legal problem that society faces now, it is crucial that law enforcement officers have a better understanding of it.

Clearly, many of the current police officers have a low level of professionalism and are incompetent. This fact suggests that another reason for the extensive corruption could be insufficiencies in the police force's recruiting procedures. Because few people are interested in this job, the ministry often hires individuals who are not qualified simply to fill its vacancies. Nevertheless, in some parts of Primorskii Krai, one third of the police positions remain vacant. In such a situation, managers cannot be very picky in hiring new recruits.

The police officers work under extremely difficult conditions: they have few social guarantees, must work odd hours, receive low salaries that do not reflect the difficulty of the tasks they perform, and lack the money to purchase necessary equipment. Accordingly, the most qualified and experienced people quit the service to seek better opportunities elsewhere. The peak of such departures came in 1998-1999. In 1998, 1,799 officers left the force. Currently, in Primorskii Krai about half of the members of the police force have not worked in their current job for more than five years.

In the mid-1990s, the Primorskii police set up a special unit to combat corruption within its ranks. However, even this group had difficulty hiring appropriate personnel. A clear example of such problems was that the head of this unit was convicted of using his official position to facilitate the work of a firm that provided paid sexual services. Clearly, the only solution to these problems is to provide more economic resources to the police.

Against this general background, the three groups of interviewees have different opinions on the main causes of corruption among the police. The policemen themselves cite the main causes as: the policemen's extremely low pay (78.9%), the social and economic crisis in Russia (76.2%), the lack of social protections for the policemen (73.7%), the moral degradation of the police officers (73.7%), and problems in recruiting police officers (69.6%). This group provided a generally realistic picture of what is going on, without trying to make things look better than they are or protect the honor of their uniform.

The students in the police academy also have a good idea of what to expect once they join police ranks since four of the five reasons they cited are similar to those of their older colleagues: policeman's extremely low pay (98.3%), the social and economic crisis in Russia (76.2%), the lack of social protections for the policemen (73.7%), and problems in recruiting police officers (70.0%). They also cited the incomplete legislative base at the federal level (68.3%), a reason that the police themselves did not cite. The students did not consider the moral degradation of the police officers to be a major problem.

The general population has a completely different picture of what causes police corruption, putting the moral qualities of the police officers in first place (83.7%). They also cited problems in recruiting police officers (79.2%). The three other reasons they cited were not mentioned by the police officers or cadets: corruption among Russia's top political and police leaders (57.3%), connivance of the authorities (42.9%), and "other reasons" (41.3%).

## **POLICY ANALYSIS**

### **HOW TO FIGHT AN EXPANDING RACKET THAT IS INFILTRATING BUSINESS, STATE**

Svetlana Stupina, senior instructor in the department of Criminal Law and Criminology at the Baikail University of Economics and Law, Irkutsk

The Russian word "racket" (*reket*) is often confused with the word "extortion" (*vymogatel'stvo*). However, the two words do not accurately describe the same activities. The racket is not simply extortion, but the establishment a monopoly on a market of goods and services and the imposition of unprofitable cooperation on enterprises with the aid of criminal violence. Beyond extortion, the racket engages in supplying embezzled property, imposing security services, laundering money, and a variety of other activities.

While extortion is always illegal, racketeering involves a mixture of legal and criminal activities. Nevertheless, racketeering imposes a large cost on society because the population must pay higher prices for the goods and services, often of low quality, provided by enterprises under the racket's control. The racketeers generally do not pay taxes, making it easier for them to strengthen their economic and political position in society through their activities. Of course, extortionist activities lie at the heart of racketeering.

Racketeering is now an extremely profitable and sophisticated business. Criminals disguise their extortionist activities by presenting themselves as providing security services. When an enterprise comes under a racket's control, the businessmen must include the racketeers on their staff as guards. If the enterprise owner complains to the authorities, it is relatively difficult to prove that a crime has been committed since the businessman has a formal employer-employee relationship with the criminals. Sometimes these relationships are set out in contracts between the victim-firm and the firm of the racketeers, which is set up as a security service. Sometimes the relationships are even more complicated, such as the inclusion of some of the racketeers in the board of directors of the enterprise under their control.

In effect, the racket becomes a "third force" that has close relations with businesses and the local authorities. The racketeers become intermediaries, taking a fee for addressing any issues that come up between businesses and the state. Simultaneously, they are modern bureaucrats, though ones who have extorted bribes and bought out their competition as they established themselves.

Over the decade from 1991 to 2001, the number of extortion cases registered in Irkutsk has risen 400 percent, from 98 in 1991 to 371 in 2001. This trend reflects an average annual growth rate of almost 24 percent.

Irkutsk has a high crime rate because criminals from other parts of the country are sent to prison in Irkutsk and then often stay in the area after they are released. Men with criminal records make up 45-50 percent of the working-age population in some northern areas of the oblast. Each year the prison system releases between 5,300 and 5,800 individuals, of whom 4,500 remain nearby. Additionally, during the last decade there has been a dramatic influx of forced migrants and refugees from the CIS countries and other regions of Russia. There have also been inflows from China, Mongolia, and Korea. Population growth due to these factors is outstripping natural growth and these demographics influence the structure and dynamics of crime in the region.

The share of serious crime now makes up 65.1 percent of all crimes committed in Irkutsk Oblast and exceeds 70 percent in some parts of the region. Existing organized crime groups are consolidating into larger units by establishing stable working relations with each other in the framework of separate raions and across the entire oblast. The groups are dividing up the oblast's territory and the sectors of its economy. Currently, the authorities have registered 127 organized crime groups, 587 participants, and 177 leaders. In 2000, the authorities solved 253 crimes committed by organized crime groups, including 20 cases of extortion.

What kind of people engage in racketeering activities? An analysis of the data for 268 individuals convicted of extortion in Irkutsk and the Ust-Orda Buryat Autonomous Okrug from 1997 to 2001 and 34 individuals convicted in other regions, but serving prison sentences in Irkutsk, produced the following results: The vast majority of extortionists are male (94.3%), young (78.8% were between 14 and 30), poorly educated, single, have poor relations with women, live nearby (95.7%), and, reflecting the ethnic make-up of Irkutsk Oblast, are Russian (90.6%). For many, extortion is seen as the most "civilized" form of crime since society does not have a particularly negative picture of the racketeer. Also many believe that western businessmen usually accumulated their first capital through extortionist activities and see this path as a viable road to success in legitimate business.

Almost half of the racketeers do not have a stable source of income and many do not want a permanent job. More than three-fourths of racketeers have a strong background in physical education and many are top rated sportsmen. Just over a quarter of the convicted extortionists committed their crimes while under the influence of drugs or alcohol and 46.3 percent admit a tendency to use such substances. One quarter of the convicted extortionists surveyed had a previous criminal record. Extortionists used force in 34.5 percent of the cases, although guns were relatively rare, since they were used in only 1.5 percent of the cases.

Not surprisingly, the main victims of the racket are those with relatively high social status and high incomes. According to data gathered by the Irkutsk Oblast branch

of the Ministry of Internal Affairs, the number of businesses suffering from racketeering activities is shrinking. However, these numbers do not reflect what is happening in reality. Rather, the racket's influence is growing, but it is simply taking on a more stable and almost conflict-free character.

In fact, for many businessmen, the racket is not a chief concern. A poll of 143 people involved in entrepreneurial activities in Irkutsk Oblast cities showed that 26 percent named the racket as a factor hindering their business. On the other hand, more than half (51%) pointed to high taxes, 41 percent cited tough competition, and 14 percent noted other factors. Overall, though, 73 percent of the respondents said that they had suffered from extortion.

Of those who had to deal with extortionists, only 14 percent notified the law enforcement authorities, while a full 86 percent did not seek protection from the state. In explaining their decision not to seek official help, the vast majority (60.4%) said that they were sure that the police would not help them even if they asked for aid. Some (11%) feared that seeking relief would only make the situation worse, while 8 percent said that the extortionists were themselves representatives of the law enforcement agencies. Irkutsk's extortionists carry out most (65.2%) of their work during normal working hours (between 11 am and 5 pm), suggesting that they have no fear that their chosen victim will summon the law enforcement authorities.

Over the next few years we can expect the situation with the racket to deteriorate. The social danger the racket represents will grow; it will become more widespread, and it will expand its influence. Only a well-constructed state policy will be able to reduce the impact of this dangerous activity.

Such a policy should have the following features. First, two special units should be created within the police force. One should deal exclusively with the operational tasks of gathering information about the racketeering groups. Once arrests are made, this group should not be involved in the details of preparing the case against the suspects. Rather, a second, permanently-functioning investigatory group should develop the evidence for presentation at trial.

Second, there should be more attention paid to understanding why judges, procurators, and police forces frequently decide not to file criminal charges or close cases before reaching a verdict. Also we need to shed more light on why judges often set punishments that lead to the immediate release of the convicted criminal or the reduction of the criminal offence he is convicted of. The last study that examined court practices in cases involving extortion in Irkutsk Oblast appeared in 1995.

Third, there should be greater protection for witnesses who provide information in prosecuting these kinds of cases. Such protections are particularly important in extortion cases because most of the evidence comes from the victims or others who may ultimately be killed for providing such assistance to the authorities. There should be opportunities for witnesses to provide autonomous testimony, for example identifying suspects from behind tinted glass or conducting questioning of witnesses by audio connection from a remote location. If witnesses receive this kind of protection, then individuals will be more likely to come forward voluntarily.

A fourth useful measure to fight the racket would be developing relatively inexpensive security services that could provide protection to the average business person. These agencies would have to be closely monitored to ensure that there are no

abuses. Most businesses would rather pay for such services than have to deal with racketeers.

Currently, such security services are developing in a negative way. Large private companies seeking to reduce the power criminals have over them set up internal subdivisions to provide security services. Often these services hire people who have connections to the criminal world and former law enforcement personnel who can resolve conflicts and effectively negotiate with representatives of criminal organizations. These security services evolve with a semi-criminal character, which in itself is a negative tendency. On one hand, such agencies provide criminal groups with the opportunity to legalize their activities. On the other, their appearance highlights the dangers of a potential merger between law enforcement agencies and organized crime groups, which could take place through former law enforcement personnel working in the security services.

Preventing such a merger requires effective oversight in providing business with the security it needs. One possible way to provide such oversight could be cooperation between law enforcement agencies, on one side, and non-governmental organizations and detective agencies, on the other. The law enforcement agencies would monitor the private security services to be sure that they do not break the law; at the same time, they could assist these agencies in fighting extortion.

Finally, legislators should improve the legislation addressing a wide variety of issues. Such areas include banking, tax, insurance, and civil law regulating the provision of credit and investment, and the execution of contracts. It is necessary to create a mechanism to force the repayment of debts and fines from insolvent clients or debtors who have no intention of paying back what they owe. Optimizing the legal regulation of business, lowering the tax burden, making business operations and financial flows more transparent, and minimizing the ways businesses and individuals can hide their income would make it harder for organized crime groups to steal such money.

## **BORDER ISSUES**

**FORMER TIES BETWEEN FAR EASTERN, CHINESE CRIME GROUPS MAY BE ENDING.** The Vladivostok authorities arrested the Chinese crime figure (*avtoritet*) who goes by the nickname Lao Da or "Old Hooligan" in October. He was very active and specialized in stealing from Chinese traders. He had been arrested several times in recent years, but his case never went to court since the charges against him were always dropped during the preliminary investigations.

Lao Da's protector was Primorskii Krai crime boss Jam, a criminal-in-law who recently died. Lao Da attended the funeral and apparently spent \$100,000 on the ceremony.

Ties between the Far Eastern Russian and Chinese crime groups go back to the early 1990s. At that time, Moscow crime groups began to become active in Primorskii Krai. Their emissaries made frequent visits, trying to use local agents to pit the region's crime groups against each other and divide up spheres of influence.

Additionally, Chechen and other Caucasus groups established footholds in the region at that time. They brought weapons from Moscow and set up arsenals for armed battle. Then a brigade of "strikers" arrived in the region and quickly shot most of the

significant local bandits. After clearing the ground, the Caucasus criminals quickly brought in others from among their ethnic groups whom they could easily monitor. As the numbers of Caucasus criminals grew, the local crime groups decided that they had to fight back to expel the unwanted guests.

Jam decided to take on both the Moscow and Caucasus groups simultaneously. Chinese crime figures were good allies in this battle because they never tried to take over the income sources of Primorskii Krai's local criminal groups, instead focusing exclusively on robbing other Chinese operating in Russia. Additionally, the Chinese crime groups did not upset the order established by the local criminal elite. Chinese traders regularly paid the same fees as Russians to the Primorskii Krai racket.

Another reason that Jam was loyal to the Chinese was because he dreamed of setting up a transnational crime group and the best way to do that was in coordination with Chinese criminals. This idea paid off in the mid-1990s, when Jam visited China three times to establish personal contacts with the leaders of the north-western wing of the China's organized crime groups. According to the accounts of some Primorskii law enforcement personnel, Jam was officially inducted into the regional leadership.

Part of the price for this cooperation might be that some of the crime groups working in Primorskii Krai, without even realizing it themselves, may be subdivisions of the Chinese organized crime groups. There are more than 50 crime groups in the region that include both Russia and Chinese criminals. Last year police arrested a brigade of twenty that was equally divided between Russians and Chinese. They robbed, murdered, and took hostages together. The people who ordered such crimes and the victims were also representatives of both nationalities.

Now apparently, the Chinese, for the first time in the history of their crime groups, have set up an organization (*obshchak*) in Ussuriisk. Potentially, Russian organized crime groups will seek to expel the Chinese from the Russian organized crime world. Most likely there will be a war between the two groups, though neither side is likely to emerge victorious. (see Natalya Nikulina, "Russkii s kitaitsem bratany navek," *Stolichnyi kriminal*, 19 September). - Viktoria Chernishova, TraCCC in Vladivostok

## DRUG TRADE

**PRIMORSKII POLICE SHUT MAJOR UZBEK DRUG CHANNEL.** With help from the Primorskii Krai Department for Combating the Illegal Drug Trade (UBNON), the Russian Ministry of Internal Affairs shut down a major drug pipeline connecting Uzbekistan and the Russian Far East in early September. The operation was the first that the Russian MVD conducted in Uzbekistan in the 11 years since that country became independent of the Soviet Union.

Large quantities of heroin have been flowing from Uzbekistan to Primorskii Krai since 1995. The Primorskii Krai UBNON has detained couriers several times but new ones always appeared and the pipeline continued to operate. The latest courier arrested, however, gave the authorities the name and phone number of the person in the Uzbek city of Khavast, on the border with Tajikistan, who regularly supplied him with drugs. The Primorskii officials then secured the approval of the MVD to go ahead with the bust.

Uzbek sellers prefer working with Russians over their own countrymen since they believe that the Russians have a lot of money and are good customers. The Uzbek police

are constantly harassing local dealers, making them even more cautious of working with locals.

In Uzbekistan, a gram of heroin costs 120 rubles. In Primorskii Krai, the price is as high as 1,600 rubles, and on Sakhalin Island, it can reach 4,000 rubles. Moscow and Primorskii undercover agents each purchased a kilogram from the Uzbek dealer. But as soon as the deal was completed, the Uzbek police arrested five participants. One of these suspected perpetrators had bought the heroin on the Tajik border, another was the organizer, and three had sought buyers. One of the arrested men was an active police officer and another was a former member of the force. The average age of the participants in the ring was 50. The three-week operation closed a ring that had been operating for more than seven years (*Novosti*, 5 and 6 September). - Viktoria Chernishova, TraCCC in Vladivostok

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In a letter to Virginia Governor Robert Brooke, George Washington explained his idea for a great "national university" to be established in the nation's capital city. Washington did not see this university in his lifetime, but approximately one hundred years later, in 1893, Washington's dream was realized when American University (AU) was chartered by an Act of the United States Congress. Through the vision of Methodist Bishop John Fletcher Hurst, the idea of a national university, an idea born with the nation itself, came into being. Today AU is an independent university with more than 11,000 students from all 50 states and nearly 150 foreign countries enrolled in undergraduate, master's, doctoral, and professional degree programs.

The Transnational Crime and Corruption Center (TraCCC) is the first center in the United States devoted to teaching, research, training, and policy advice in transnational crime, corruption and terrorism. Originally founded in 1995 with seed money from the MacArthur Foundation and funded by the United States Government and private foundations, TraCCC's basic goal is to better understand the causes and scope of transnational crime and corruption and to propose well-grounded policy. Much of our work to date has focused on the analysis of transnational crime and corruption in the countries of the former Soviet Union. In achieving our goals, we work with the public, media, law enforcement, policymaking, legislative, judicial, academic and business communities. To undertake this kind of collaborative work, we have partnered with the best scholars and practitioners in Russia, Ukraine and Georgia through multidisciplinary research centers.

## **The Federal Institute of Technology (ETH) Zurich and the Center for Security Studies**

The Federal Institute of Technology Zurich (ETH, according to its German acronym) was founded by the Swiss government in 1854 as a polytechnic and opened its doors in Zurich in 1855. Until 1969 it was the only national university in Switzerland. Today it is part of the ETH domain, which is made up of the two universities in Zurich and Lausanne (the EPFL) and four national research institutes. The ETH itself comprises 83 institutes and laboratories, 330 professorships, and about 840 lecturers who fulfill teaching obligations and conduct research. A staff of more than 7,500 - 25 percent of whom are women - work in teaching, research and administration. The ETH currently has 11,700 registered students.

The Center for Security Studies specializes in the field of national and international security studies. Activities include research, teaching, and information services. Since its founding in 1986, the center has developed two electronic information services - the International Relations and Security Network (ISN) and the Information Management System for Mine Action (IMSMA). Due to the steady growth in research activities and the increasing number of tasks and functions it undertakes, the center now has a staff of about 75 people working in research and teaching. It is part of an international network of scientific institutions and organizations and cooperates with numerous partners. The center's expertise has made it an important resource for public administrators and the media, and the center functions as a political consultant to the Swiss Federal Government.

### **COMMENTS AND QUESTIONS**

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## ELECTIONS 2003

### **REGIONAL LOBBY INCREASES GUBERNATORIAL POWER IN STATE DUMA.**

As the December 2003 State Duma elections approach, the current members of the parliament's lower house are becoming less cooperative with the president and allowing a variety of interest groups to dictate key economic and social policies. During the last two weeks of November, the deputies rejected a series of the government's reform plans.

A large part of the resistance to the modernization programs results from the battles between various groups in the federal elite. However, the regional lobby, representing the interests of Russia's richest regions, is making a serious effort to influence the course of economic reforms. The governors have extensive influence over the process of choosing who represents their region in the federal legislature and the federal government simply does not have the resources to track every election in every region. Of the State Duma's 450 seats, 225 are elected by party list and 225 are elected from single-member districts. Accordingly, the Kremlin will focus on the party list voting, while regional and local authorities will have an impact on the voting in the single-member districts. The Kremlin is already seeking allies in its campaign. This process inevitably strengthens the governors and they are taking advantage of it.

In discussions surrounding the third reading of the 2003 budget, an alliance between the regional lobby and large regional banks won an amendment to article 47 allowing the 14 regions which do not receive federal financial support through the Fund

for Supporting the Regions to open accounts in commercial banks to service regional debt. According to the amendment, banks in which the region's share is more than 50 percent can service this regional budget money as long as they are chosen on a competitive basis.

This amendment represents a step backward in the federal oversight of the regions and the transparency of regional budgets. Observers considered the replacement of the 1992 directive in which regions were allowed to keep their budgets in commercial banks with the requirement that they put their funds in the federal treasury, established in 1998, as a major accomplishment of the fiscal federalism system. The treasury reform reduced the possibility that budgetary funds could be used for other purposes than those for which they were intended. It also seemed to pave the way for encouraging further discipline and transparency in regional finances. The new budget code made exceptions only for those regions that did not have branches of the Central Bank (generally Russia's poorest regions).

In contrast, the new amendment affects Russia's richest and most developed regions. Even though the amendment only affects the right of the governors to deal with "regional paper," the share of which is relatively small in donor region budgets, the sums flowing through the regional debt markets are relatively large. For Moscow, it is 12 billion rubles, St. Petersburg, 13 billion rubles, and Bashkortostan, 3 billion rubles.

In practice, the governors will receive the right to send money flows away from the government's monitors and through banks they largely control for use in election campaigns. Additionally, it will help them strengthen "their" banks in opposition to the large federal credit institutions, giving them a powerful, and potentially lucrative, new instrument. In particular, the amendment will strengthen the Bank of Moscow, St. Petersburg's Promstroibank, Tatarstan's Ak Bars, and Bashkortostan's Uralsib, all of which have close ties to their respective regional elites. The amendment will hurt the interests of the large national banks, whose owners are united in the oligarch's club of the Russian Union of Industrialists and Entrepreneurs. These banks are trying to attract as many financial resources to themselves as possible by acquiring small and medium banks or forcing them from the market. Regional banks are among their main targets.

The newspaper *Vedomosti*, citing data from the Economic Expert Group, claims that the number of donor regions will grow to 18 in 2003, including Moscow, St. Petersburg, Vologda, Lipetsk, Orenburg, Perm, Samara, Sverdlovsk, Tyumen, Yaroslavl, Komi, Bashkortostan, Tatarstan, Khanti-Mansii, Yamal-Nenets, and Krasnoyarsk.

This victory of the regional lobby has more political than economic significance. The Russian government opposed the amendment because it did not want to hand more power to economically powerful governors, many of who have difficult relations with the federal government. The government must now decide whether to request the aid of the presidential administration in defeating this amendment in the Federation Council or accept its defeat. - Pavel Isaev in Moscow

## PATTERNS OF REGIONAL DEVELOPMENT

**ELITE CONFLICTS DESTABILIZE ROSTOV OBLAST.** Rostov Oblast is quickly losing its image as a peacefully and stably developing region. For a second year, the region's political and economic elite is ensnared in an unending series of conflicts over

the distribution of power and property. Rostov's business elite is trying to reduce the ability of the oblast administration to intervene in business affairs. Toward this end, it is maneuvering between the various offices of the oblast and federal authorities as well as the Moscow-based financial and industrial groups working in the region.

The most recent event to tarnish the oblast's image was the 30 October murder of Taganrog Mayor Sergei Shilo. The authorities have yet to determine who committed the crime and the only witness, the mayor's driver, subsequently died from the injuries he received in the attack.

In the wake of the assassination, the Taganrog City Duma voted to abolish direct, popular elections for the mayor's office and elect the new city leader itself. Rostov Governor Vladimir Chub actively backed the election of Yurii Stefanov as mayor, but the members of the city duma first voted to hold a secret ballot and then selected Konstantin Semerikov as the new mayor. Semerikov is close to local businessman Sergei Bidash, the former director of the TAGMET metals factory who works in opposition to Governor Chub. (TAGMET is currently the focus of a property dispute between competing Moscow companies.) In the process, the deputies voted to dump the governor's ally Stefanov as the chairman of the city duma. The office of Presidential Envoy Viktor Kazantsev, who generally opposes the governor, backed the city duma's actions. The only victory for the governor was decision to leave Nikolai Fedyanin, a gubernatorial ally, as Taganrog's chief of staff. However, the mayor and city duma will closely monitor his activities, so the governor's influence will be circumscribed.

A second event undermining regional stability was the 18 November meeting of the coordinating council on collecting the oblast's taxes and other fees. In comparison with last year, the sum coming into the oblast's budget was 11.5 percent smaller. Back taxes owed have now reached 8.9 billion rubles, a relatively large figure for the oblast. Only an increase in federal transfers has helped alleviate the situation.

Governor Chub and First Deputy Governor Ivan Stanislavov focused their wrath on the region's agricultural companies (Yug Rusi, Aston, Yugtranzitservis, Donkhleboprodukt, and Nadezhda) for not paying taxes. Company representatives claim that they have in fact paid more taxes than the authorities admit. The governor, however, rejected such explanations and threatened to have the Ministry of Internal Affairs and Federal Security Service investigate the companies. Such threats are unexpected since the oblast administration has financial interests in most of the companies cited, especially Yug Rusi. Apparently, the administration is trying to extract as much as it can from the companies regardless of the price. Similar attempts a few years ago resulted in a significant decrease in the output of these companies. - Aleksandr Krasnov in Rostov-na-Donu

**DARKIN, NAZDRATENKO BATTLE FOR PRIMORSKII'S FINANCIAL RESOURCES.** Once former allies, but currently committed foes, Primorskii Krai Governor Sergei Darkin and former Governor Yevgenii Nazdratenko, now the head of the Russian State Fisheries Committee, are battling to control the region's fishing companies. The struggle came to public attention following a firefight over the refrigerated ship Tulun in the South Korean port of Pusan.

According to sources in Russia's law enforcement agencies, Darkin has formed an alliance with the criminal *avtoritet* nicknamed Yakut to secure control of the businesses

previously under Nazdratenko's authority. According to unofficial sources in the presidential administration, Darkin justifies his actions by pointing out that he needs to deprive his main political opponent of his financial base.

Armed men secured control of the Russian ship Tulun in Pusan, in an incident that was widely covered in the media. Despite the efforts of the South Korean authorities, the Japanese dispatch of a coast guard ship and an airplane, and President Putin's order to the special services to deal with the situation, the ship managed to leave the port for neutral waters. The events began when the cutter East Wind, at Yakut's behest, tried to board the Tulun. The attempt failed, however, as some on the Tulun fired hand-held automatic weapons at the cutter. Ultimately, the ice-breaker Admiral Panteleev of the Pacific Ocean Fleet led the Tulun back to Vladivostok in a convoy. Upon the ship's return, the State Fisheries Committee issued a press release claiming that in fact no armed take over had occurred. According to the law enforcement agencies, Nazdratenko had a strong interest in reducing the extent of the publicity surrounding the incident because he apparently stood behind the effort to take the Tulun and seven other crab-catching ships from Darkin's control.

According to unofficial information from the law enforcement agencies, the Region firm that owns the Tulun was established with money from Yakut, who set up the company ostensibly under Aleksandr Bronnikov, who was following Yakut's orders and sending money from the company to Yakut in Japan, where the crime boss had been living for three years because he was wanted by the authorities in Russia. Recently, however, Bronnikov, using cover provided by Nazdratenko, had stopped making payments to Yakut. On 6 November, Yakut fired Bronnikov, but Bronnikov continued to control the company's ship. Fearing retaliation by Yakut, Bronnikov replaced the captain of the Tulun with someone loyal to him. At that time, Yakut moved to South Korea, attempted to put his people in charge of the Tulun in Korean waters, and then attacked the ship in the open seas. However, Bronnikov's captain managed to repulse the attack. Yakut's representative told the South Korean authorities that people aboard the Tulun had shot at his cutter in the hope that the South Korean authorities would capture the Tulun, allowing Yakut to regain control of the ship. But the Tulun managed to get away and now is apparently under Nazdratenko's control. - Oleg Zhunusov in Vladivostok

## CENTER-PERIPHERY RELATIONS

**FEDERAL GOVERNMENT TAKES GREATER CONTROL OVER SAKHA'S DIAMONDS.** On 19 November, federal marshals gave the federal property ministry control of the 5 percent stake in Sakha's ALROSA diamond monopoly that previously belonged to the Foundation for Veterans' Social Guarantees. Simultaneously, Deputy Prime Minister and Finance Minister Aleksei Kudrin announced the abolishment of the foundation. The transfer gave the federal government greater control over ALROSA and the republic of Sakha in general.

Until this change, the federal and Sakha republican governments each owned a 32 share in ALROSA, the worker's collective owned 23 percent, eight local governments in the republic owned 8 percent, and the foundation owned 5 percent. Now the federal share is 37 percent, combining its previous 32 percent stake with the additional 5 percent.

The property transfer culminated one of the longest property disputes that the Russian government has waged. The 5 percent stake is worth between \$50 million and \$100 million, depending on market fluctuations. The transfer will increase the federal budget's annual dividend income by \$1 million to \$2 million.

The foundation was created in 1991. Its founders included the Defense Ministry, the Ministry of Internal Affairs, the Federal Security Service, the Property Ministry, the Finance Ministry, the Press Ministry, the Moscow Committee on Science and Technology, the Russian State Television and Radio Company, and the Presidential Business Office. The Russian government gave the foundation 200,000 rubles and the stake in ALROSA. At the time, the head of the foundation was former Security Council Chairman Yurii Skokov. Over the last ten years, the authorities have raised many questions about the foundation. The general procurator accused the foundation of wasting money and a presidential edict of 5 April 1993 deprived it of the right to own property, making its ownership of the ALROSA stake illegal.

According to the Finance Ministry, between October 1999 and August 2002, the foundation devoted only 8 percent of the money it spent to providing support for veterans and members of their families. During this time, the foundation spent 33.3 percent of its funds on supporting itself. More than 5 million rubles went for purchasing an apartment and automobile for former foundation leader Roman Blokhin.

ALROSA is not doing well this year in general. Most likely it will not export the \$800 million worth of diamonds defined in its agreement with the De Beers international diamond monopoly because the Russian government has not given it sufficient export quotas. Moreover, the European Commission has yet to approve the agreement between the two companies. In 2001, the company exported \$1 billion worth of diamonds. - Oleg Yemelyanov in Yakutsk

## BUSINESS AND POLITICS IN THE REGIONS

### ULYANOVSK AIRCRAFT DEAL MOVES AHEAD DESPITE AUTHORITIES' RENT SEEKING

**RENT SEEKING** On 29 November, Ulyanovsk's Aviastar-SP signed a \$335 million contract to build 25 Tu-204-120 jets for Egypt's Sirocco Aerospace International (*Moscow Times*, 2 December). This deal had to overcome numerous obstacles set up by the oblast administration.

Sirocco Chairman Ibrahim Kamel had signed a deal with Aviastar-SP in June in which he would invest \$280 million in the plant over two years. In August, he received a stake of 25 percent minus one share in the airplane factory and a similar share in the Tupolev holding company, which controls the factory and is in turn state-owned (the federal government owns 75 percent plus one share).

According to Aviastar General Director Viktor Mikhailov, the deal was threatened by the irresponsible position of the oblast administration. He claimed that groups close to Governor Vladimir Shamanov initiated bankruptcy proceedings against the Aviastar holding company, one of the largest owners of the factory, in an effort to return the shares. Kamel put his investment plans on hold while the status of the factory was in doubt. If the factory went into bankruptcy, its assets could be liquidated.

Additionally, according to Federation Council Member Ramazan Abdulatipov, speaking on the television program "Moment istiny," oblast bureaucrats tried to secure a

bribe from Kamel worth \$5 million, but the Egyptian refused to pay it (TVTs, 13 October).

In order to keep the deal on track Minister for Economic Development and Trade German Gref, Minister for Industry, Science, and Technology Ilya Klebanov, Transport Minister Sergei Frank, and Rosaviakosmos head Yurii Koptev visited the factory on 25 September and confirmed the transfer of shares in exchange for Kamel's investment. Klebanov stated that the federal government is investing large sums to ensure that Russia maintains its capacity to produce civilian aircraft. In particular, the state is supporting two leasing companies, Ilyushin Finance and Avialeasing, to facilitate the sales of Russian airplanes. On 22 October, Ilyushin Finance signed a general agreement to purchase 46 planes from Aviastar-SP.

Gref said that the president personally was following the situation at the factory to protect the state's interests. He also said that he would use the state's influence to end all court cases affecting Aviastar. He was referring to cases started by Mikhail Mirimskii, the governor's advisor on aircraft issues. Those cases, filed with the arbitrage court, sought to declare illegal Aviastar's restructuring, which was carried out with the purpose of freeing the factory of its back-breaking debts. The result of the restructuring was the creation of Aviastar-SP, which holds the aircraft production assets, and Aviastar, a holding company that took the company's non-production related assets. Aviastar held the 25 percent minus one share stake in Aviastar-SP until it was transferred to Kamel. Neither Mirimskii nor Governor Shamanov were present for the meetings with Gref.

Nevertheless, the oblast administration publicly interpreted Gref's visit as a victory. It said that for the first time the oblast administration joined the process of cleaning up the mess at Aviastar along with the federal government and the investors. However, the governor's administration sought to "improve" the contract with Kamel by including itself as one of the parties involved.

An earlier investment deal with the Moscow firm Novoe sodruzhestvo fell apart, apparently as a result of the oblast administration's actions. Novoe sodruzhestvo signed a deal with the company in April 2001 to invest 2 billion rubles in the factory over two months in exchange for a 26 percent stake. By July 2001, the Muscovites had invested about \$8 million but did not receive the shares. According to Aleksandr Polyakov, a vice president at the Tupolev corporation, Novoe sodruzhestvo dropped out of the agreement because it was unwilling to pay a "fee to work in the oblast." He said that some people, claiming to speak on the governor's behalf, had asked the company to give the oblast 50 combines worth \$2.5 million (Novoe sodruzhestvo owns the Rostselmash combine factory). Novoe sodruzhestvo refused to provide the combines and left Aviastar. In September, the federal arbitrage court in the North Caucasus district ruled that the factory should return Novoe sodruzhestvo's investment (*Izvestiya*, 2 September). (The *Izvestiya* article quotes Polyakov as saying that Novoe sodruzhestvo failed to make the investment work because its managers were too young and were seeking a stake in the factory that was too large.) - Sergei Gogin in Ulyanovsk

## CONTRACT KILLINGS

**CRIMINALS CONDUCT TERROR CAMPAIGN AGAINST SMOLENSK.** On 14 November, assassins killed Nikolai Petelin, the coordinator of the National Anti-

Corruption Center in Smolensk Oblast. His murder was just the latest in a series of killings since the election of Governor Viktor Maslov in the spring. Maslov previously served as the head of the regional Federal Security Service and took over with a mandate to clean up the region's explosive crime situation.

Following Maslov's election, the Smolensk criminal world unleashed a terror campaign against the oblast authorities. The special services are powerless to counter the onslaught of organized crime and not one of the contract killings carried out in the oblast during the last five years has been solved. Observers increasingly believe that the shadowy criminal powers in Smolensk are more powerful than the state.

In the last several months, criminal groups have attacked numerous important officials. The following list includes the key incidents:

- 21 March, Head of the Criminal Police Aleksandr Pantukhov murdered
- 31 March, body of *MK v Smolenske* Editor Sergei Kalinovskii found
- 16 May, driver for Deputy Governor Anatolii Makarenko killed
- 5 June, Businessman Pavel Morozov murdered
- 7 August, Deputy Governor Vladimir Prokhorov murdered
- 15 September, former member of the Department for Combating Organized Crime Sergei Kambulatov seriously wounded
- 11 October, Criminal *Avtoritet* Vladimir Vinokurov (Vinokur) murdered
- 14 November, Petelin murdered.

Petelin took over the leadership of the anti-corruption center in September 2002 without receiving a salary for his services. In the past, he had worked in the customs service, served as an officer in the Main Intelligence Department, and then went into business.

As the head of the center, he focused mainly on fighting the illegal narcotics trade in the region. He organized a "hot line" in Smolensk through which citizens could anonymously report crimes involving drugs. The hot line produced results within two weeks of being established, apparently leading to the capture of a shipment of heroin worth \$100,000. Some believe that Petelin became a target because of these activities (*Nikol'skoe kol'tso*, 19 November).

The series of assassinations are only part of the overall crime picture in the region. In October the European Bank for Reconstruction and Development (EBRD) warned that it would end its cooperation with Smolensk if order were not restored to the Oasis project. In the 1990s, the Smolensk Regional Venture Fund financed the construction of the Oasis roadside tourist complex, including a hotel and gas station on the Moscow-Minsk highway, which runs through Smolensk. The Yartsev Raion administration and the fund own a controlling stake in the complex. However, during the last two years, criminals gained control of the complex. The local procurator has done nothing to improve the situation. The previous and current gubernatorial administrations have been powerless to help. And none of the court decisions in the EBRD's favor have been implemented. The Smolensk Regional Venture Fund was started in 1994 with \$12 million from EBRD and \$8 million for technical assistance from the EU's TACIS program, and is managed by Siparex Gestion et Finance. - Arsentii Ledovskoi in Smolensk

## ORGANIZING BUSINESS

**TVER BUSINESSES CREATE SECURITY COMMITTEE.** The Tver Trade and Industrial Chamber, the majority of whose members represent big business, set up a Committee on Security and gave it the task of protecting commercial secrets at the end of November (*Veche Tveri*, 30 November 2002). Proton General Director Vladimir Pokrovskii, who was relatively unknown in the region until now, will chair the new committee.

On taking office, Pokrovskii said that many business people were mistaken in their belief that they could provide security for their firms through individual methods such as hiring guards or installing alarm systems. Pokrovskii charged that such measures are only a fraction of what is needed during the high-tech information age. Listening devices, hacking into databases, or simply collecting information from a firm's own employees are now widely employed methods for competitors to obtain confidential information. He noted that there are serious financial wars going on in the region, as indicated by the Aton investment group's recent hostile takeover of the Afanasiy Brewery. Aton did a good job gathering information and then struck strategically to take what it wanted, he argued.

The new committee will use all possible means to ensure that Russian laws on commercial secrets are observed in Tver. Achieving such a goal, however, requires the consolidated action of the entire regional business community, as well as a recognition that professional ethics are as important as law enforcement. - Boris Gubman in Tver

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In a letter to Virginia Governor Robert Brooke, George Washington explained his idea for a great "national university" to be established in the nation's capital city. Washington did not see this university in his lifetime, but approximately one hundred years later, in 1893, Washington's dream was realized when American University (AU) was chartered by an Act of the United States Congress. Through the vision of Methodist Bishop John Fletcher Hurst, the idea of a national university, an idea born with the nation itself, came into being. Today AU is an independent university with more than 11,000 students from all 50 states and nearly 150 foreign countries enrolled in undergraduate, master's, doctoral, and professional degree programs.

The Transnational Crime and Corruption Center (TraCCC) is the first center in the United States devoted to teaching, research, training, and policy advice in transnational crime, corruption and terrorism. Originally founded in 1995 with seed money from the

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The Federal Institute of Technology Zurich (ETH, according to its German acronym) was founded by the Swiss government in 1854 as a polytechnic and opened its doors in Zurich in 1855. Until 1969 it was the only national university in Switzerland. Today it is part of the ETH domain, which is made up of the two universities in Zurich and Lausanne (the EPFL) and four national research institutes. The ETH itself comprises 83 institutes and laboratories, 330 professorships, and about 840 lecturers who fulfill teaching obligations and conduct research. A staff of more than 7,500 - 25 percent of whom are women - work in teaching, research and administration. The ETH currently has 11,700 registered students.

The Center for Security Studies specializes in the field of national and international security studies. Activities include research, teaching, and information services. Since its founding in 1986, the center has developed two electronic information services - the International Relations and Security Network (ISN) and the Information Management System for Mine Action (IMSMA). Due to the steady growth in research activities and the increasing number of tasks and functions it undertakes, the center now has a staff of about 75 people working in research and teaching. It is part of an international network of scientific institutions and organizations and cooperates with numerous partners. The center's expertise has made it an important resource for public administrators and the media, and the center functions as a political consultant to the Swiss Federal Government.

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